



Consolidated Edison Inc (ED)

Updated February 20th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	6.9%	Market Cap:	\$23.3 billion
Fair Value Price:	\$65	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	2/16/2021
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	3/15/2021
Dividend Yield:	4.6%	5 Year Price Target	\$78	Years Of Dividend Growth:	47
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.3%

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 fourth quarter and full year earnings results on 2/18/2021. For the quarter, revenue grew 0.3% to \$2.96 billion, but missed estimates by \$190 million. Adjusted net income of \$253 million, or \$0.75 per share, compared to adjusted net income of \$288 million, or \$0.87 per share, in the previous year. Adjusted earnings-per-share was \$0.01 ahead of expectations. For the year, revenue declined 2.6% to \$12.2 billion. Adjusted net income of \$1,399M, or \$4.18 per share, compared to adjusted net income of \$1,438M, or \$4.38 per share, for 2019. Adjusted earnings-per-share for 2020 was \$0.05 below our estimates.

Adjusted EPS included a \$0.95 impairment related to Consolidated Edison's investment in the Mountain Valley Pipeline. Warmer winter weather was a \$0.03 headwind to Consolidated Edison's New York operations. Higher property taxes and depreciation and amortization expenses also were an issue during the quarter. Lower pension and postretirement benefit costs partially offset these challenges. COVID-19 reduced results by \$0.03. Total electric revenues improved 2% and 0.4% for the quarter and year, respectively. Gas was flat in Q4, but down more than 5% for 2020.

The company expects adjusted earnings-per-share in a range of \$4.15 to \$4.35 for 2021, which would be a 1.7% increase at the midpoint from the previous year. Consolidated Edison expects to make capital investments of \$4 billion in the current year and \$8.1 billion between 2022 and 2023.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.57	\$3.86	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.18	\$4.25	\$5.05
DPS	\$2.40	\$2.42	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.10	\$3.68
Shares¹	293	293	293	293	293	305	310	315	334	337	337	330

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 47 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 1.6% 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 1.4% annual rate. Consolidated Edison also stated that the company could issue as much as 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

¹ Share count in millions

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shareholders at its recent pace. We expect 3.5% annualized earnings-per-share growth from 2021 through 2026 due increased electric and gas rates and a lower effective tax rate.

Following a 1.3% increase for the 3/15/2021 payment, Consolidated Edison has raised its dividend for 47 consecutive years. The company is a member of the Dividend Aristocrat index.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.1	15.4	14.7	15.9	15.6	18.8	20.0	17.4	20.7	17.3	16.0	15.4
Avg. Yld.	4.5%	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.2%	4.6%	4.7%

Just like most other utilities, Consolidated Edison reached somewhat 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 decreased \$11, or 13.9%, since our 11/9/2020 report and now trade with a price-to-earnings ratio of 16 based off of guidance for 2021. Consolidated Edison has traded at an average multiple of 17.1 over the last decade, but we maintain our target multiple of 15.4 times earnings due to share dilution. We expect valuation multiple mean reversion to reduce annual total returns by 0.8% through 2026.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	67%	63%	63%	70%	64%	68%	68%	66%	68%	73%	73%	73%

