



Consolidated Edison Inc (ED)

Updated February 23rd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$82	5 Year CAGR Estimate:	2.9%	Volatility Percentile:	6.5%
Fair Value Price:	\$66	5 Year Growth Estimate:	3.5%	Momentum Percentile:	65.7%
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Growth Percentile:	18.5%
Dividend Yield:	3.6%	5 Year Price Target	\$79	Valuation Percentile:	18.7%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	10.9%

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 of around \$12 billion and a market capitalization of \$25.6 billion. Consolidated Edison released financial results for the fourth quarter and full year 2018 in 2/21/2019. The company earned \$0.77 per share during the quarter, \$0.02 above estimates, but a decline of 3.8% from the previous year. Revenue declined 0.3% to \$2.95 billion, though this was \$40 million above expectations. For 2019, adjusted earnings-per-share was \$4.33, \$0.03 above the company's guidance and a 5% improvement from the previous year. Revenue grew 2.5% to \$12.3 billion. Much of the company's growth in both the quarter and full year were related to planned rate increases for Consolidated Edison's New York City customers. Overall, revenues from electric services were flat year-over-year. Gas revenues improved 9%, thanks largely to this planned rate increase. Changes in rates added \$0.15 and \$0.84 to the company's earnings-per-share total for the fourth quarter and 2018, respectively. Consolidated Edison was given approval to increase rates in 2020, with the average New York City customer seeing their bill increase by 4.9%. An effective tax rate of 28%, down from 40% the previous year, added \$0.10 to earnings-per-share in 2018. Tax reform passed at the end of last year will save the company nearly \$350 million per year going forward. Consolidated Edison expects adjusted earnings per share in the range of \$4.25-\$4.45 for 2019. The midpoint for guidance is \$0.03 below 2018's result. This guidance excludes the possible liquidation of the company's investment in certain clean energy renewable electric production projects of \$0.20 per share.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.14	\$3.47	\$3.57	\$3.86	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.30	\$5.11
DPS	\$2.36	\$2.38	\$2.40	\$2.42	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.52
Shares	281.1	291.6	292.9	292.9	292.9	292.9	293	305	310	315	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 by 2022 for a total cost of \$1.4 billion. 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 capitalization. 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 earnings-per-share growth from 2019 through 2024 due increased electric and gas rates and a lower effective tax rate.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.5	13.3	15.1	15.4	14.7	15.9	15.6	18.8	20.0	17.4	19.1	15.4
Avg. Yld.	6.0%	5.2%	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.6%	4.5%

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. While shares had pulled back at the time of our previous report, the stock has done quite well since. Shares of Consolidated Edison have increased \$7, or 9.3%, since our November 5th update and now trade with a price-to-earnings ratio of 19.1 based off of guidance for 2019. Consolidated Edison has traded at an average multiple of 15.4 over the last decade. We expect valuation multiple mean reversion to reduce annual total returns by 4.2 percentage points through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

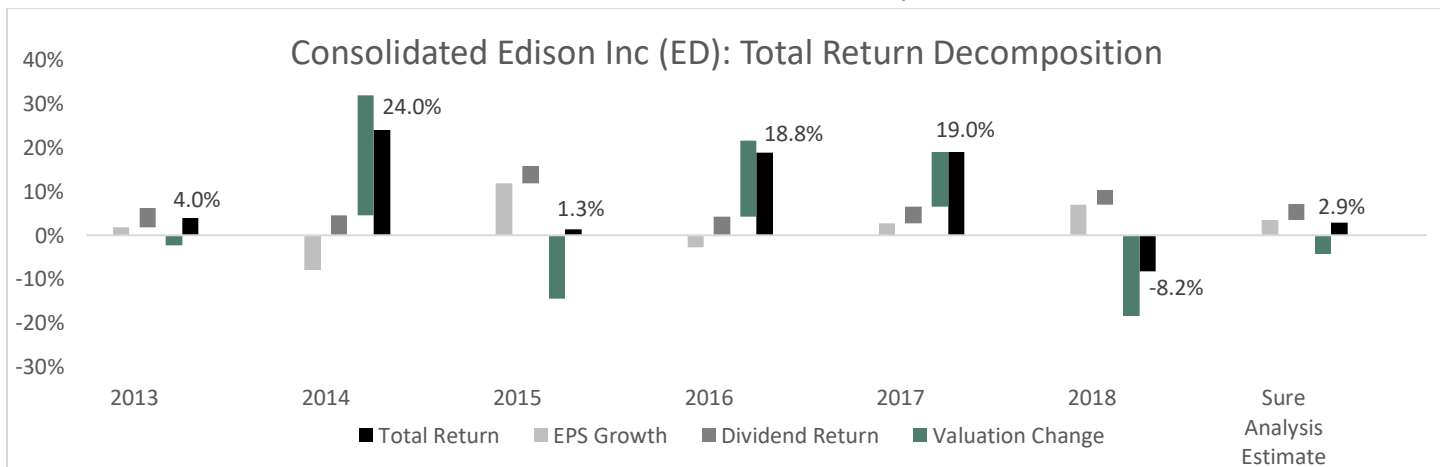
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	75.2%	68.6%	67.2%	62.7%	62.6%	69.6%	64.2%	68.0%	68.1%	66.1%	68.9%	68.9%

