



OGE Energy Corp. (OGE)

Updated August 31st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	10.0%	Market Cap:	\$7.1 B
Fair Value Price:	\$37	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/8/2021
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	10/29/2021
Dividend Yield:	4.6%	5 Year Price Target	\$47	Years Of Dividend Growth:	14
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	3.9%

Overview & Current Events

OGE Energy (OGE) was founded in 1995, in Oklahoma. It is the parent company of Oklahoma Gas and Electric Company (OG&E), a regulated electric utility that serves more than 860,000 customers in Oklahoma and western Arkansas. OGE Energy also owns 25.5% of Enable Midstream Partners (ENBL), a Master Limited Partnership (MLP) that owns and operates pipeline networks and storage tanks of natural gas and crude oil. OGE Energy has a market cap of \$7.1 billion and generates 80%-85% of its annual utility earnings in the second and third quarter.

On February 16th, 2021, Enable Midstream Partners agreed to be acquired by Energy Transfer (ET) in an all-stock deal, which is expected to close this year. When the deal materializes, OGE Energy will own approximately 3.0% of Energy Transfer. The latter is an MLP which owns and operates one of the largest midstream portfolios in the U.S., with immense pipeline networks and storage tanks of natural gas, crude oil and natural gas liquids.

In early August, OGE Energy reported (8/5/21) financial results for the second quarter of fiscal 2021. Adjusted earnings-per-share grew from \$0.43 to \$0.56 thanks to favorable trends in both segments. OG&E benefited from rate hikes and customer growth while the natural gas business benefited from higher prices and higher gathering and processing volumes. Management reiterated its guidance for the full year, expecting earnings-per-share of \$1.76-\$1.86 from the utility business, but it did not reaffirm its guidance for earnings-per-share of \$0.30-\$0.37 from the midstream investments due to the absence of guidance from ENBL as a result of its pending acquisition by Energy Transfer.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.73	\$1.79	\$1.94	\$1.98	\$1.36	\$1.69	\$3.10	\$2.12	\$2.16	\$2.08	\$2.17	\$2.77
DPS	\$0.75	\$0.79	\$0.84	\$0.93	\$1.03	\$1.13	\$1.24	\$1.36	\$1.48	\$1.57	\$1.61	\$2.11
Shares¹	198.5	198.1	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.0	200.0

As shown in the above table, OGE Energy has exhibited a lackluster performance record. The company has grown its earnings-per-share at a modest 2.1% average annual rate over the last decade. The record earnings in 2017 resulted from a non-recurring tax benefit and hence this is not representative of the current profit capability of OGE Energy.

With that said, the outlook of the company seems brighter than the last decade. OGE Energy has invested \$3.3 billion in growth projects in the last five years. In addition, the strong economy in Oklahoma and Arkansas are likely to drive material organic growth for OGE Energy in the upcoming years. Thanks to the recent completion of some growth projects and the focus of management in growing the utility business, the company could grow its earnings-per-share at a 5.0% average annual rate over the next five years. This is in line with management's guidance for the upcoming years. Management also recently reiterated its commitment to keep growing the dividend significantly while maintaining a healthy balance sheet and a flat share count.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.3	15.2	17.7	18.3	22.0	17.7	11.4	16.5	19.7	16.2	16.1	16.9
Avg. Yld.	3.0%	2.9%	2.5%	2.6%	3.4%	3.8%	3.5%	3.9%	3.5%	4.7%	4.6%	4.5%

¹ 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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Investors should be especially careful with the valuation of slow-growth stocks, such as utilities. If they overpay for such stocks, they may need years to breakeven. Fortunately, this does not appear to be the case for OGE Energy right now. OGE Energy is currently trading at a price-to-earnings ratio of 16.1, which is lower than its 10-year average of 16.9. We expect the stock to trade close to its average valuation level in five years. If this occurs, the stock will enjoy a 0.9% annualized expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	43.4%	44.1%	43.3%	47.0%	75.7%	66.9%	40.0%	64.2%	68.5%	75.5%	74.2%	76.3%

