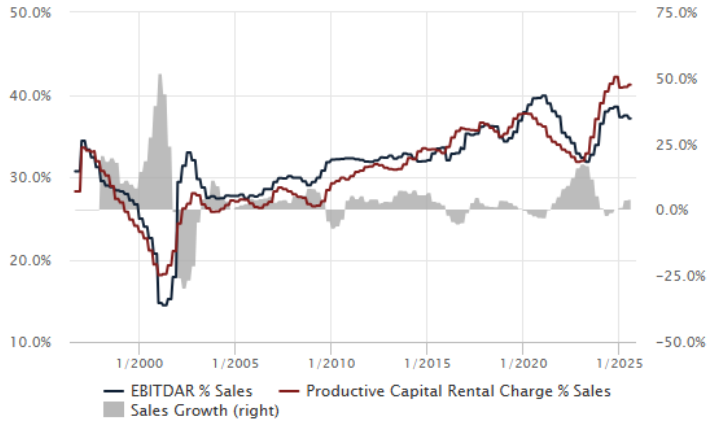
U.S. Electric Utilities: Operating Leverage Incoming?

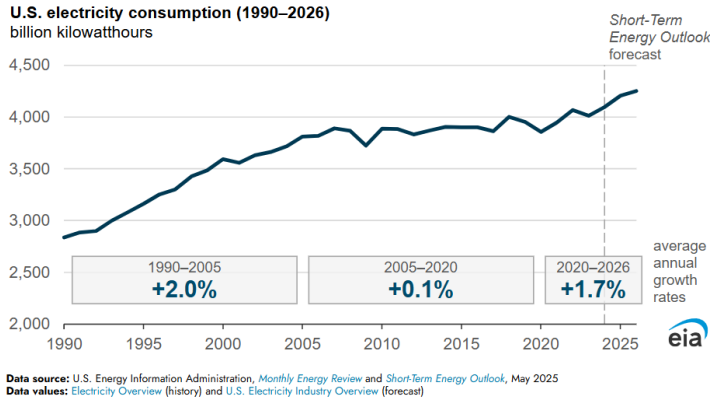
Conventionally considered defensive, the Electric Utilities space in the United States has undergone a remarkable shift since 2020, being tied to the AI growth story and investment cycle as Big Tech ramped up investments into power-hungry hyperscalers. The industry saw its Productive Capital Charge (higher is less favorable), shown in **Figure 1** (red line), touch all-time highs late last year, with new investments pouring into renewables and natural gas-fired power plants to keep up with the increased commercial and industrial demand for power. The industry has seen initial signs of firms scaling into this new investment, with top-line growth inflecting positive in September last year, followed by a continued acceleration through 2025.

Figure 1: EVA Drivers – U.S. Electric Utilities



U.S. electricity consumption growth (**Figure 2**) remained flat for 15 years until 2020, after which it has grown, and is expected to grow, at 1.7% on average between 2020 and 2026. Some projections have a longer-term and more bullish outlook for power demand in the U.S., pegging the growth at 3.5% until 2040, driven primarily by commercial (AI, data centers, e-transportation) and industrial (reshoring, manufacturing) demand.

Figure 2: U.S. Electricity Consumption 1990-2025, including Short-Term Energy Outlook Forecast



Data source: U.S. Energy Information Administration, *Monthly Energy Review* and *Short-Term Energy Outlook*, May 2025
Data values: Electricity Overview (history) and U.S. Electricity Industry Overview (forecast)

While the industry's aggregate EVA Margin is currently near 25-year lows and EVA Momentum (growth) is yet to materially recover, MVA Spread (not shown), our P/B equivalent, is trending near the highest levels since the GFC. Investors have priced in bullish expectations for the industry, pricing in a strong recovery in incremental value creation going forward as firms begin monetizing the new power plants. A potential risk for the commercial outlook is slower growth in the U.S.; however, the reindustrialization theme may continue to play out.

Key Summary

- The Electric Utilities space in the United States has undergone a remarkable shift since 2020, being tied to the AI growth story and investment cycle as Big Tech ramped up investments into power-hungry hyperscalers.
- New investments are pouring into renewables and natural gas-fired power plants to keep up with the increased commercial and industrial demand for power. We see signs of firms scaling into this new investment, with aggregate top-line growth accelerating through 2025.
- We look at EVA trends for U.S. Electric Utilities firms and note that firms are investing heavily but are yet to see the operational scaling come through at this point of relatively low top-line growth.

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.

2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF: Market Value = Capital + PV(EVA).

