



New Jersey Resources (NJR)

Updated December 2nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	10.3%	Market Cap:	\$3.7 B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	12/14/2021
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	01/03/2022
Dividend Yield:	3.8%	5 Year Price Target	\$54	Years Of Dividend Growth:	25
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	9.0%

Overview & Current Events

New Jersey Resources provides natural gas and clean energy services, transportation, distribution, asset management and home services through its five main subsidiaries. The company owns both regulated and nonregulated operations. NJR's principal subsidiary, New Jersey Natural Gas (NJNG), owns and operates over 7,500 miles of natural gas transportation and distribution infrastructure serving over half a million customers. NJR Clean Energy Ventures (CEV) invests in and operates solar projects, to provide customers with low-carbon solutions. NRJ Energy Services manages a portfolio of natural gas transportation and storage assets, as well as provides physical natural gas services to customers in North America. The midstream subsidiary owns and invests in several large midstream gas projects. Finally, the home services business provides heating, central air conditioning, water heaters, standby generators, and solar products to residential homes. New Jersey Resources was founded in 1952 and has paid a quarterly dividend since. As of today, the company has increased its annual dividend for 25 consecutive years and has a market capitalization of \$3.7 billion. NJR trades on the NYSE and has more than 1,100 employees.

New Jersey Resources reported fourth quarter and fiscal 2021 results on November 18th. Fiscal 2021 net income of \$117.9 was higher than the prior fiscal year's results of \$163.0 million. Consolidated net financial earnings (NFE) for the company was \$207.7 million, a 26% increase compared to the prior year's results of \$165.3 million. NFE per share of \$2.16 was a 24% increase in comparison to the \$1.74 posted a year ago. The Energy Services business reported fiscal 2021 NFE of \$71 million compared to (\$7.9) million in the prior year. New Jersey Natural Gas (NJNG) added 7,854 customers in fiscal 2021, compared to 8,349 in 2020.

Management provided guidance for a fiscal 2022 NFEPS range of \$2.20 to \$2.30, due to progress on major infrastructure projects. New Jersey Natural Gas (NJNG) is expected to contribute 60 to 65 percent of NFEPS in 2022, while CEV will contribute 20 to 23 percent. The remaining 14 to 22 percent will be a combination of the storage and transportation business, energy services, and home services and other.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NFEPS	\$1.35	\$1.36	\$2.10	\$1.78	\$1.60	\$1.73	\$2.74	\$1.96	\$2.07	\$2.16	\$2.25	\$2.94
DPS	\$0.77	\$0.81	\$0.86	\$0.90	\$0.96	\$1.02	\$1.09	\$1.17	\$1.27	\$1.32	\$1.45	\$1.90
Shares	83.3	84	85	86	87	87	88	89.6	95.1	96.2	97.0	102.0

New Jersey Resources measures its performance and its payout ratio by Net financial earnings (NFE) per share. NFE is implemented to eliminate the impact of volatility to GAAP earnings associated with unrealized gains or losses on derivative instruments. In fiscal 2021, the business is adopting an accounting policy change around its solar projects. This will set the foundation for further investments in solar. Now that the "earnings reset" of 2021 is complete, management is expecting 4% earnings growth into 2022, and a 7% to 9% annual long-term growth rate thereafter.

We are forecasting 5.5% annual earnings growth over the intermediate term, which would result in NFEPS of \$2.94 in 2027. The company is also estimating long-term annual dividend growth per share to be in the 6% to 10% range. Annual cash flow from operations growth is expected to be 20% into 2024. CEV is investing \$850 million over four years into the

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solar market and pursuing regional market opportunities in the Northeastern U.S., where the solar market is growing fast due to public policy mandates and clean energy targets.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.5	16.3	12.4	16.9	21.9	23.7	15.9	23.8	16.3	18.1	17.1	18.5
Avg. Yld.	3.4%	3.6%	3.3%	3.0%	2.7%	2.5%	2.5%	2.5%	3.8%	3.4%	3.8%	3.5%

The current P/E ratio based on 2022 NFEPS of \$2.25 is 17.1. Over the past ten years, NJR has had an average P/E ratio of 18.2. This has grown to an average 19.6 in the past five years. We assign fair valuation in between these two averages at around 18.5 times NFEPS estimates. If the valuation were to revert to 18.5, the stock would incur a 1.6% annual tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