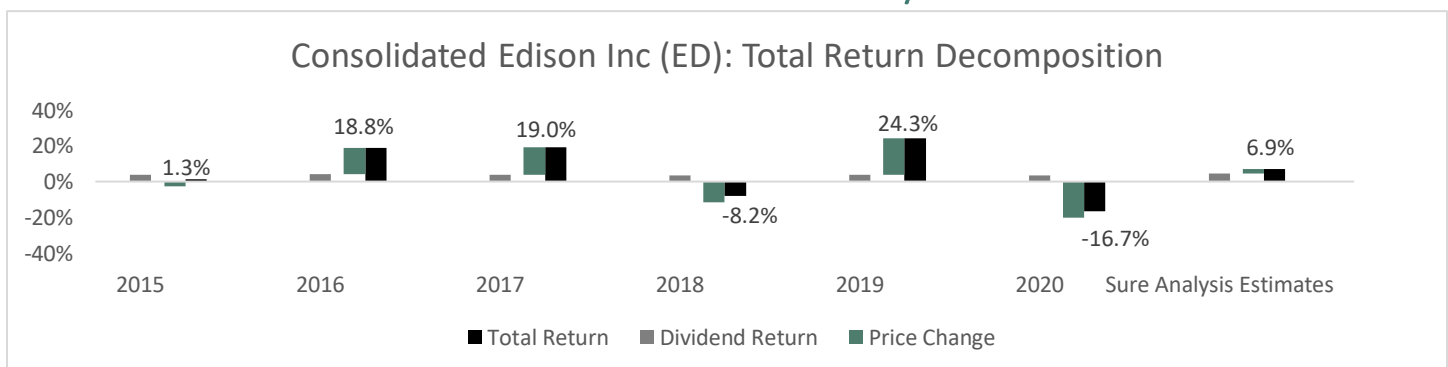
Just like most other utilities, thanks to its heavy investments in infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt. One key competitive advantage for Consolidated Edison 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 fourth quarter results, Consolidated Edison is expected to return 6.9% annually through 2026, down from our previous estimate of 3.6%. Projected returns stem from a 3.5% earnings growth rate and a starting yield of 4.6% partially offset by low single-digit multiple reversion. Investors often purchase utility stocks for their dividend yields.

Consolidated Edison offers a solid yield and has a long history of dividend growth. We have raised our five-year price target \$1 to \$78, but maintain our hold rating on the stock due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12,886	12,188	12,354	12,919	12,554	12,075	12,033	12,337	12,574	12,246
Gross Profit	4,916	5,119	5,163	5,112	5,494	5,923	6,269	6,237	6,766	7,149
Gross Margin	38.1%	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%	58.4%
D&A Exp.	884	955	1,024	1,071	1,130	1,216	1,341	1,438	1,684	1,920
Operating Profit	2,239	2,339	2,244	2,164	2,427	2,676	2,773	2,533	2,676	2,654
Op. Margin	17.4%	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%	21.7%
Net Profit	1,062	1,141	1,062	1,092	1,193	1,245	1,525	1,382	1,343	1,101
Net Margin	8.2%	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%	9.0%
Free Cash Flow	1,170	530	14	412	223	(221)	(76)	(802)	(352)	(1,711)
Income Tax	600	600	476	568	605	698	472	401	296	90

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	39,214	41,209	40,647	44,071	45,642	48,255	48,111	53,920	58,079	62,895
Cash & Equivalents	648	394	674	699	944	776	797	895	981	1,272
Acc. Receivable	1,123	1,222	1,251	1,201	1,052	1,106	1,103	1,267	1,236	1,701
Inventories	356	330	363	372	350	339	334	358	352	356
Goodwill & Int.	432	431	433	432	431	552	559	2,094	2,003	1,906
Total Liabilities	27,565	29,340	28,402	31,486	32,581	33,949	32,686	37,081	39,866	43,830
Accounts Payable	955	1,215	1,017	1,035	1,008	1,147	1,286	1,187	1,164	1,475
Long-Term Debt	10,673	11,307	12,425	12,906	14,274	15,828	16,606	20,711	21,665	24,219
Total Equity	11,436	11,869	12,245	12,576	13,052	14,298	15,418	16,726	18,022	18,847
D/E Ratio	0.93	0.95	1.01	1.03	1.09	1.11	1.08	1.24	1.20	1.29

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%	1.8%
Return on Equity	9.4%	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%	6.0%
ROIC	4.8%	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%	2.6%
Shares Out.	293	293	293	293	293	305	310	315	334	337
Revenue/Share	43.77	41.39	41.96	43.94	42.64	40.00	38.97	39.43	38.16	36.48
FCF/Share	3.97	1.80	0.05	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)	(5.10)

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

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