



# Consolidated Edison Inc (ED)

Updated February 19<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$85	<b>5 Year CAGR Estimate:</b>	3.9%	<b>Market Cap:</b>	\$30 B
<b>Fair Value Price:</b>	\$72	<b>5 Year Growth Estimate:</b>	3.5%	<b>Ex-Dividend Date:</b>	2/15/22
<b>% Fair Value:</b>	118%	<b>5 Year Valuation Multiple Estimate:</b>	-3.3%	<b>Dividend Payment Date:</b>	3/15/22
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$86	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	1.9%

## Overview & Current Events

Consolidated Edison is a holding company that delivers electricity, natural gas, and steam to its customers in New York City and Westchester County. The company has annual revenues of nearly \$14 billion.

Consolidated Edison announced fourth quarter and full year earnings results on 2/17/2022. Revenue grew 15.5% to \$3.4 billion, beating expectations by \$510 million. Adjusted earnings of \$355 million, or \$1.00 per share, compared to adjusted earnings of \$253 million, or \$0.75 per share, in the previous year. Adjusted earnings-per-share beat estimates by \$0.14. For the year, revenue grew 11.8% to \$13.7 while adjusted earnings of \$1.5 billion, or \$4.39 per share, compared to adjusted earnings of \$1.4 billion, or \$4.18, in 2020.

Higher rate bases for gas and electric customers added \$0.08 to the company's New York operations while recovery of late payments added \$0.22. Higher revenues in company's clean energy business added \$0.07 to results.

Consolidated Edison offered an outlook for 2022 as well, with the company expecting adjusted earnings-per-share of \$4.40 to \$4.60 for the year. This would be a 2.5% increase from the prior year. The company also expects a five-year earnings growth of 5% to 7%.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.86	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.18	\$4.39	<b>\$4.50</b>	<b>\$5.34</b>
<b>DPS</b>	\$2.42	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.10	<b>\$3.16</b>	<b>\$3.75</b>
<b>Shares<sup>1</sup></b>	293	293	293	293	305	310	315	334	337	354	<b>354</b>	<b>340</b>

In 2018, Consolidated Edison received approval to raise its rates by 6% per year in both the electric and gas delivery segments for the next three years. Thanks to rate hikes and population growth, the company has been able to raise its dividend for nearly five decades. Consolidated Edison initiated its biggest investment program in its history last year. It will install more than 5 million smart meters in its network by 2022 for a total cost of \$1.4 billion. This will help customers optimize energy use while the company will be able to realize lower peak demand and thus reduce its operating cost. The company also expects capital expense of \$4.6 billion for 2022.

Consolidated Edison has grown its earnings-per-share at a 1.4% average annual rate during the last decade. The company has grown its earnings at a 3.4% annual rate, but it has also diluted its shareholders at a 2.1% annual rate. Consolidated Edison also stated that the company could issue as much as a combined \$1.1 billion of shares in 2021 and 2022. As the company will continue to face significant debt maturities in the next few years, it is likely to keep diluting its shareholders at its recent pace. Despite company guidance for higher growth, we reaffirm our estimate of 3.5% annualized earnings-per-share growth for 2022 to 2027 given recent-term results.

Following a 1.9% increase for the 3/15/2022 payment, Consolidated Edison has raised its dividend for 48 consecutive years. The company is a member of the Dividend Aristocrat index and two years away from gaining entrance into the Dividend Kings.

<sup>1</sup> Share count in millions

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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.4	14.7	15.9	15.6	18.8	20.0	17.4	20.7	17.3	19.4	18.9	16.0
Avg. Yld.	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.2%	3.6%	3.7%	4.4%

Just like most other utilities, Consolidated Edison reached somewhat overvalued levels in recent years thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. Shares of Consolidated Edison have gained \$7, or 9%, since our 11/7/2022 report. Shares trade with a price-to-earnings ratio of 18.9 based off of guidance for 2022. Consolidated Edison has traded at an average multiple of 19 over the last decade, but we believe that a multiple of 16 times earnings is appropriate given the company's lack of growth over the past few years. We expect valuation multiple mean reversion to reduce annual total returns by 3.3% through 2027.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

