Portland General Electric (POR)

Updated July 9th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$4.1 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/24/2021
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	10/15/2021
Dividend Yield:	3.8%	**5 Year Price Target:**	$64	**Years of Dividend Growth:**	14
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.5%

Overview & Current Events

Portland General Electric is an electric utility based in Portland, Oregon, providing electricity to over 900,000 customers in 51 cities. The company owns 3.9 gigawatts of energy generation, between 33% gas, 13% coal, 9% wind, 5% hydro and 40% is purchased. Portland General trades on the NYSE under the ticker POR and has a market capitalization of $4.1 billion. POR has 2,900 full-time employees. In 2020, the corporation generated $2.15 billion in revenue, broken down as 49% to residential customers, 29% commercial, 10% industrial, and 12% other. The company is forecasting that 40% of its power delivered to customers in 2021 will be carbon free, as it aims to reach 24% hydro and 20% wind and solar.

Portland General released first quarter results on April 30th. POR reported net income of $96 million, an 18.5% year-over-year increase compared to the $81 million earned in 1Q2020. The corporation generated $1.07 per diluted share, a 17.6% increase over the $0.91 earned in the same prior year period.

Retail energy delivers in the first quarter increased 1.2%, weather-adjusted, compared to 1Q2020. This increase was driven primarily by an 8% increase in industrial deliveries and 3% growth in residential deliveries, due to a 1.3% increase in the average number of residential customers. Commercial energy deliveries, however, decreased 5%.

The company recently increased their annual dividend by 5.5% to $0.43 per share per quarter. Leadership reaffirmed their 2021 full-year guidance for diluted earnings per share of between $2.55 and $2.70 based on a series of assumptions, most notably a 1% to 1.5% increase in annual energy deliveries.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.95	$1.87	$1.84	$2.18	$2.04	$2.16	$2.29	$2.37	$2.39	$2.75	**$2.63**	**$3.36**
DPS	$1.06	$1.08	$1.10	$1.12	$1.18	$1.26	$1.34	$1.43	$1.52	$1.59	**$1.72**	**$2.30**
Shares[1]	75.4	75.6	78.1	78.2	88.8	89.0	89.1	89.3	89.4	89.7	**90.0**	**95.0**

Portland General has demonstrated a clear history of consistent per share earnings growth. In the past nine and five years, POR has grown adjusted earnings per share by 3.9% and 6.2% per year on average, respectively. Management believes that the company can grow earnings per share by 4% to 6% over the long-term, and we believe this to be a fair estimate, at right around 5% earnings growth into 2026. Leadership also estimates that the company can grow the dividend by 5% to 7% over the long-term, for a 6% mid-point, which is in-line with the 5-year average dividend growth rate of 6.4%.

We expect that POR will generate this earnings growth through increased annual energy deliveries, as a result of commercial growth as the economy recovers, and strong growth in industrial energy demand due to customer expansions. Rate increases, customer additions, and completion of construction projects will all further fuel POR's earnings growth. The company has increased the share count over the last decade, though not at an alarming rate (nearly 2% per year over the last nine years). This is not preferred but is common among utility companies with constant capital expenditures who pay out a large portion of the corporation's earnings to shareholders as dividends.

[1] In millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.4	14.0	16.9	15.3	17.7	19.1	20.0	18.4	22.3	26.6	**17.4**	**19.0**
Avg. Yld.	4.4%	4.1%	3.7%	3.3%	3.3%	3.1%	2.9%	3.3%	2.8%	3.5%	**3.8%**	**3.6%**

The current PE of 17.4 is fairly discounted compared to POR's average historical PE ratio. In the past nine and five years, POR has traded at a valuation of 18.3 and 21.3 times adjusted earnings on average. We estimate the company can grow into the valuation of 19.0 times earnings. This PE growth from 17.4 to 19.0 would result in valuation gains of 1.8% annually due to multiple expansion. With a generally lower valuation in the most recent year, the dividend is slightly elevated historically, at 3.8%

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	54%	58%	60%	51%	58%	58%	59%	60%	64%	58%	**65%**	**69%**

Portland General's payout ratio has remained within or below their target payout ratio for the last decade, with the target payout ratio of 60% to 70%. Even going forward, with a slightly higher estimated dividend growth than earnings growth, we estimate that POR can remain within this target payout ratio.