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. One key competitive advantage for Consolidated Edison is that consumers do not curtail their electricity consumption even during the roughest economic periods, the stock is resilient during recessions. This resiliency should be attractive to investors. In the Great Recession, when most companies saw their earnings collapse, earnings for Consolidated Edison fell just 3% in 2008 and 7% in 2009 and it took only one year to return to the pre-crisis level.

Final Thoughts & Recommendation

Following Q4 results, we expect Consolidated Edison to offer a total annual return of just 2.9% through 2024. After returning more than 9% over the past three months, the stock has seen its expected total return reduced significantly. We should note that shares of the company trade above our 2024 price target of \$79. Consolidated Edison's yield is below 4%. Other utility names such as Dominion Energy (D), Duke Energy (DUK), and Southern Company (SO) offer far more compelling total return possibilities and dividend yields. We suggest investors looking for exposure to the utility sector consider those names before buying Consolidated Edison, and rate the stock a sell as a result.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	13032	13325	12886	12188	12354	12919	12554	12075	12033	12337
Gross Profit	6790	4683	4916	5119	5163	5112	5494	5923	6269	6237
Gross Margin	52.1%	35.1%	38.1%	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%
D&A Exp.	791	840	884	955	1024	1071	1130	1216	1341	1438
Operating Profit	1899	2120	2239	2339	2244	2164	2427	2676	2773	2533
Op. Margin	14.6%	15.9%	17.4%	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%
Net Profit	879	1003	1062	1141	1062	1092	1193	1245	1525	1382
Net Margin	6.7%	7.5%	8.2%	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%
Free Cash Flow	273	367	1170	530	14	412	223	-221	-76	-802
Income Tax	440	548	600	600	476	568	605	698	472	401

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	33844	36348	39214	41209	40647	44071	45642	48255	48111	53920
Cash & Equivalents	260	338	648	394	674	699	944	776	797	895
Acc. Receivable	1047	1173	1123	1222	1251	1201	1052	1106	1103	1267
Inventories	355	348	356	330	363	372	350	339	334	358
Goodwill & Int.	420	432	432	431	433	432	431	552	559	2094
Total Liabilities	23382	25074	27565	29340	28402	31486	32581	33949	32686	37081
Accounts Payable	1173	1151	955	1215	1017	1035	1008	1147	1286	1187
Long-Term Debt	10585	10676	10673	11307	12425	12906	14274	15828	16606	20711
Total Equity	10462	11274	11436	11869	12245	12576	13052	14298	15418	16726
D/E Ratio	1.01	0.95	0.93	0.95	1.01	1.03	1.09	1.11	1.08	1.24

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.6%	2.9%	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%
Return on Equity	8.6%	9.2%	9.4%	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%
ROIC	4.3%	4.7%	4.8%	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%
Shares Out.	281.1	291.6	292.9	292.9	292.9	292.9	293	305	310	315
Revenue/Share	47.17	46.61	43.77	41.39	41.96	43.94	42.64	40.00	38.97	39.43
FCF/Share	0.99	1.28	3.97	1.80	0.05	1.40	0.76	-0.73	-0.25	-2.56

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

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