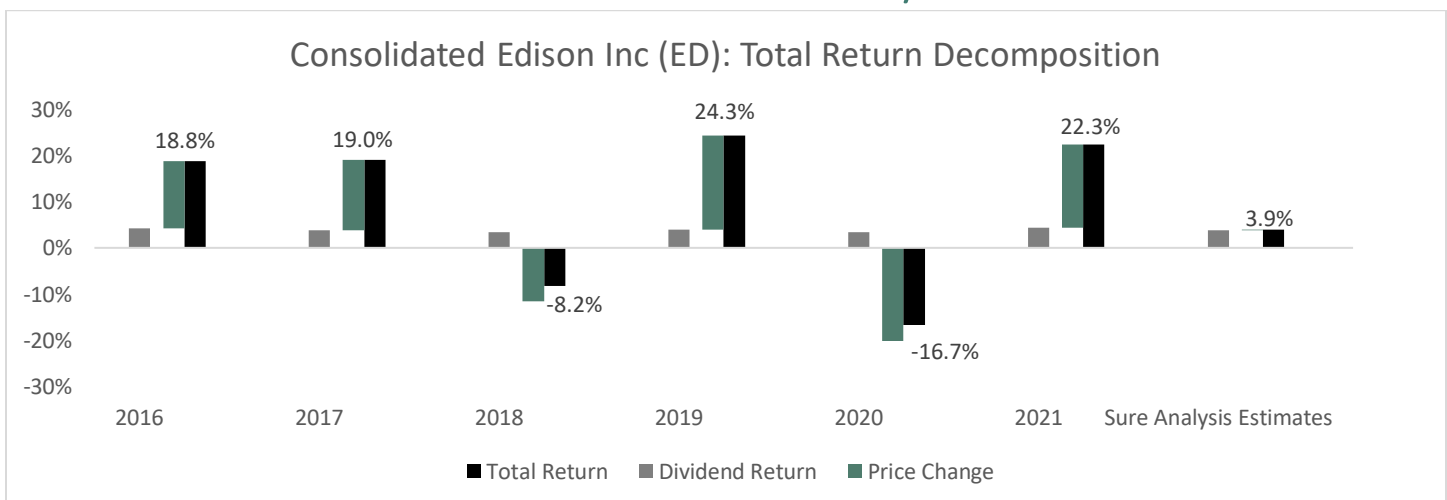
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	63%	70%	64%	68%	68%	66%	68%	73%	71%	70%	70%

Just like most other utilities, thanks to its heavy investments in infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt. One key competitive advantage for Consolidated Edison is that consumers do not curtail their electricity consumption even during the roughest economic periods, so the stock is resilient during recessions. This resiliency should be attractive to investors. In the Great Recession, when most companies saw their earnings collapse, earnings for Consolidated Edison fell just 3% in 2008 and 7% in 2009, and it took only one year to return to the pre-crisis level.

## Final Thoughts & Recommendation

After fourth quarter results, Consolidated Edison is expected to return 3.9% annually through 2027, down slightly from our prior estimate of 4%. Projected returns stem from a 3.5% earnings growth rate and a starting yield of 3.7% that are partially offset by low single-digit multiple reversion. For income investors, we continue to believe that Consolidated Edison is a solid investment option given its track record and market beating yield. However, we maintain our hold rating on the stock due to projected returns. We have raised our five-year price target \$8 to \$86 to reflect earnings and valuation estimates.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	12,886	12,188	12,354	12,919	12,554	12,075	12,033	12,337	12,574	12,246
<b>Gross Profit</b>	4,916	5,119	5,163	5,112	5,494	5,923	6,269	6,237	6,766	7,149
<b>Gross Margin</b>	38.1%	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%	58.4%
<b>D&amp;A Exp.</b>	884	955	1,024	1,071	1,130	1,216	1,341	1,438	1,684	1,920
<b>Operating Profit</b>	2,239	2,339	2,244	2,164	2,427	2,676	2,773	2,533	2,676	2,654
<b>Op. Margin</b>	17.4%	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%	21.7%
<b>Net Profit</b>	1,062	1,141	1,062	1,092	1,193	1,245	1,525	1,382	1,343	1,101
<b>Net Margin</b>	8.2%	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%	9.0%
<b>Free Cash Flow</b>	1,170	530	14	412	223	(221)	(76)	(802)	(352)	(1,711)
<b>Income Tax</b>	600	600	476	568	605	698	472	401	296	90

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	39,214	41,209	40,647	44,071	45,642	48,255	48,111	53,920	58,079	62,895
<b>Cash &amp; Equivalents</b>	648	394	674	699	944	776	797	895	981	1,272
<b>Acc. Receivable</b>	1,123	1,222	1,251	1,201	1,052	1,106	1,103	1,267	1,236	1,701
<b>Inventories</b>	356	330	363	372	350	339	334	358	352	356
<b>Goodwill &amp; Int.</b>	432	431	433	432	431	552	559	2,094	2,003	1,906
<b>Total Liabilities</b>	27,565	29,340	28,402	31,486	32,581	33,949	32,686	37,081	39,866	43,830
<b>Accounts Payable</b>	955	1,215	1,017	1,035	1,008	1,147	1,286	1,187	1,164	1,475
<b>Long-Term Debt</b>	10,673	11,307	12,425	12,906	14,274	15,828	16,606	20,711	21,665	24,219
<b>Total Equity</b>	11,436	11,869	12,245	12,576	13,052	14,298	15,418	16,726	18,022	18,847
<b>LTD/E Ratio</b>	0.93	0.95	1.01	1.03	1.09	1.11	1.08	1.24	1.20	1.29

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%	1.8%
<b>Return on Equity</b>	9.4%	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%	6.0%
<b>ROIC</b>	4.8%	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%	2.6%
<b>Shares Out.</b>	293	293	293	293	293	305	310	315	334	337
<b>Revenue/Share</b>	43.77	41.39	41.96	43.94	42.64	40.00	38.97	39.43	38.16	36.48
<b>FCF/Share</b>	3.97	1.80	0.05	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)	(5.10)

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

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