



Consolidated Edison Inc (ED)

Updated August 9th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	4.8%	Market Cap:	\$25.1 billion
Fair Value Price:	\$65	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	8/18/2020
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	9/15/2020
Dividend Yield:	4.1%	5 Year Price Target	\$78	Years Of Dividend Growth:	46
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	3.4%

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 about \$13 billion.

Consolidated Edison reported second quarter earnings results on 8/6/2020. Revenue declined just under 1% to \$2.7 billion, missing estimates by \$98 million. The company's adjusted earnings-per-share increased \$0.02, or 3.4%, to \$0.60, beating estimates by \$0.07.

Changes in rate plans for Consolidated Edison's New York operations reduced earnings results by \$0.02 on lower non-weather-related customer usage. A cooler spring compared to the previous year added \$0.01 to results. Lower operations and maintenance expenses, mostly due to lower pension costs, contributed \$0.22 to results, though this was partially offset by a \$0.19 headwind from depreciation and higher property taxes. Consolidated Edison was given approval to increase rates in 2020 in the fourth quarter of last year, with the average New York City customer seeing their bill increase by 4.9%. The company continues to expect the average rate base balance to increase by a CAGR of 6.2% from 2019 through 2021. The company reaffirmed its expected adjusted earnings-per-share range of \$4.15 to \$4.35 for 2020. The company plans nearly \$4 billion in capital investments this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.47	\$3.57	\$3.86	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.25	\$5.05
DPS	\$2.38	\$2.40	\$2.42	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.63
Shares¹	292	293	293	293	293	293	305	310	315	334	340	350

In 2018, 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 46 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. Consolidated Edison also stated that the company is expected to issue as much as \$600 million of shares in 2020 and a combined \$1.1 billion of shares in 2021 and 2022. 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. We expect 3.5% annualized earnings-per-share growth from 2020 through 2025 due increased electric and gas rates and a lower effective tax rate.

¹ Share count in millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.3	15.1	15.4	14.7	15.9	15.6	18.8	20.0	17.4	20.7	17.6	15.4
Avg. Yld.	5.2%	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.1%	4.7%

Just like most other utilities, Consolidated Edison reached markedly overvalued levels in recent years thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. Shares of Consolidated Edison have increased \$4, or 5.6%, since our 5/13/2020 report and now trade with a price-to-earnings ratio of 17.6 based off of guidance for 2020. 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 2.7% through 2025.

Safety, Quality, Competitive Advantage, & Recession Resiliency

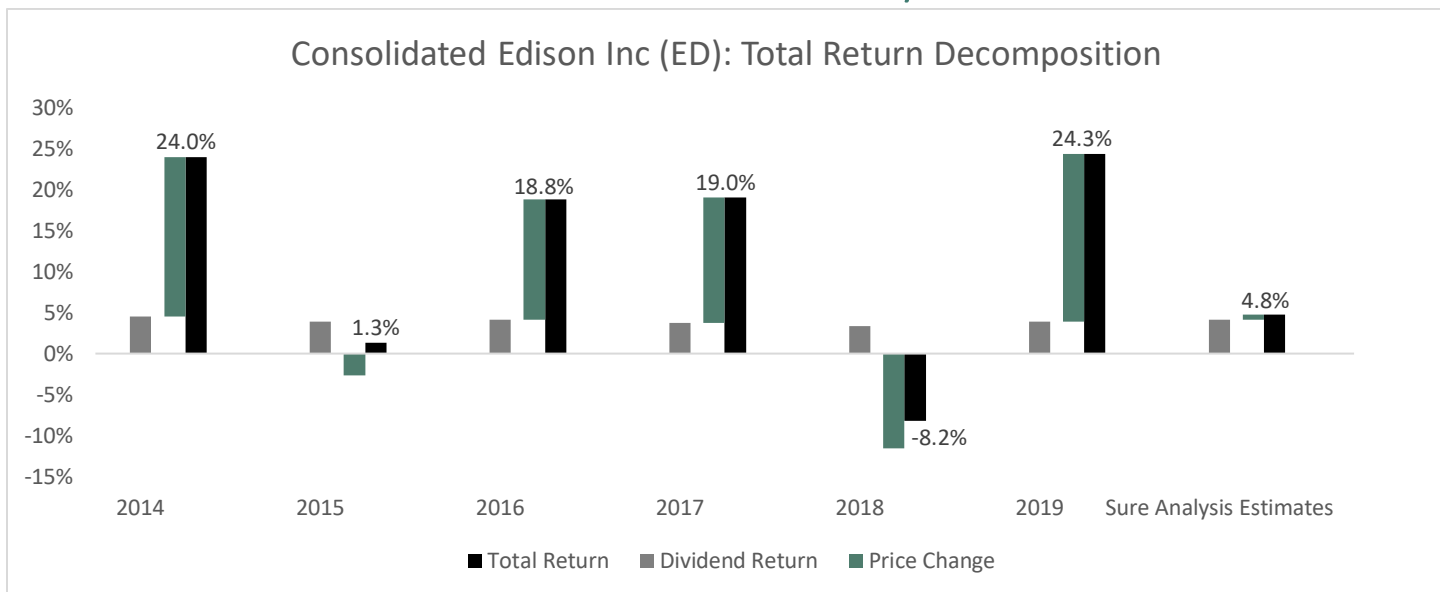
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	69%	67%	63%	63%	70%	64%	68%	68%	66%	68%	72%	72%

