Consolidated Edison Inc. (ED)

Updated August 3rd, 2018 by Ben Reynolds

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	3.3%	**Volatility Percentile:**	11.0%
Fair Value Price:	$65	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	25.1%
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Valuation Percentile:**	29.0%
Dividend Yield:	3.6%	**5 Year Price Target**	$78	**Total Return Percentile:**	16.1%

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 billion and a market capitalization of $24.3 billion.

Consolidated Edison has released both 1st and 2nd quarter earnings results for fiscal 2018 since our last update. First quarter results were released on May 3rd. Adjusted earnings-per-share (EPS) grew 8.7%, from $1.27 to $1.38. The company also re-confirmed fiscal 2018 adjusted EPS guidance of $4.25. With guidance unchanged, 1st quarter results came in largely as expected.

The company released its 2nd quarter earnings for fiscal 2018 on August 2nd. Adjusted EPS were $0.61, versus $0.58 in the same quarter a year ago, for growth of 5.2%. Again, the company confirmed its previous guidance of $4.25 at the median. All-in-all, it was another 'boring' quarter for this reliable utility dividend growth stock.

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	***$4.25***	***$5.05***
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***

Last year, Consolidated Edison 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 rate hikes and population growth, 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. This will help customers optimize energy use while the company will be able to realize lower peak demand and thus reduce its operating cost.

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 and lower taxes, management expects adjusted EPS of $4.25 in fiscal 2018.

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. We expect 3.5% annualized EPS growth from 2018 through 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	***18.7***	***15.4***
Avg. Yld.	5.7%	6.0%	5.2%	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	***3.6%***	***4.4%***

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 an 8% correction so far this year.

Consolidated Edison has traded at an average P/E ratio of 15.4 over the last decade. Consolidated Edison currently trades for a P/E ratio of 18.7. We expect valuation multiple mean reversion to reduce annual total returns by 3.8 percentage points.

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 typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt.

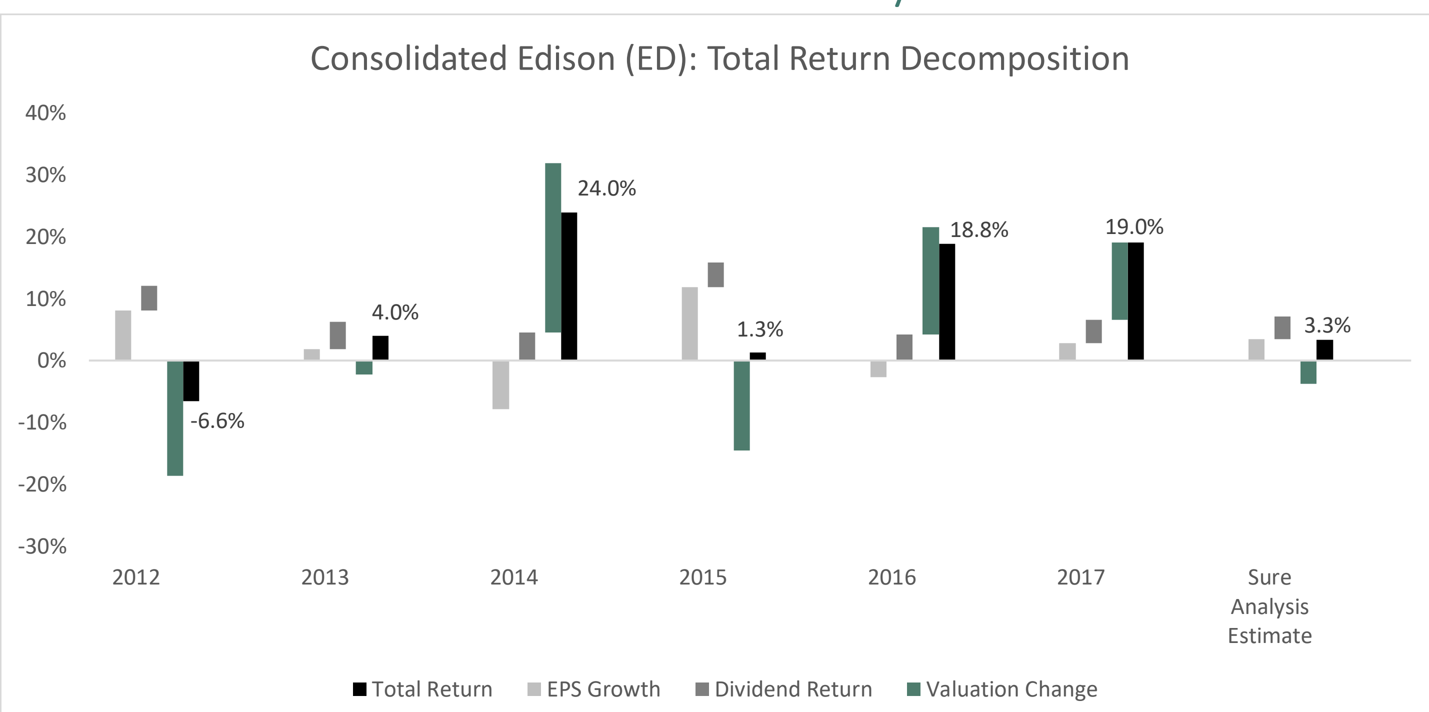
In addition, as consumers do not curtail their electricity consumption even during the roughest economic periods, the stock is resilient during recessions. In the Great recession, when most companies saw their earnings collapse, the EPS of Consolidated Edison fell just 3% in 2008 and 7% in 2009 and it took them only one year to return to their pre-crisis level.

Final Thoughts & Recommendation

Consolidated Edison currently offers a 3.6% dividend yield, which is 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. We expect total returns of just 3.3% a year for Consolidated Edison as valuation losses are likely to *more than offset* growth over the next 5 years.

As a result, we recommend total return-oriented investors sell Consolidated Edison. The stock is a hold for extremely risk-average income-oriented investors who hold Consolidated Edison as a bond replacement.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.