Consolidated Edison (ED)

Updated April 17th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	4.0%	**Quality Percentile:**	N/A
Fair Value Price:	$65	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	N/A
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Total Return Percentile:**	N/A
Dividend Yield:	3.7%	**5 Year Price Target**	$78	**Valuation Percentile:**	N/A

Overview & Current Events

Consolidated Edison is a holding company that delivers electricity, natural gas and steam to its customers in New York City and Westchester County. It has annual revenues around $12 B and a market cap of $24.2 B.

Last year, the company received approval to raise its rates by 6% per year in both the electric and gas delivery segments for the next three years. Thanks to these reliable rate hikes, the company has been able to raise its dividend for 44 consecutive years. Consolidated Edison initiated its biggest investment program in its history last year. It will install more than 5 million smart meters in its network until 2022 for a total cost of $1.4 B. In this way, it will help its customers optimize their energy use and save money while the company will be able to integrate locally produced energy more easily, realize lower peak demand and thus reduce its operating cost. These smart meters will also serve as the basis for any digital advances in the future.

Just like most other utilities, Consolidated Edison had reached markedly overvalued levels thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. However, since early last year, the Fed has begun to raise the interest rates. Consequently, the valuation of Consolidated Edison has been under pressure lately and the stock has incurred a 14% correction in the last four months.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.36	$3.14	$3.47	$3.57	$3.86	$3.93	$3.62	$4.05	$3.94	$4.05	***$4.26***	***$5.06***
DPS	$2.34	$2.36	$2.38	$2.40	$2.42	$2.46	$2.52	$2.60	$2.68	$2.76	***$2.86***	***$3.40***

Consolidated Edison has grown its earnings per share (EPS) at a 2.1% average annual rate during the last decade. The company has grown its earnings at a 3.4% annual rate but it has also diluted its shareholders at a 1.3% annual rate. Last year, the company received approval to raise its rate base by 6% per year on average for the next three years. Thanks to these rate hikes, the management and the analysts expect approximate 5% EPS growth this year, from $4.05 to $4.26.

Consolidated Edison expects to issue new shares worth at least $450 million this year or 2% of its market cap. As the company will continue to face significant debt maturities in the next few years, it is likely to keep diluting its shareholders at its recent pace. In addition, as interest rates are on the rise, the cost of debt servicing is likely to increase. Therefore, given its current 5% EPS growth rate but also its above mentioned 2.1% long-term EPS growth, it is reasonable to expect Consolidated Edison to grow its EPS at an approximate 3.5% average annual rate in the next five years, from $4.26 this year to $5.06 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.3	12.5	13.3	15.1	15.4	14.7	15.9	15.6	18.8	20.0	***18.1***	***15.4***
Avg. Yld.	5.7%	6.0%	5.2%	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	***3.7%***	***4.4%***

Consolidated Edison has traded at a 10-year average P/E ratio of 15.4. Thanks to the almost record-low interest rates that prevailed for many years until recently, the stock enjoyed markedly high P/E ratios in the last two years. However, the Fed has begun to raise the interest rates and seems determined to continue to raise them for years. As a result, the P/E ratio of the stock is likely to contract towards its 10-year average of 15.4 in the next five years. The stock has already lost 14% in the last four months due to P/E contraction but its P/E ratio is still too high, standing at 18.1. Consequently, the stock is likely to incur a further 3.2% average annual drag in the next five years due to the contraction of its P/E ratio.

As Consolidated Edison is a slow-growth stock, investors should pay great attention to its valuation and be extremely careful before they initiate a position. If they overpay for a slow-growth stock, it may take them several years only to break even.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	17.9%	20.1%	20.8%	20.1%	20.1%	20.4%	19.1%	19.4%	18.6%	19.6%	***20.5%***	***20.0%***
Debt/A	70.4%	69.1%	69.0%	69.8%	71.2%	69.9%	71.5%	71.4%	70.4%	68.0%	***68.5%***	***70.0%***
Int. Cov.	3.7	3.2	3.5	4.0	3.9	3.1	3.8	3.7	3.8	3.7	***3.7***	***3.7***
Payout	69.6%	75.2%	68.6%	67.2%	62.7%	62.6%	69.6%	64.2%	68.0%	68.1%	***67.1%***	***67.2%***
Std. Dev.	30.3%	18.2%	14.2%	16.1%	10.8%	12.7%	14.7%	19.2%	18.1%	11.3%	***18.0%***	***16.0%***

Just like most other utilities, thanks to its heavy investments on infrastructure, Consolidated Edison is allowed by the regulatory authorities to raise its rates every year. As a result, it enjoys reliable cash flows and can thus service its debt. In addition, as consumers do not curtail their electricity consumption even during the roughest economic periods, the stock is resilient during recessions. In the Great recession, when most companies saw their earnings collapse, the EPS of Consolidated Edison fell just 3% in 2008 and 7% in 2009 and it took them only one year to return to their pre-crisis level.

Final Thoughts & Recommendation

Consolidated Edison currently offers a 3.7% dividend yield, which is almost twice as much as the dividend yield of the S&P 500. However, due to the rich valuation of the stock, this current yield is near its low over the last decade. Moreover, the stock is likely to return only 4.0% per year in the next five years, as its 3.5% expected annual EPS growth and its 3.7% dividend are likely to be offset by a 3.2% annualized P/E contraction. Therefore, investors should wait for a better entry point, particularly given the negative momentum of the stock. Even retirees should not be allured by the decent dividend yield, as the total expected return is unattractive and the short-term downside is significant.

Total Return Breakdown by Year