22 Apr 2026 13:37:24 ET | 14 pages

US Electric Utilities

Citi's AI Summit Takeaways for US Power/Utilities

CITI'S TAKE
The message out of Citi's AI Summit (Global Artificial Intelligence – 2026 Citi AI Summit Takeaways) was that AI compute demand was accelerating, which implies more shortages of power and data center supply. We wanted to flag a few takeaways in which utility/power investors may be interested.

Ryan Levine[AC]

Xinru Yin

Amber Zhao

Power as Capacity Constraints for AI — Compute demand is insatiable through 2028 at minimum, with the infrastructure panel placing supply/demand rebalancing at 2029 at the earliest or potentially never. The most-discussed binding constraint was power, not silicon. Lightning AI's William Falcon quantified the demand inflection: a single million-agent business deployment implies 100x growth in inference demand and a 1,000x need for compute. CoreWeave has secured 3GW of contracted power to expand from 850MW. The constraints are clearly showing up in higher prices for compute as well as general unavailability for workload capacity at scale.

Longer-Term Power Demand Outlook Increasing — The message out of the AI Summit was that AI compute demand was accelerating, which should help extend power demand outlook longer term. This trend should support more MWs procured through the upcoming PJM process (2031 delivery), and more support for the marginal data center projects around the US. On the efficiency issue, the COO of Google Cloud said its approach to AI enables power efficiency gains through co-engineering of the stack. Similarly, it was discussed at the conference that Broadcom's XPU platform, built over the past two years, can deliver the same workload at materially lower power and cost than its prior technology platform.

Decentralization of Compute, Good for More Remote Utilities? — At the AI summit, there was more support for remote locations for data centers which, in our view, reads more positive for ETR, PNW, DTE, CMS, and MDU as these companies are supporting data center development away from major population centers. From our investor conversations, there was a worry for these stocks as the movement from LLM training to inference could imply a shift in data center locations from remote areas to population centers, and ETR was viewed as the poster child on this issue (Entergy Corporation (ETR.N): Could Datacenter Movement from LLM to Inference Slow Growth?).

CMS Energy Corporation

(CMS.N; US$75.58; 2; 21 Apr 26; 16:00)

Valuation

We value CMS based on a sum-of-the-parts model. We value the Consumers utility business using a DCF approach with a 5.60% WACC and 20.5x terminal PE multiple, resulting in a valuation of $80/share. We value NorthStar using a DCF approach with a 7.00% WACC and 14.3x terminal multiple, resulting in a valuation of $7/share. We value the parent based on the present value of the terminal year's NOLs and net debt less tax shield, resulting in a valuation of ($11)/share. The rounded sum of these parts gets us to our price target for CMS Energy of $76/share.

Risks

Regulatory Outcomes: Part of our model includes projecting rate increases and regulator outcomes for CMS. If we have overestimated the earned ROE, equity layer or rate base, it could negatively impact the stock from reaching our target price. Conversely, if we have underestimated the ROE, equity layer or rate base, the impact would be positive to earnings and the stock may outperform.

Retail Open Access: The 2016 Energy Law allows electric customers in Consumers' service territory to buy electric generation service from alternative electric suppliers in an aggregate amount capped at 10%, with certain exceptions, of Consumers' weather-adjusted retail sales of the preceding calendar year. Presently, Consumers' electric rates are above the Midwest average, while the ROA level on Consumers' system is at the 10% limit, and the proportion of Consumers' electric deliveries under the ROA program and on the ROA waiting list is 24%. If the ROA limit were increased or if electric generation service in Michigan were deregulated, it could have a material adverse effect on Consumers' financial results and operations.

If the impact from the above risks turns out to be greater/less than we expect, the shares could fail to achieve/exceed our target price.

DTE Energy Co

(DTE.N; US$143.47; 1; 21 Apr 26; 16:00)

Valuation

We value DTE using a sum-of-the-parts approach to get to our consolidated price target of $168/share. We value both electric and gas utilities at terminal PE multiples of 21.0x. We ascribe $9/share of value to Vantage using a terminal PE multiple of 11.0x. We value energy trading business at 12x P/E. Lastly, we adjust value parent debt. The rounded sum of the parts gets us to our $168 price target.

Risks

Regulatory risk – Failure to obtain fair recovery for capital expenditures or increases in operating expenses could negatively impact DTE's earnings and equity value.

