



South Jersey Industries (SJI)

Updated June 22nd, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.5%	Market Cap:	\$2.68B
Fair Value Price:	\$32	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/31/21 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	10/02/21
Dividend Yield:	4.5%	5 Year Price Target	\$38	Years Of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	2.6%

Overview & Current Events

South Jersey Industries traces its founding to 1910. Today, the company buys, transports, stores, and sells natural gas. The utility operates in three segments: SJI Utilities, SJI Midstream, and South Jersey Energy Solutions. Elizabethtown Gas was acquired in 2018. The company owns and operates rooftop solar generation at corporate sites, fuel cells, and is investing in renewable natural gas projects. Additionally, the utility owns oil, gas, and mineral rights in the Marcellus Shale region of Pennsylvania. South Jersey owns roughly 10,000 miles of distribution and transmission pipeline and serves over 700,000 total customers (~407,000 South Jersey Gas and ~303,000 Elizabethtown Gas). Revenue is roughly 70% - 80% regulated and 20% - 30% unregulated. Total revenue was about \$1,541M in 2020

South Jersey reported Q1 2021 results on May 5, 2021. Companywide revenue grew to \$674.3M from \$534.1M and GAAP diluted earnings per share rose to \$1.26 from \$1.09 on year-over-year basis. The top and bottom line growth was driven by increased profitability and regulated utility and non-regulated operations offset by financing costs. Regulated Utility revenue rose to \$402.6M from \$386.9M. Regulated Utility margins were higher due to regulatory relief and demand was higher due to customer growth and cold weather. Infrastructure modernization also contributed to higher rates. Non-regulated, non-utility revenue grew to \$271.7M from \$147.2M. Non-regulated operations saw higher revenue due to investments, acquisitions, and new fuel management contracts.

In December 2020, SJI acquired a minority interest in REV LNG, LLC, along with the rights to develop anaerobic digesters at a portfolio of dairy farms to produce renewable natural gas. SJI owns a 20% share in the PennEast pipeline from the Marcellus Shale region. The utility expects Phase One to be in service in 2022 and Phase Two to be in service in 2024. The pipeline should alleviate supply issues and is 100% subscribed with 80%+ capacity under 15-year agreements.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.45	\$1.52	\$1.52	\$1.57	\$1.44	\$1.34	\$1.23	\$1.38	\$1.12	\$1.68	\$1.62	\$1.88
DPS	\$0.75	\$0.83	\$0.90	\$0.96	\$1.02	\$1.06	\$1.10	\$1.13	\$1.16	\$1.19	\$1.21	\$1.37
Shares²	60.4	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6	106.6	142.7

South Jersey's earnings per share have been volatile over the past decade due to fluctuating natural gas prices, and rising share count. But in the past decade revenue has more than doubled through organic growth and the acquisition of Elizabethtown Gas in 2018. Top line growth will likely be slow since the population of New Jersey is growing slowly, but SJI should achieve about 1.5% regulated utility growth through new construction and conversions to natural gas. This combined with efficiency improvements, capital spending, investment in clean energy, and 9.6% return on equity suggests that the rate base should grow at about 10% annually. Non-regulated non-utility growth will occur through investment in renewables. We expect earnings per share to grow at about 4% on average supporting 2.5% growth on average in the dividend per share out to 2026. The payout ratio is reasonably conservative for a regulated utility and the current yield is above the trailing 10-year average.

¹ Current quarterly dividend will be paid on 07/02/21. Estimate based on prior years.

² 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2025
Avg. P/E	18.4	16.9	18.9	18.0	17.9	21.7	27.9	22.6	28.3	14.9	16.5	20.0
Avg. Yld.	2.8%	3.2%	3.1%	3.4%	3.9%	3.6%	3.2%	3.6%	3.7%	4.8%	4.5%	3.6%

South Jersey's stock price is still depressed from before the pandemic but has risen from recent lows in late-2020. Demand should recover for industrial and commercial customers as the pandemic wanes. Consensus earnings per share estimate for 2021 is \$1.62. Our fair value multiple for the long haul is 20X, near the average for the past decade. The stock is trading below that. Our fair value estimate is now \$32. Our 5-year price target is now \$38.

