



Public Service Enterprise Group Inc. (PEG)

Updated March 3rd, 2021 by Felix Martinez

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	5.5%	Market Cap:	\$27.9 B
Fair Value Price:	\$51	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/08/21
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	03/31/21
Dividend Yield:	3.7%	5 Year Price Target	\$60	Years of Dividend Growth:	9
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	4.1%

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 services and services to 2.3 million electric customers and 1.9 million gas customers. PSE&G accounted for 50% of PEG revenues in 2020. PEG has approximately 13,000 employees and a market cap of \$27.9 billion. The Company has been growing dividends for nine consecutive years, and PEG has been paying the same or higher dividends for 18 years in a row.

On February 26, 2021, the Company reported fourth-quarter and Full Year (FY)2020 earnings. The Company reported net income for the fourth quarter of \$431 million, or \$0.85 per share, compared to net income of \$437 million, or \$0.86 per share, in the fourth quarter of 2019. PEG made a profit of \$1,905 million for the full year compared to \$1,693 million it made in FY2019. This represents an increase of 12.5% year over year. Overall, on a per-share basis, The Company earned \$3.43 per share, which is an increase of 4.6%.

PEG management also announced that It approved to invest \$1 billion over three years in a program that will universal access to all New Jersey customers' energy efficiency. This will help lower customers' bills and shrink their carbon footprint. This investment will also create 3,200 clean energy jobs and help New Jersey avoid 8 million metric tons of carbon emission through 2050. The Company also announced a dividend increase of 4.1%. The prior dividend was \$0.49 per share per quarter to now \$0.51 per share per quarter.

The management team re-affirmed the non-GAAP Operating earnings guidance for the full year 2021 of \$3.35 - \$3.55 per share. We will use the midpoint of \$3.45 a share for our fair value calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.74	\$2.44	\$2.58	\$2.76	\$2.91	\$2.90	\$2.93	\$3.12	\$3.28	\$3.43	\$3.45	\$4.00
DPS	\$1.37	\$1.42	\$1.44	\$1.48	\$1.56	\$1.64	\$1.72	\$1.80	\$1.88	\$1.96	\$2.04	\$2.48
Shares¹	507.0	507.0	508.0	508.0	508.0	508.0	507.0	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 lower than the 3.5% growth rate that the company has experienced for the past 5-year average. It is, however, much better than the 2.5% earnings growth over the past decade. The dividend has been growing slightly better than earnings. For the past five years, the dividend has a CAGR of 4.5%. We see this slowing down, and we are estimating a dividend growth rate of 4% going forward. Net margin has been increasing in recent years from 14.8% in FY2018 to 16.8% in FY2019. In FY2020, PEG had a net margin of 19.8%.

¹ Share count is 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12	12.5	12.4	15	13.3	15.1	17.6	16.7	18	17	15.8	15.00
Avg. Yld.	4.2%	4.6%	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.7%	4.1%

The company looks to be a little overvalued at today's price. Because of the slow growth prospects, we think that a fair PE is 15. This is in line with the company's 10-year average PE. Thus, we see a slight annual headwind due to multiple contraction. The current dividend yield of 3.7% is higher than its 5-year average of 3.4% but not as attractive as other utility companies with a higher dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

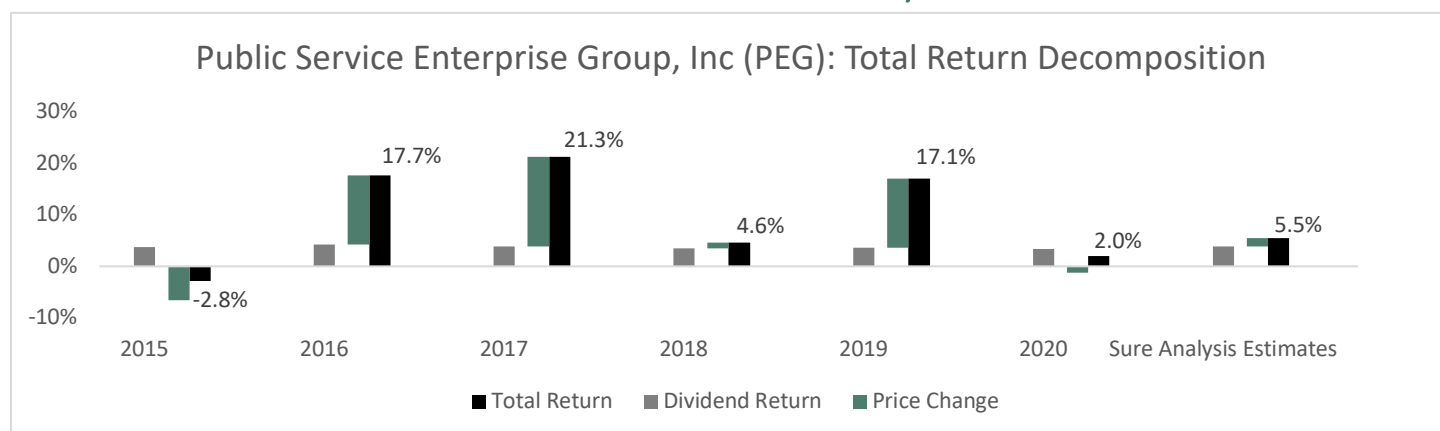
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	50.0%	58.2%	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	59%	62%

