Consolidatd Edison Inc (ED)

Updated November 5th, 2018 by Nate Parsh

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	4.9%	**Volatility Percentile:**	9.7%
Fair Value Price:	$66	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	24.1%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Growth Percentile:**	17.5%
Dividend Yield:	3.8%	**5 Year Price Target**	$79	**Valuation Percentile:**	28.3%
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Total Return Percentile:**	17.9%

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 $23.2 billion.

Consolidated Edison released 3rd quarter earnings on November 1st. The company posted adjusted earnings-per-share (EPS) of $1.57. This was $0.08 above estimates and a 6.8% improvement year-over-year. Revenues grew 3.7% to $3.33 billion, topping estimates by $90 million. Consolidated Edison's earnings beat was a largely due to a planned price increase for the company's New York electric and gas customers that took effect in January. This added $0.22 to the company's EPS totals, with nearly all of this increase coming from higher electric revenues. Tax reform passed at the end of last year will save the company nearly $350 million per year going forward. Consolidated Edison raised the midpoint of its EPS guidance for 2018 to $4.30, up from $4.25 previously. If achieved, this would represent more than 6% growth from 2018.

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	***$4.30***	***$5.11***
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***
Shares	273.7	281.1	291.6	292.9	292.9	292.9	292.9	293	305	310	***317***	***321***

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 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.

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	***17.4***	***15.4***
Avg. Yld.	5.7%	6.0%	5.2%	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	***3.8%***	***4.3%***

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 interest rates. Consequently, the valuation of Consolidated Edison has been under pressure and the stock has incurred a correction of more than 10% so far this year.

Shares of Consolidated Edison have declined $4, or 5%, since our August 3rd update and now trade with a P/E of 17.4 based off of updated guidance. Consolidated Edison has traded at an average P/E ratio of 15.4 over the last decade. We expect valuation multiple mean reversion to reduce annual total returns by 2.4 percentage points through 2023.

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%	***66.5%***	***66.5%***
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%***

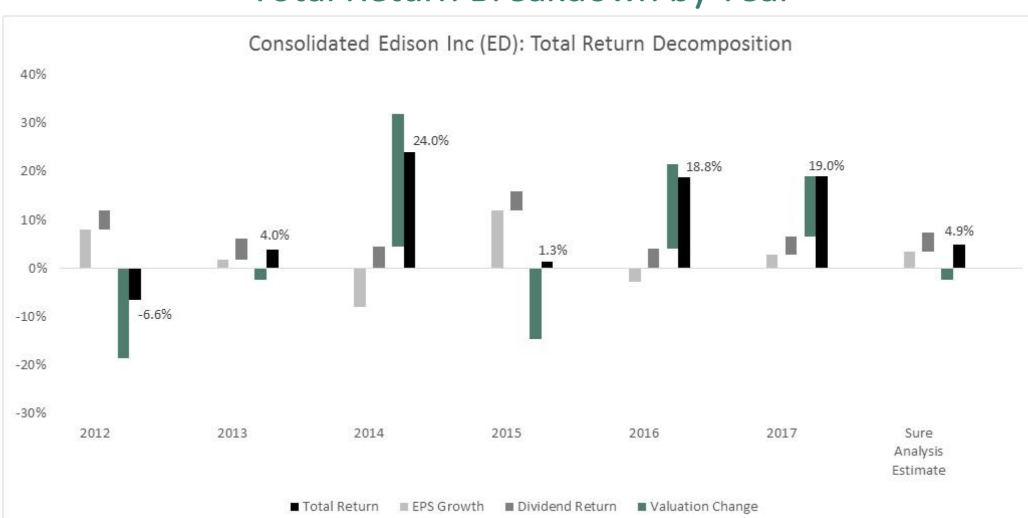
Just like most other utilities, thanks to its heavy investments on infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt.

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

We expect that Consolidated Edison will have a total annual return of 4.9% per year through 2023, up from our previous estimate of 3.3%. This is based off earnings growth (3.5%), dividend yield (3.8%) and multiple reversion (2.4%). Consolidated Edison's dividend yield, which is twice as much as the yield of the S&P 500, is very attractive. . That being said, shares of Consolidated Edison trade above fair value and don't offer quite the yield or growth rates of other utility companies, such as Dominion Energy (D). Due to the increase in EPS guidance, we have raised our 2023 price target $1 to $79. We rate Consolidated Edison as a hold at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	13583	13032	13325	12886	12188	12354	12919	12554	12075	12033
Gross Profit	5999	6790	4683	4916	5119	5163	5112	5494	5718	6105
Gross Margin	44.2%	52.1%	35.1%	38.1%	42.0%	41.8%	39.6%	43.8%	47.4%	50.7%
D&A Exp.	717	791	840	884	955	1024	1071	1130	1216	1341
Operating Profit	1659	1899	2120	2239	2339	2244	2164	2427	2471	2609
Op. Margin	12.2%	14.6%	15.9%	17.4%	19.2%	18.2%	16.8%	19.3%	20.5%	21.7%
Net Profit	1207	879	1003	1062	1141	1062	1092	1193	1245	1525
Net Margin	8.9%	6.7%	7.5%	8.2%	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%
Free Cash Flow	-1686	273	367	1170	530	14	412	223	-221	-76
Income Tax	524	440	548	600	600	476	568	605	698	472

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	33498	33844	36348	39214	41209	40647	44071	45642	48255	48111
Cash & Equivalents	74	260	338	648	394	674	699	944	776	797
Acc. Receivable	1098	1047	1173	1123	1222	1251	1201	1052	1106	1103
Inventories	516	355	348	356	330	363	372	350	339	334
Goodwill & Int.	416	420	432	432	431	433	432	431	552	559
Total Liabilities	23587	23382	25074	27565	29340	28402	31486	32581	33949	32686
Accounts Payable	1161	1173	1151	955	1215	1017	1035	1008	1147	1286
Long-Term Debt	10077	10585	10676	10673	11307	12425	12906	14274	15828	16606
Total Equity	9911	10462	11274	11436	11869	12245	12576	13052	14298	15418
D/E Ratio	1.02	1.01	0.95	0.93	0.95	1.01	1.03	1.09	1.11	1.08

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.9%	2.6%	2.9%	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%
Return on Equity	12.7%	8.6%	9.2%	9.4%	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%
ROIC	6.3%	4.3%	4.7%	4.8%	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%
Shares Out.	273.7	281.1	291.6	292.9	292.9	292.9	292.9	293	305	310
Revenue/Share	49.65	47.17	46.61	43.77	41.39	41.96	43.94	42.64	40.00	38.97
FCF/Share	-6.16	0.99	1.28	3.97	1.80	0.05	1.40	0.76	-0.73	-0.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.