Commodity / Energy risk – The company is exposed to commodity and energy prices. Even though it has a variety of hedge strategies in place, significant commodity price fluctuations, fuel supply disruptions, and other commodity-related risks could negatively impact the company's financial performance.

Counterparty risk – There are risks that DTE's counterparties file bankruptcy and restructure their contracts with DTE, particularly in the midstream business.

If the impact from the above turns out to be greater/less than we expect, the shares could fail to achieve/exceed our target price.

Entergy Corporation

(ETR.N; US$111.24; 2; 21 Apr 26; 16:00)

Valuation

Citi values shares of ETR using a sum-of-the parts methodology with a DCF-based value for the utility at $1 a terminal LTM PE multiple of 20.5x. We value the parent at ($5) primarily based on parent net debt an rounded sum-of-the-parts gets us to our $116 PT.

Risks

Risks to the ETR story include interest rates, regulatory outcomes, declining load forecast, and changes to the longer-term capex outlook.

Regulatory risk – All regulated utilities are subject to state and federal regulatory agencies that can materially affect shareholder returns. Failure to obtain fair recovery for capital expenditures or increases in operating costs can diminish returns to shareholders and adversely affect the share price.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

MDU Resources Group Inc

(MDU.N; US$21.42; 2; 21 Apr 26; 16:00)

Valuation

Our target price of $22 is based on a sum-of-the-parts valuation. We value the utility business at 20x P/E multiple on 2027 earnings and the pipeline business at 13x EV/EBITDA multiple on 2027 EBITDA.

Risks

MDU is subject to at least the following risks:

1) Execution Risk: MDU operates in capital-intensive industries in which project cost overruns can put a strain on the company's balance sheet.

2) Regulation Risk: Decisions made by public utility commissions and other government bodies have a negative or favorable material impact on the company's profitability and viability.

If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors, and the stock could increase more than we expect.

Pinnacle West Capital Corp

(PNW.N; US$100.98; 2; 21 Apr 26; 16:00)

Valuation

We arrive at a target price of $109 using a weighted average of: 1) a 20.0x P/E multiple on our 2027 consolidated EPS estimate; 2) a 1.35x EV/rate base multiple on 2027 ACC and FERC rate base estimate; and 3) a dividend discount model.

• P/E multiple: We apply a 20.0x multiple on our 2027 consolidated EPS estimate, slightly above peer average. This approach yields a valuation of $108/share.

• EV/rate base multiple: We apply a 1.35x rate base multiple on 2027 ACC and FERC rate base to reflect improved regulatory environment in Arizona. This approach yields a valuation of $110/share.

• DDM: We assume a near-term dividend growth rate of 2.0%, terminal growth rate of 3.0%, and a cost of equity of 6.10%. This approach yields a valuation of $109/share.

Risks

Key risks to our target price include:

• Regulatory Environment: Arizona is one of the most restrictive regulatory jurisdictions in the US. There is a risk that: 1) the alternative rate mechanism proceeding could not improve regulatory lag or change the current rate structure (historical test year); 2) the commissioner election results could increase regulatory uncertainty and potentially push the jurisdiction to be more restrictive; and 3) adoption of alternative rate mechanisms would increase regulatory uncertainty in the near term (more time and resources needed to advance learning curve).

• Unfavorable rate case outcomes (including lower authorized ROE) and underearning can impact APS's long-term EPS outlook.

• Capital Market Access & Cost of Capital: There is a risk that unfavorable regulatory environment could impact APS's earnings profile and potentially lower APS/PNW's credit rating, which can limit PNW's access to capital markets.

• Higher interest rates at APS could destroy value for APS utility assets and create earnings drag, which would impair stock value.

• Affordability: Increase in APS customer bills could increase further political pushback on favorable regulatory outcomes and make the Arizona regulatory environment even less constructive. This could impact longer-term APS growth and EPS outlook.

• Economic Growth: There is a risk that economic growth in Arizona could slow down, which might cause postponement or cancelation of large C&I projects. This could result in lower-than-expected load growth in APS service territory.

• Supply Chain & Permitting: There is a risk that supply chain and permitting process could delay APS's generation and transmission asset buildout, which could incur additional revenue requirement to customers relative to APS's preferred plan.

• Four Corners Delayed Retirement: There is a risk that APS could delay Four Corners retirement beyond 2031 if replacement generation does not materialize, which would incur additional emission costs, slow APS's pace to achieve their carbon goals by 2035 and 2050, and result in unplanned ESG impacts.

Conversely, positive developments in these risk factors could cause the share price to remain above our target price.