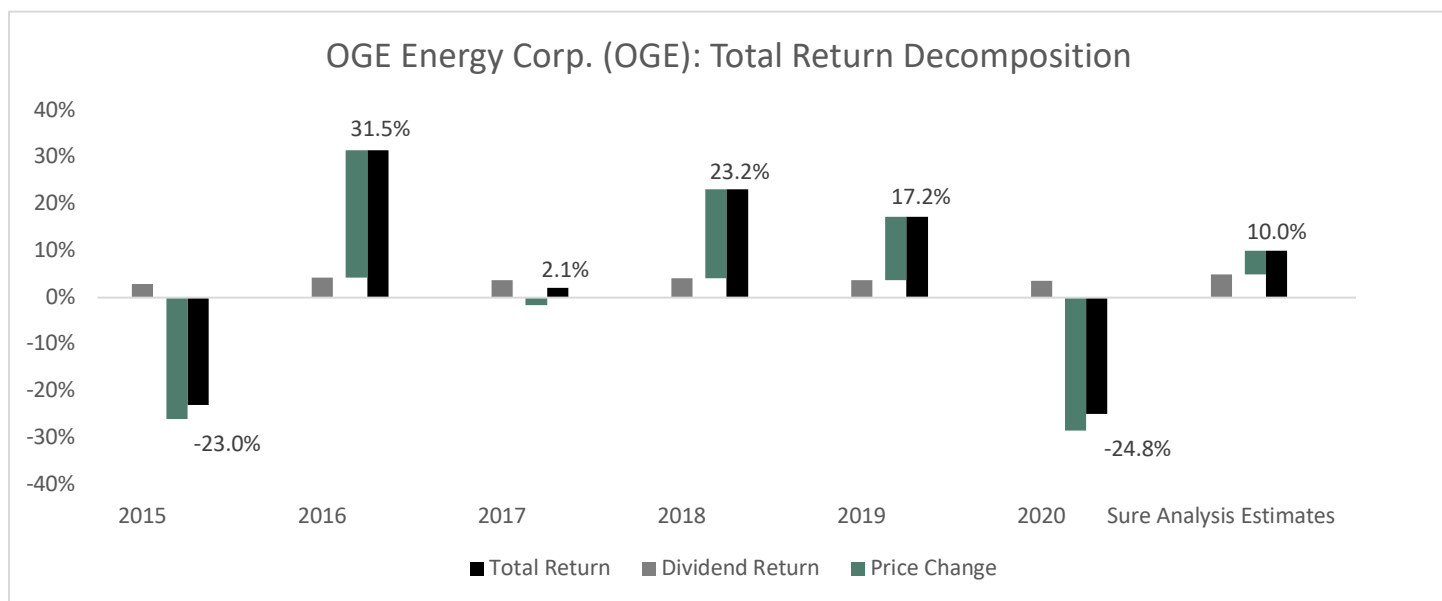
OGE Energy does its best to maintain its electricity rates as low as possible. Its rates are currently more than -30% below the national average and thus they result in high customer satisfaction rates, which enable the company to grow its customer base. This is a major competitive advantage. The other competitive advantage of OGE Energy is the immense investment required from potential new entrants to build the infrastructure of the regulated business. This poses high barriers to entry and thus protects OGE Energy from potential new competitors.

On the other hand, OGE Energy is less resilient to downturns than most utilities due to its investment in the natural gas midstream business. Unlike most utility stocks, which have retrieved most of their COVID-driven losses, OGE Energy is still trading -24% below its pre-COVID level. However, OGE Energy has stated that it will divest its midstream business at an opportune moment in order to become a pure utility. Moreover, it is now offering a nearly 10-year high dividend yield of 4.6%, with a ~5% dividend hike expected in October. Thanks to its healthy payout ratio of 74% and its strong balance sheet, which has a BBB+ credit rating, OGE Energy can continue raising its dividend in the upcoming years. The stock is thus suitable for income-oriented investors.

Final Thoughts & Recommendation

OGE Energy passes under the radar of most investors due to its lackluster performance record. However, we expect the company to improve its performance in the upcoming years while its valuation is attractive, particularly given the rich valuation of the broad market. We also view the future divestment of its midstream business as a potential catalyst for the stock price. Overall, OGE Energy could offer a 10.0% average annual return over the next five years thanks to its 4.6% dividend, 5.0% earnings growth and a 0.9% annualized expansion of its valuation level. It maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,916	3,671	2,868	2,453	2,197	2,259	2,261	2,270	2,232	2,122
Gross Profit	1,057	1,151	950	907	880	941	905	903	953	1,015
Gross Margin	27.0%	31.4%	33.1%	37.0%	40.1%	41.7%	40.0%	39.8%	42.7%	47.8%
D&A Exp.	308	375	299	281	308	323	284	322	355	391
Operating Profit	650	669	554	537	481	531	532	490	504	522
Operating Margin	16.6%	18.2%	19.3%	21.9%	21.9%	23.5%	23.5%	21.6%	22.6%	24.6%
Net Profit	343	355	388	396	271	338	619	426	434	(174)
Net Margin	8.8%	9.7%	13.5%	16.1%	12.3%	15.0%	27.4%	18.7%	19.4%	-8.2%
Free Cash Flow	(437)	(105)	(367)	152	319	(15)	(40)	378	46	62
Income Tax	161	135	130	173	97	148	(49)	72	30	(127)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	8,906	9,922	9,135	9,528	9,581	9,940	10,413	10,749	11,024	10,719
Cash & Equivalents	5	2	7	6	75	0	14	94	---	1
Acc. Receivable	323	295	192	194	175	176	191	175	154	158
Inventories	188	174	155	137	194	162	165	184	137	153
Goodwill & Int.	176	167	---	---	---	---	---	---	---	---
Total Liabilities	6,087	6,850	6,098	6,283	6,255	6,496	6,562	6,744	6,885	7,087
Accounts Payable	388	397	251	179	263	205	230	239	195	252
Long-Term Debt	3,014	3,280	2,840	2,853	2,739	2,867	3,168	3,147	3,307	3,589
Total Equity	2,563	2,767	3,037	3,244	3,326	3,444	3,851	4,005	4,140	3,632
D/E Ratio	1.18	1.19	0.94	0.88	0.82	0.83	0.82	0.79	0.80	0.99

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	3.8%	4.1%	4.2%	2.8%	3.5%	6.1%	4.0%	4.0%	-1.6%
Return on Equity	14.1%	13.3%	13.4%	12.6%	8.3%	10.0%	17.0%	10.8%	10.6%	-4.5%
ROIC	6.4%	5.8%	6.3%	6.6%	4.5%	5.5%	9.3%	6.0%	5.9%	-2.4%
Shares Out.	198.5	198.1	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1
Revenue/Share	19.73	18.53	14.38	12.27	11.01	11.30	11.31	11.32	11.12	10.61
FCF/Share	(2.20)	(0.53)	(1.84)	0.76	1.60	(0.08)	(0.20)	1.88	0.23	0.31

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

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