Safety, Quality, Competitive Advantage, & Recession Resiliency

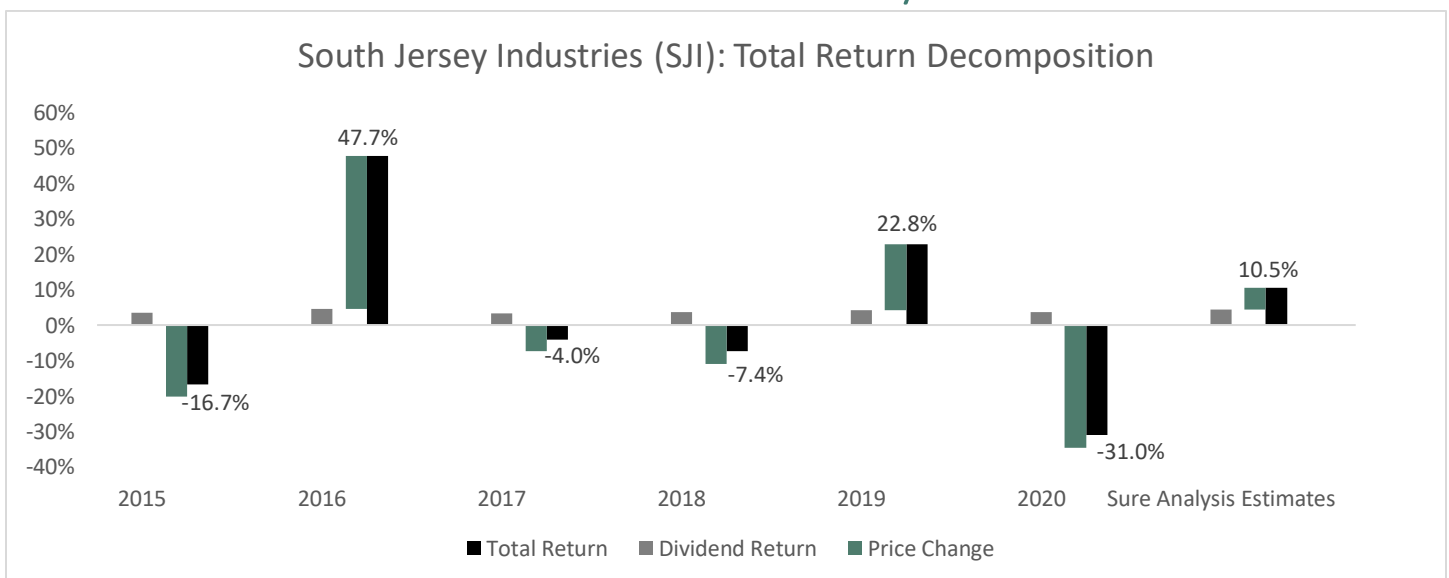
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	52%	55%	59%	61%	71%	79%	89%	82%	104%	71%	75%	73%

South Jersey's competitive advantage is that it owns two regulated natural gas utilities. This gives SJI a monopoly in its service area and a guaranteed return on equity as approved by regulators. SJI is now the second largest natural gas utility in New Jersey after the Elizabethtown Gas acquisition in 2018. SJI's unregulated operations provide some risk for the utility. But the midstream pipeline, renewable energy production, and energy management are a smaller percentage of revenue and are currently growing. Recessions tend to suppress demand as businesses close and consumers cut costs. The utility has a solid balance sheet with a BBB/A3 rating and no significant maturities until 2030. At end of Q1 2021, SJI had approximately \$315 million in short-term and current long-term debt, and \$3,067 million in long-term debt. This is offset by ~\$30M in cash, cash equivalents and marketable securities.

Final Thoughts & Recommendation

At present we are forecasting 10.5% annualized total returns over the next five years. SJI struggled after the Elizabethtown Gas acquisition as margins were depressed. The utility seems to have recovered and is now focused on growth in both regulated and non-regulated operations. This stock may interest investors seeking a safe and growing dividend. The current yield is well above the market average. At the current price, we rate this stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	829	706	731	887	960	1,037	1,243	1,641	1,629	1,541
Gross Profit	270	275	249	337	384	438	377	554	559	644
Gross Margin	32.6%	38.9%	34.1%	37.9%	40.0%	42.3%	30.3%	33.7%	34.3%	41.8%
D&A Exp.	48	55	65	79	91	110	123	133	133	171
Operating Profit	122	110	70	128	157	194	100	191	209	280
Operating Margin	14.7%	15.6%	9.5%	14.4%	16.4%	18.7%	8.1%	11.6%	12.8%	18.1%
Net Profit	89	92	82	97	105	119	(3)	18	77	157
Net Margin	10.8%	13.0%	11.2%	10.9%	11.0%	11.5%	-0.3%	1.1%	4.7%	10.2%
Free Cash Flow	(2)	(136)	(157)	(181)	(157)	(17)	(83)	(198)	(383)	(175)
Income Tax	23	11	(19)	4	1	54	(25)	1	21	23

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,248	2,631	2,925	3,349	3,472	2,552	3,865	5,957	6,365	6,689
Cash & Equivalents	8	5	4	4	4	1	8	30	6	34
Accounts Receivable	135	195	254	252	178	71	202	338	254	279
Inventories	72	58	61	65	59	13	53	62	55	42
Goodwill & Int. Ass.				-	30		4	735	702	707
Total Liabilities	1,623	1,895	2,098	2,417	2,434	1,712	2,673	4,690	4,942	5,022
Accounts Payable	154	193	260	273	186	35	285	410	232	257
Long-Term Debt	748	965	1,055	1,255	1,459	743	1,533	3,111	3,387	3,516
Shareholder's Equity	624	736	827	932	1,038	840	1,192	1,267	1,424	1,661
D/E Ratio	1.20	1.31	1.28	1.35	1.41	0.89	1.29	2.46	2.38	2.12

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	3.8%	2.9%	3.1%	3.1%	3.9%	-0.1%	0.4%	1.2%	2.4%
Return on Equity	15.0%	13.5%	10.4%	11.0%	10.7%	12.7%	-0.3%	1.4%	5.7%	10.2%
ROIC	6.8%	6.0%	4.6%	4.8%	4.5%	5.8%	-0.2%	0.5%	1.7%	3.1%
Shares Out.	60.4	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6
Revenue/Share	13.77	11.46	11.41	13.35	13.92	13.55	15.63	19.43	17.65	15.89
FCF/Share	(0.03)	(2.21)	(2.45)	(2.73)	(2.28)	(0.22)	(1.04)	(2.34)	(4.15)	(1.80)

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

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