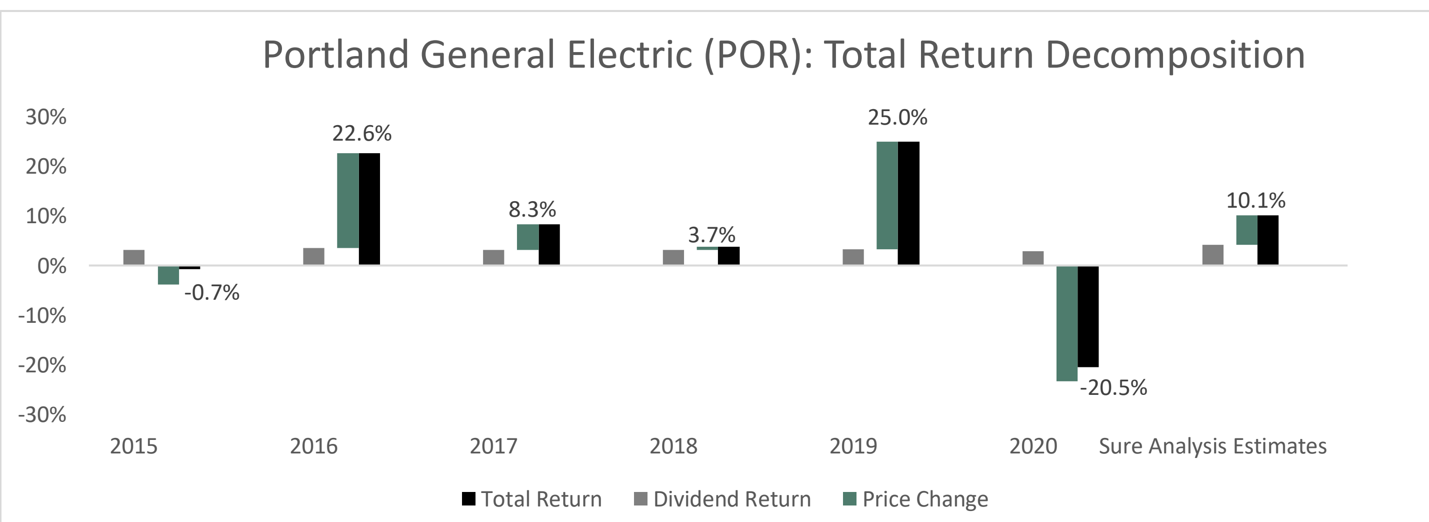
During the great financial crisis, earnings fell roughly 44% from peak to trough, however the dividend was fairly well covered throughout the entire ordeal, and it kept growing year-after-year to result in a 14 year annual dividend raise streak. It's worth noting too, that if we ignored the year 2007 where POR generated significantly higher earnings than on average (the peak), the financial crisis barely harmed POR's earnings as it's risen consistently from 2006 onwards.

We don't see POR as having a significant competitive advantage in its business among its peers, though it does dominate in its geographical area of Oregon and serves roughly half of the residential population.

Final Thoughts & Recommendation

Portand General Electric is a consistent earnings grower and dominates in its geographical location. The corporation has kept within their target payout ratio, which has allowed for them to grow the dividend for fourteen consecutive years and counting. We believe POR is trading at 91% fair value, with the potential to generate 10.1% in total returns, thus we rate POR a Buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,782	1,772	1,772	1,858	1,863	1,886	1,965	1,940	2,051	2,094
Gross Profit	1,022	1,046	1,015	1,145	1,202	1,269	1,373	1,369	1,437	1,386
Gross Margin	57.4%	59.0%	57.3%	61.6%	64.5%	67.3%	69.9%	70.6%	70.1%	66.2%
SG&A Exp.	419	427	444	484	507	526	569	563	613	576
D&A Exp.	227	248	248	301	305	321	345	382	409	454
Operating Profit	309	302	206	293	309	340	380	346	353	269
Op. Margin	17.3%	17.0%	11.6%	15.8%	16.6%	18.0%	19.3%	17.8%	17.2%	12.8%
Net Profit	147	141	105	175	172	193	187	212	214	155
Net Margin	8.2%	8.0%	5.9%	9.4%	9.2%	10.2%	9.5%	10.9%	10.4%	7.4%
Free Cash Flow	153	191	(112)	(487)	(78)	(22)	83	35	(60)	(217)
Income Taxes	58	64	21	61	45	50	86	17	27	-

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,733	5,670	6,101	7,042	7,210	7,527	7,838	8,110	8,394	9,069
Cash & Equivalents	6	12	107	127	4	6	39	119	30	257
Acct Receivables	144	152	146	149	158	155	168	193	253	271
Inventories	71	78	65	82	83	82	78	84	96	72
Total Liabilities	4,067	3,940	4,281	5,131	4,952	5,183	5,422	5,604	5,803	6,456
Accounts Payable	111	98	173	156	98	129	132	168	165	153
Long-Term Debt	1,765	1,653	1,916	2,501	2,199	2,350	2,426	2,478	2,597	3,196
Total Equity	1,663	1,728	1,819	1,911	2,258	2,344	2,416	2,506	2,591	2,613
D/E Ratio	1.06	0.96	1.05	1.31	0.97	1.00	1.00	0.99	1.00	1.22

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.6%	2.5%	1.8%	2.7%	2.4%	2.6%	2.4%	2.7%	2.6%	1.8%
Return on Equity	9.0%	8.3%	5.9%	9.4%	8.3%	8.4%	7.9%	8.6%	8.4%	6.0%
ROIC	4.3%	4.1%	2.9%	4.3%	3.9%	4.2%	3.9%	4.3%	4.2%	2.8%
Shares Out.	75.4	75.6	78.1	78.2	88.8	89.0	89.1	89.3	89.4	89.7
Revenue/Share	23.65	23.42	22.90	23.08	22.09	21.18	22.04	21.71	22.90	23.36
FCF/Share	2.03	2.52	(1.45)	(6.05)	(0.92)	(0.25)	0.93	0.39	(0.67)	(2.42)

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