# Public Service Enterprise Group Inc. (PEG)

*Updated November 13th, 2021 by Felix Martinez*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $62 | **5 Year CAGR Estimate:** | 3.7% | **Market Cap:** | $31.5 B |
| **Fair Value Price:** | $54 | **5 Year Growth Estimate:** | 3.0% | **Ex-Dividend Date:** | 12/09/21[1] |
| **% Fair Value:** | 114% | **5 Year Valuation Multiple Estimate:** | -2.6% | **Dividend Payment Date:** | 12/31/21 |
| **Dividend Yield:** | 3.3% | **5 Year Price Target** | $63 | **Years of Dividend Growth:** | 9 |
| **Dividend Risk Score:** | B | **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, 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 $31.5 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 November 2nd, 2021, the Company reported third-quarter results for Fiscal Year (FY)2021. The Company reported a net income loss of $1,564 million, or $(3.10) per share, compared to a profit of $575 million, or $1.14 per share, in 3Q2020. Net income loss results from pre-tax impairment of approximately $519 million at its New England asset group, partially offset by a pre-tax gain of about $62 million from the sale of PSEG Power's ownership interest Solar Source LLC.

The Company reported Non-GAAP operating earnings for 3Q21 of $495 million, or $0.98 per share, compared to non-GAAP Operating Earnings for the third quarter of 2020 of $488 million, or $0.96 per share. This is an increase of 2.1% year over year. So far, the Company will have a solid year for 2021 and is well-positioned to execute its financial and strategic goals.

PEG management also announced that It approved to invest $1 billion over three years in a program that will provide 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 management team increased its non-GAAP Operating earnings guidance for the full year 2021 to $3.55 - $3.70 per share. This, we will use $3.63 a share for our fair value calculations, which is 5.8% higher than what PEG earning in FY2020.

## 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 | ***$3.63*** | ***$4.21*** |
| **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*** |
| **Shares[2]** | 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

[1] Ex-Dividend and Dividend Payment Date are estimates.
[2] 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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dividend has had a CAGR of 4.5%. We see this slowing down, and we estimate 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%.

## 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 | ***17.1*** | ***15.0*** |
| **Avg. Yld.** | 4.2% | 4.6% | 4.5% | 3.6% | 4.0% | 3.7% | 3.3% | 3.5% | 3.2% | 3.4% | ***3.3%*** | ***3.9%*** |

The Company looks to be 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 contractions. The current dividend yield of 3.3% is lower 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

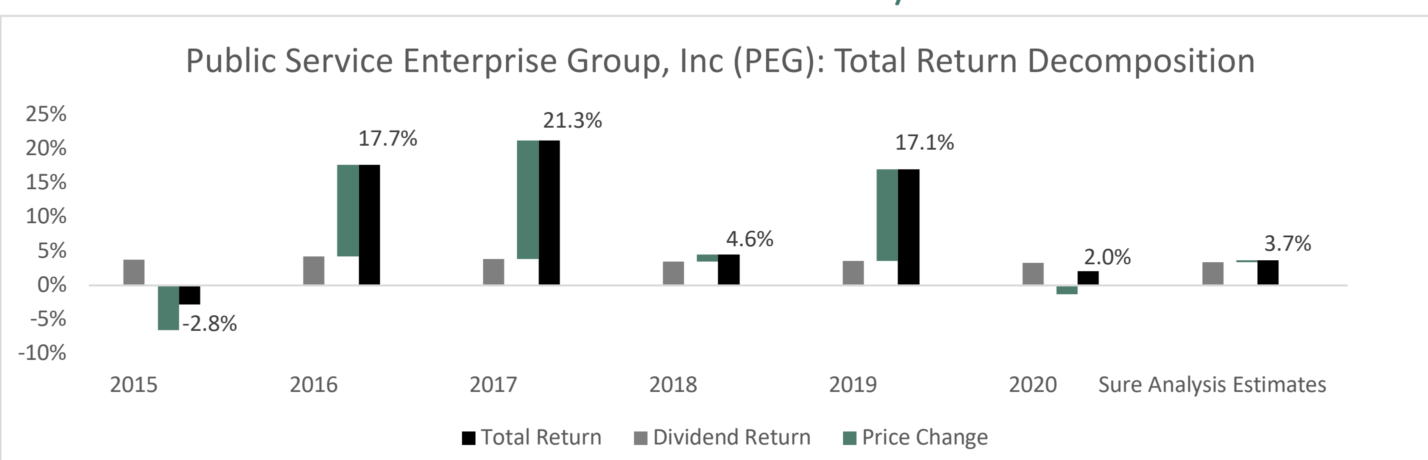
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 50.0% | 58.2% | 55.8% | 53.6% | 53.6% | 56.6% | 58.7% | 57.7% | 57.3% | 57.1% | ***56%*** | ***59%*** |

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 grown since then. The Company has a stable balance sheet with a debt to equity ratio of 1.4. Interest coverage decreased to a ratio of 4.0 compared to the 4.8 ratios in the fourth 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 is 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 overvalued relative to our fair price estimate of $54. There are not many growth prospects available to the Company currently. Thus, we see a 5-year projected annual return of 3.7%. Most of this return will come from the 3.3% dividend yield. We rate PEG as a Sell 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.*