Public Service Enterprise Group Inc. (PEG)

Updated June 16th, 2020 by Felix Martinez

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	5.6%	**Market Cap:**	$24.8 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	06/08/20
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	06/30/20
Dividend Yield:	3.9%	**5 Year Price Target**	$56	**Years of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.3%

Overview & Current Events

The Public Service Enterprise Group (PEG) is a publicly-traded diversified energy company headquartered in Newark, New Jersey, and was established in 1985. However, the company has a history that dates back to 1903 when it was initially called Public Service Corporation. PEG's principal operating subsidiaries are Public Service Electric and Gas Co. (PSE&G), PSEG Power, and PSEG Long Island. The company is one of the ten largest electric companies in the U.S. PSE&G provides electric and natural gas service and services 2.3 million electric customers and 1.9 million gas customers. PSE&G accounted for 66% of PEG revenues in 2019. PEG has approximately 13,000 employees and a market cap of $24.8 billion. The company has been growing dividends for nine consecutive years, and PEG has been paying the same or higher dividends for 17 years in a row.

On May 4, 2020, the company reported first-quarter earnings for Fiscal Year 2020. The company saw a decrease of revenue Year over Year (YoY) by 6.7%, from $2,980 million in the first quarter in 2019 to $2,781 million this quarter. Net income also saw a drop from $700 million to $448 million YoY, or a decrease of 30.3%. Non-GAAP Operating Earnings were $1.03 compared to $1.08 in 1Q19. The loss on both revenue and net income was caused by less than average weather and associated weakness in market demand.

Due to the temporary closure of most businesses, schools, and government buildings, the company will experience a decline of approximately 5% to 7% in electric load from the end of March through April. Management also anticipates that this reduction may extend through the second quarter and possibly longer.

The management team re-affirms the non-GAAP Operating earnings guidance for the full year 2020 of $3.30 - $3.50 per share. We will use the midpoint of $3.40 a share for our fair value calculations.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.12	$2.74	$2.44	$2.58	$2.76	$2.91	$2.90	$2.93	$3.12	$3.28	***$3.40***	***$3.94***
DPS	$1.37	$1.37	$1.42	$1.44	$1.48	$1.56	$1.64	$1.72	$1.80	$1.88	***$1.96***	***$2.38***
Shares[1]	507.0	507.0	507.0	508.0	508.0	508.0	508.0	507.0	507.0	507.0	***507.0***	***507.0***

The company does not have strong growth prospects as it is a utility company and heavily regulated by the government. However, we estimate a 3% annual earnings growth rate for the next five years. This is in line with the 3.2% growth rate that the company has experienced for the past 5 year average. It is, however, much better than the 0.6% earnings growth over the past decade. The dividend has been growing slightly better than earnings. For the past 5 years, the dividend has a CAGR of 4.7%. We see this slowing down, and we are estimating a dividend growth rate of 4% going forward. Net margin saw an increase from 14.8% in FY2018 to 16.8% in FY2019. This is a positive, but we see net margin coming in lower this year because of the COVID-19 pandemic.

[1] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.2	12.0	12.5	12.4	15.0	13.3	15.1	17.6	16.7	18.0	***15.1***	***14.3***
Avg. Yld.	4.3%	4.2%	4.6%	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	***3.9%***	***4.2%***

The company looks to be fairly valued to a little overvalued at today's price. Because of the slow growth and prospect, we think that a fair PE is 14.3. This is in line with the company's 10-year average PE. Thus, we see an annual 1.1% valuation multiple contraction. The current dividend yield of 3.9% is higher than its 5-year average of 3.5% but not as attractive as other utility companies with a higher dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

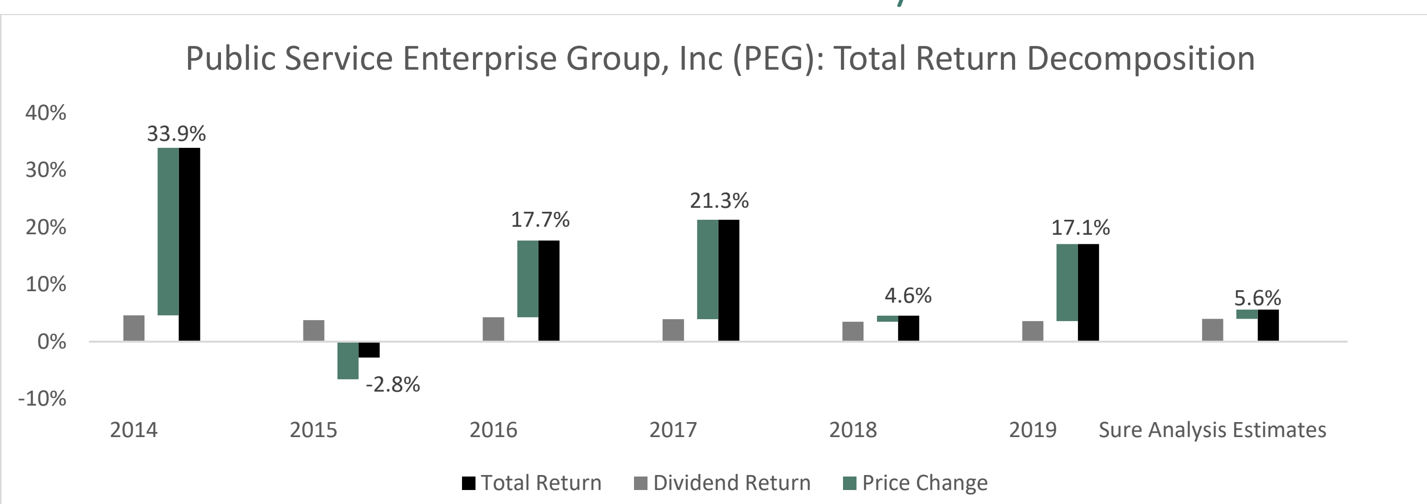
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	43.9%	50.0%	58.2%	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	***58%***	***61%***