3. Therefore, more Economic Value Added (EVA) is better.

Daksh Vashist, CFA
Associate

ISS EVA Equity Research Team
evaanalytics@iss-stoxx.com

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

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In the table below, we present EVA Fundamentals, PRVit Metrics, and PP&E trends (12 Qtr) for U.S. Electric Utilities firms (Market cap > $1bn). From a PRVit standpoint, the industry looks relatively weak at this stage, impacted by unfavorable Valuations and somewhat moderate Risk-Adjusted Profitability (Quality). As highlighted above, top-line growth for the industry has been strong through 2025; however, the other two EVA drivers, EBITDAR Margin and Productive Capital Charge, have moved unfavorably in the last few quarters as firms are investing heavily and are yet to see the operational scaling come through at this point of relatively low top-line growth.

Looking at the PP&E trends, as one would expect, we note that several firms have seen an investment uptrend through this period. Some companies have seen a faster top-line growth than the industry aggregate of 3.8% and show some signs of PP&E investments peaking. These firms appear to have been earlier in capex deployment as they are now seeing a shorter-term peaking in new investment, expecting to now monetize their prior investments. The firms that align with the above criteria include **SO**, **CEG**, **DUK**, **ES**, **LNT**, **OGE**, **TXNM**, and **MGEE**.

US Electric Utilities: EVA Fundamentals, PRVit Metrics, ESG Performance, and PP&E Expenditure Trends

Name	Ticker	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Valuation Score (V)	Sales Growth	Returns YTD (%)	ESG Perf Score	PP&E Expd Trend (12Qtrs)
NEXTERA ENERGY INC	NEE	157,348	1.70%	-4.65%	2	9	27	75	0.19%	8.04%	48.73	
SOUTHERN CO	SO	103,932	1.02%	-0.79%	-3	28	46	65	8.53%	17.44%	42.46	
CONSTELLATION ENE CORP	CEG	96,896	7.57%	2.24%	1	32	69	85	5.42%	39.16%	43.08	
DUKE ENERGY CORP	DUK	96,737	-4.58%	-0.08%	2	37	40	48	4.22%	18.34%	45.44	
AMERICAN ELECTRIC POWER CO	AEP	60,977	0.05%	2.59%	3	41	49	55	4.47%	26.65%	43	
EXELON CORP	EXC	45,409	-3.79%	-0.34%	2	57	45	38	4.47%	22.64%	57.92	
XCEL ENERGY INC	XEL	43,919	-4.01%	-2.88%	1	24	35	57	1.28%	12.48%	43.4	
ENTERGY CORP	ETR	39,933	-0.02%	3.49%	3	35	44	55	1.98%	20.19%	42.16	
PG&E CORP	PCG	33,389	-8.58%	-0.87%	-3	44	17	14	-1.30%	-24.48%	49.8	
NRG ENERGY INC	NRG	28,239	0.05%	-6.23%	-4	14	31	68	1.82%	62.73%	28.24	
PPL CORP	PPL	27,288	-2.14%	-1.98%	-1	42	44	48	7.03%	15.36%	35.13	
FIRSTENERGY CORP	FE	25,285	-6.85%	0.22%	4	55	32	25	6.44%	13.39%	32.39	
EVERSOURCE ENERGY	ES	24,690	-2.95%	-0.48%	4	54	43	38	14.44%	18.47%	52.81	
EDISON INTERNATIONAL	EIX	21,441	-2.67%	-2.18%	-1	49	28	24	4.26%	-27.25%	39.12	
ALLIANT ENERGY CORP	LNT	17,215	-1.69%	-0.68%	3	26	44	64	4.59%	15.81%	46.37	
EVERGY INC	EVRG	16,640	-4.81%	-1.04%	5	42	42	46	2.58%	20.72%	45.14	
PINNACLE WEST CAPITAL CORP	PNW	10,910	-2.54%	-1.54%	-1	46	46	47	7.47%	10.93%	44.97	
OGE ENERGY CORP	OGE	9,174	2.08%	1.46%	-1	53	56	53	16.01%	13.49%	36.84	
IDACORP INC	IDA	6,919	-1.11%	-1.43%	-1	29	46	63	-0.70%	19.54%	40.42	
TXNM ENERGY INC	TXNM	5,978	-6.59%	1.46%	-2	29	33	48	10.23%	17.86%	38.66	
PORTLAND GENERAL ELECTRIC CO	POR	4,720	-1.73%	-1.53%	-3	62	44	32	8.53%	1.11%	42.93	
ALLETE INC	ALE	3,748	-1.50%	-0.72%	2	57	53	46	-0.44%	3.04%	29.57	
OTTER TAIL CORP	OTTR	3,603	9.88%	-3.88%	-4	65	62	49	-3.69%	18.56%	26.97	
MGE ENERGY INC	MGEE	3,206	2.27%	0.27%	2	51	68	67	8.47%	-5.66%	35.33	
HAWAIIAN ELECTRIC INDS	HE	2,106	-2.00%	-0.26%	3	83	45	13	-15.38%	25.39%	25.87	
Average		35,588	-1.32%	-0.79%	1	43	44	49	4.04%	14.56%	40.67	

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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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