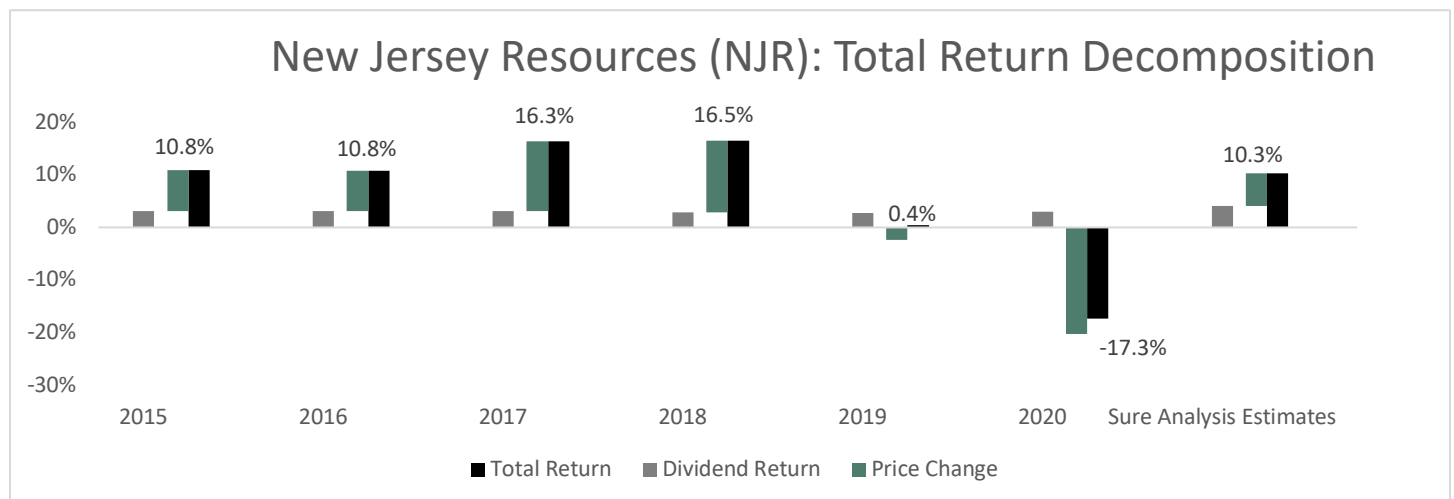
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	57%	60%	41%	51%	60%	59%	40%	60%	61%	61%	64%	64%

The dividend payout ratio for the company on a net financial earnings basis appears to be very safe historically, especially for a utility company which can often safely pay out a large portion of earnings. We expect the company will continue to increase the dividend without a hitch. The company was not horribly affected by the Great Recession given the nature of its business as both earnings and the share price recuperated quickly. Now, through the COVID-19 pandemic, the company appears to remain solid. The company does not have a significant competitive advantage; however, its growing solar portfolio can set it apart from other natural gas players. Though the practice of integrating renewable assets in older energy companies may become common practice, NJR is at least ahead of the pack.

Final Thoughts & Recommendation

New Jersey Resources has paid a dividend since 1952 and has raised this dividend consecutively in the last 25 years. NJR has many growth initiatives in motion and a clear vision of their future, particularly for their natural gas and clean energy ventures. We are forecasting total annual returns of 10.3%, composed of a 3.8% yield, 1.6% tailwind due to valuation, and a 5.5% earnings growth rate. New Jersey Resources is trading at 93% of fair value, and with estimated total returns of 10.3%, we rate NJR a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2249	3198	3738	2734	1881	2269	2915	2592	1954	2157
Gross Profit	236	312	383	439	320	343	325	280	371	438
Gross Margin	10.5%	9.8%	10.3%	16.1%	17.0%	15.1%	11.1%	10.8%	19.0%	20.3%
D&A Exp.	40	48	72	76	39	40	39	34	35	38
Operating Profit	42	47	53	61	73	82	86	81	107	111
Operating Margin	109	159	201	248	168	171	200	165	229	288
Net Profit	4.8%	5.0%	5.4%	9.1%	8.9%	7.5%	6.9%	6.3%	11.7%	13.4%
Net Margin	93	115	142	181	132	132	233	124	163	118
Free Cash Flow	4.1%	3.6%	3.8%	6.6%	7.0%	5.8%	8.0%	4.8%	8.3%	5.5%
Income Tax	-155	-82	70	71	-212	-78	20	-332	-257	-234

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2770	3005	3159	3284	3719	3929	4144	4373	5316	5722
Cash & Equivalents	5	3	2	5	38	2	1	3	117	5
Accounts Receivable	171	240	190	155	143	196	205	139	134	213
Inventories	273	329	286	171	217	214	199	184	188	213
Goodwill & Int. Ass.					0	41	23	16	15	11
Total Liabilities	1956	2117	2193	2177	2552	2692	2725	2821	3673	4091
Accounts Payable	249	315	311	253	248	258	348	268	238	395
Long-Term Debt	813	947	934	921	1238	1428	1456	1584	2412	2612
Shareholder's Equity	814	887	966	1107	1167	1237	1419	1552	1644	1631
D/E Ratio	2.40	2.39	2.27	1.97	2.19	2.18	1.92	1.82	2.23	2.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.4%	4.0%	4.6%	5.6%	3.8%	3.5%	5.8%	2.9%	3.4%	2.1%
Return on Equity	11.7%	13.5%	15.3%	17.5%	11.6%	11.0%	17.6%	8.3%	10.2%	7.2%
ROIC	6.2%	6.6%	7.6%	9.2%	5.9%	5.2%	8.4%	4.1%	4.5%	2.8%
Shares Out.	83.3	84	85	86	87	87	88	89.6	95.1	96.2
Revenue/Share	27.01	38.24	44.02	31.69	21.69	26.03	33.01	28.93	20.54	22.33
FCF/Share	-1.86	-0.98	0.82	0.82	-2.44	-0.89	0.23	-3.70	-2.70	-2.42

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

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