The competitive advantage of PEG is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high barriers to entry to potential competitors. During the Great Recession of 2008-2009, the company grew earnings from $2.71 in 2007, to $2.92 in 2008, and to $3.12 in 2009. The dividend was well covered, and the company increased its dividend by 10.3% in 2008. This shows the dividend safety and the resilience of this company. However, in 2011, the company froze its dividend, losing its dividend increase streak, but the company has been growing dividends since then. The company has a stable balance sheet with a debt to equity ratio of 1.12. Interest coverage is respectable at 3.70. However, the company does have more debt than assets as the current ratio is 0.72. PEG's dividend payout ratio has been in the uptrend but still safe for the foreseeable future.

Final Thoughts & Recommendation

The company is a very safe company to invest in, as is most utility companies are. However, at the current price, PEG is slightly overvalued to our fair price of $49. There are not many growth prospects going for the company currently. Thus, we see a 5-year projected annual return of 5.6%. Most of this return will come from the 3.9% dividend yield. We rate PEG as a Hold at the current price.

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	11793	11079	9781	9968	10886	10415	8966	9094	9696	10076
Gross Profit	$4,028	$3,851	$3,430	$3,545	$3,850	$4,176	$3,074	$3,415	$3,402	$3,593
Gross Margin	34.2%	34.8%	35.1%	35.6%	35.4%	40.1%	34.3%	37.6%	35.1%	35.7%
D&A Exp.	$1,110	$1,135	$1,227	$1,370	$1,427	$1,427	$1,679	$2,185	$1,345	$1,426
Operating Profit	$2,937	$2,742	$2,278	$2,299	$2,623	$2,962	$1,598	$1,429	$2,244	$2,345
Operating Margin	24.9%	24.7%	23.3%	23.1%	24.1%	28.4%	17.8%	15.7%	23.1%	23.3%
Net Profit	$1,564	$1,503	$1,275	$1,243	$1,518	$1,679	$887	$1,574	$1,438	$1,693
Net Margin	13.3%	13.6%	13.0%	12.5%	13.9%	16.1%	9.9%	17.3%	14.8%	16.8%
Free Cash Flow	4	1,474	213	347	239	-50	-985	-1,047	-1,145	115
Income Tax	$1,059	$977	$736	$812	$938	$1,001	$411	-$306	$417	$257

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	29909	29821	31725	32522	35287	37535	40070	42716	45326	47730
Cash & Equivalents	$280	$834	$379	$493	$402	$394	$423	$313	$177	$147
Accounts Receivable	$1,387	$967	$1,069	$1,203	$1,254	$1,068	$1,161	$1,348	$1,435	$1,313
Inventories	$1,025	$1,052	$1,005	$1,024	$1,022	$976	$887	$866	$902	$897
Goodwill & Int. Ass.	$152	$147	$50	$49	$100	$118	$114	$130	$159	$149
Total Liabilities	20268	19549	20944	20913	23101	24468	26940	28869	30949	32641
Accounts Payable	$1,176	$1,184	$1,304	$1,222	$1,178	$1,369	$1,459	$1,694	$1,451	$1,358
Long-Term Debt	9004	8094	8202	8703	9098	9932	11783	13610	15478	16223
Shareholder's Equity	9633	10270	10780	11608	12185	13066	13130	13847	14377	15089
D/E Ratio	0.93	0.79	0.76	0.75	0.75	0.76	0.90	0.98	1.08	1.08

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.3%	5.0%	4.1%	3.9%	4.5%	4.6%	2.3%	3.8%	3.3%	3.6%
Return on Equity	17.0%	15.1%	12.1%	11.1%	12.8%	13.3%	6.8%	11.7%	10.2%	11.5%
ROIC	8.7%	8.1%	6.8%	6.3%	7.3%	7.6%	3.7%	6.0%	5.0%	5.5%
Shares Out.	507	507	507	508	508	508	508	507	507	507
Revenue/Share	$23.26	$21.85	$19.29	$19.62	$21.43	$20.50	$17.65	$17.94	$19.12	$19.87
FCF/Share	$0.01	$2.91	$0.42	$0.68	$0.47	-$0.10	-$1.94	-$2.07	-$2.26	$0.23

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