PEG's competitive advantage is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high entry barriers 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 \$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 it has been growing since then. The Company has a stable balance sheet with a debt to equity ratio of 1.1. Interest coverage increased to a better ratio of 4.8 compared to the 3.7 ratios in the second quarter of FY2020. However, The Company does have more debt than assets, as the current ratio is 0.7. 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 most utility companies are. However, at the current price, PEG is slightly overvalued relative to our fair price estimate of \$51. There are not many growth prospects available to the company currently. Thus, we see a 5-year projected annual return of 5.5%. Most of this return will come from the 3.7% dividend yield. We rate PEG as a Hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9781	9968	10886	10415	8966	9094	9696	10076	9696	10076	9603
Gross Profit	\$3,430	\$3,545	\$3,850	\$4,176	\$3,074	\$3,415	\$3,402	\$3,593	\$3,402	\$3,593	\$3,432
Gross Margin	35.1%	35.6%	35.4%	40.1%	34.3%	37.6%	35.1%	35.7%	35.1%	35.7%	35.7%
D&A Exp.	\$1,227	\$1,370	\$1,427	\$1,427	\$1,679	\$2,185	\$1,345	\$1,426	\$1,345	\$1,426	\$1,469
Operating Profit	\$2,278	\$2,299	\$2,623	\$2,962	\$1,598	\$1,429	\$2,244	\$2,345	\$2,244	\$2,345	\$2,147
Operating Margin	23.3%	23.1%	24.1%	28.4%	17.8%	15.7%	23.1%	23.3%	23.1%	23.3%	22.4%
Net Profit	\$1,275	\$1,243	\$1,518	\$1,679	\$887	\$1,574	\$1,438	\$1,693	\$1,438	\$1,693	\$1,905
Net Margin	13.0%	12.5%	13.9%	16.1%	9.9%	17.3%	14.8%	16.8%	14.8%	16.8%	19.8%
Free Cash Flow	213	347	239	-50	-985	-1,047	-1,145	115	-1145	115	68
Income Tax	\$736	\$812	\$938	\$1,001	\$411	-\$306	\$417	\$257	\$417	\$257	\$396

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	31725	32522	35287	37535	40070	42716	45326	47730	45326	47730	50050
Cash & Equivalents	\$379	\$493	\$402	\$394	\$423	\$313	\$177	\$147	177	147	543
Accounts Receivable	\$1,069	\$1,203	\$1,254	\$1,068	\$1,161	\$1,348	\$1,435	\$1,313	\$1,435	\$1,313	\$1,410
Inventories	\$1,005	\$1,024	\$1,022	\$976	\$887	\$866	\$902	\$897	\$902	\$897	\$878
Goodwill & Int. Ass.	\$50	\$49	\$100	\$118	\$114	\$130	\$159	\$149	159	149	158
Total Liabilities	20944	20913	23101	24468	26940	28869	30949	32641	30949	32641	34066
Accounts Payable	\$1,304	\$1,222	\$1,178	\$1,369	\$1,459	\$1,694	\$1,451	\$1,358	\$1,451	\$1,358	\$1,332
Long-Term Debt	8202	8703	9098	9932	11783	13610	15478	16223	15478	16223	17243
Shareholder's Equity	10780	11608	12185	13066	13130	13847	14377	15089	14377	15089	15984
D/E Ratio	0.76	0.75	0.75	0.76	0.90	0.98	1.08	1.08	1.08	1.08	1.08

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	3.9%	4.5%	4.6%	2.3%	3.8%	3.3%	3.6%	3.3%	3.6%	3.9%
Return on Equity	12.1%	11.1%	12.8%	13.3%	6.8%	11.7%	10.2%	11.5%	10.2%	11.5%	12.3%
ROIC	6.8%	6.3%	7.3%	7.6%	3.7%	6.0%	5.0%	5.5%	5.0%	5.5%	5.9%
Shares Out.	507	508	508	508	508	507	507	507	507	507	507
Revenue/Share	\$19.29	\$19.62	\$21.43	\$20.50	\$17.65	\$17.94	\$19.12	\$19.87	\$19.12	\$19.87	\$18.94
FCF/Share	\$0.42	\$0.68	\$0.47	-\$0.10	-\$1.94	-\$2.07	-\$2.26	\$0.23	-\$2.26	\$0.23	\$0.13

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

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