Just like most other utilities, thanks to its heavy investments in 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, so 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 second quarter results, Consolidated Edison is expected to return 4.8% annually through 2025, down from our previous estimate of 4.8%. Weather was finally not a headwind for the company, but Consolidated Edison did see lower customer usage during the quarter in its New York operations. While the dividend yield is likely attractive to income investors, the overall projected returns remain too low to recommend purchasing. Sure Dividend rates shares of Consolidated Edison as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	13,325	12,886	12,188	12,354	12,919	12,554	12,075	12,033	12,337	12,574
Gross Profit	4,683	4,916	5,119	5,163	5,112	5,494	5,923	6,269	6,237	6,766
Gross Margin	35.1%	38.1%	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%
D&A Exp.	840	884	955	1,024	1,071	1,130	1,216	1,341	1,438	1,684
Operating Profit	2,120	2,239	2,339	2,244	2,164	2,427	2,676	2,773	2,533	2,676
Op. Margin	15.9%	17.4%	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%
Net Profit	1,003	1,062	1,141	1,062	1,092	1,193	1,245	1,525	1,382	1,343
Net Margin	7.5%	8.2%	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%
Free Cash Flow	367	1,170	530	14	412	223	(221)	(76)	(802)	(352)
Income Tax	548	600	600	476	568	605	698	472	401	296

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	36,348	39,214	41,209	40,647	44,071	45,642	48,255	48,111	53,920	58,079
Cash & Equivalents	338	648	394	674	699	944	776	797	895	981
Acc. Receivable	1,173	1,123	1,222	1,251	1,201	1,052	1,106	1,103	1,267	1,236
Inventories	348	356	330	363	372	350	339	334	358	352
Goodwill & Int.	432	432	431	433	432	431	552	559	2,094	2,003
Total Liabilities	25,074	27,565	29,340	28,402	31,486	32,581	33,949	32,686	37,081	39,866
Accounts Payable	1,151	955	1,215	1,017	1,035	1,008	1,147	1,286	1,187	1,164
Long-Term Debt	10,676	10,673	11,307	12,425	12,906	14,274	15,828	16,606	20,711	21,665
Total Equity	11,274	11,436	11,869	12,245	12,576	13,052	14,298	15,418	16,726	18,022
D/E Ratio	0.95	0.93	0.95	1.01	1.03	1.09	1.11	1.08	1.24	1.20

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.9%	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%
Return on Equity	9.2%	9.4%	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%
ROIC	4.7%	4.8%	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%
Shares Out.	292	293	293	293	293	293	305	310	315	334
Revenue/Share	46.61	43.77	41.39	41.96	43.94	42.64	40.00	38.97	39.43	38.16
FCF/Share	1.28	3.97	1.80	0.05	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)

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

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