



Public Service Enterprise Group Inc. (PEG)

Updated March 15th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	1.4%	Market Cap:	\$33.0 B
Fair Value Price:	\$52	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/09/21 ¹
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.1%	Dividend Payment Date:	12/31/21
Dividend Yield:	3.3%	5 Year Price Target	\$60	Years of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	5.9%

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 over 66% of PEG revenues in 2021. PEG has approximately 13,000 employees and a market cap of \$33.0 billion. The company has been growing dividends for eleven consecutive years, and PEG has been paying the same or higher dividends for 19 years in a row.

On February 24th, 2022, the company reported fourth-quarter and full-year results for Fiscal Year (FY)2021. The company reported a net income of \$445 million, or \$0.88 per share non-GAAP, compared to a profit of \$431 million, or \$0.85 per share, in 4Q2020. Non-GAAP operating earnings for the fourth quarter were \$352 million, or \$0.69 per share, compared to fourth quarter 2020 non-GAAP operating earnings of \$329 million, or \$0.65 per share. This is an increase of 6.2% year over year. Also, during the quarter, PSEG Power has completed the Fossil sale to ArcLight Capital Partners, LLC. This will contribute to the company's robust set of opportunities going forward. For the year, net income reported a loss which reflects a PSEG Power pre-tax impairment loss of approximately \$2.7 billion, taken in connection with the Fossil sale announced in August 2021. However, operating earnings came in at \$1,852 million for the year compared to a loss of \$(31) million. For the year, the company earned \$3.65 per share compared to \$3.43 per share in 2020, an increase of 6.4%.

The company also announced a dividend increase on February 15, 2022. The increase was 5.9%. The company now pays a quarterly dividend of \$0.54 per share per quarter. This represents the eleven consecutive years of dividend increases.

The management team provided its non-GAAP Operating earnings guidance for the full year 2022 of \$3.35 - \$3.55 per share. Thus, we will use \$3.47 a share for our fair value calculations, 4.9% lower than what PEG earned in FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.44	\$2.58	\$2.76	\$2.91	\$2.90	\$2.93	\$3.12	\$3.28	\$3.43	\$3.65	\$3.47	\$4.02
DPS	\$1.42	\$1.44	\$1.48	\$1.56	\$1.64	\$1.72	\$1.80	\$1.88	\$1.96	\$2.04	\$2.16	\$2.63
Shares²	507.0	508.0	508.0	508.0	508.0	507.0	507.0	507.0	507.0	504.0	504.0	504.0

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 3.4% growth rate that the company has experienced for the past 5-year average. It is also lower than the 4.6% earnings growth over the past decade. The dividend has been growing slightly better than earnings. The dividend has had a CAGR of 4.7% for the

¹ Ex-Dividend and Dividend Payment Date are estimates.

² Share count is in millions.

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past five years. We see this slowing down, and we estimate a dividend growth rate of 4% going forward. Net margin has been increasing from 14.8% in FY2018 to 16.8% in FY2019. In FY2021, PEG had a net margin of (6.7)%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.5	12.4	15	13.3	15.1	17.6	16.7	17.9	17.0	18.3	19.5	15.0
Avg. Yld.	4.6%	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.1%	3.3%	4.4%

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

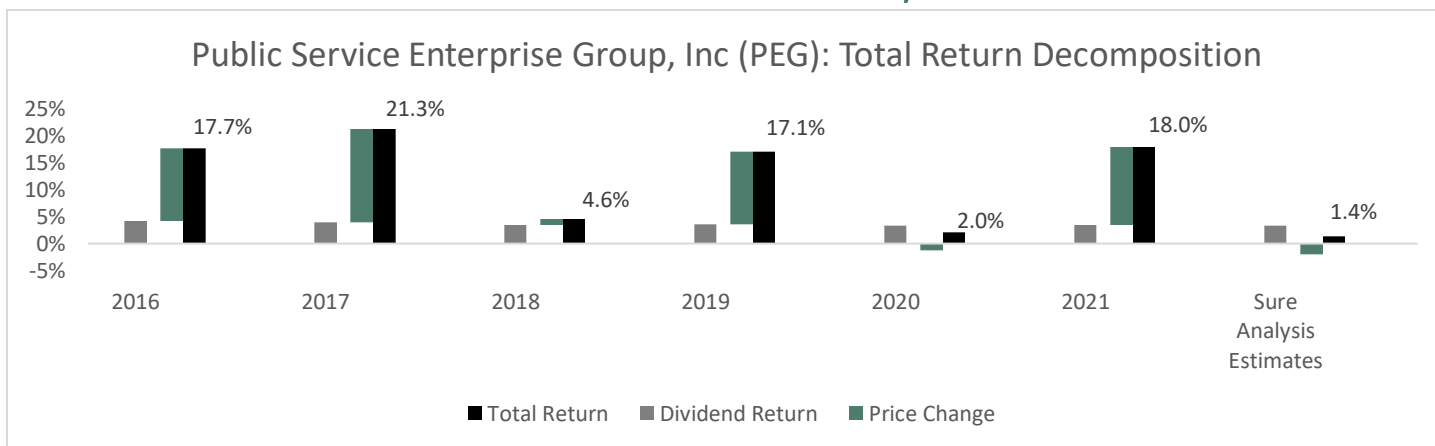
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58.2%	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	55.9%	62%	65%

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 (1.2) compared to the 4.0 ratios last report. However, The company does have more debt than assets, as the current ratio is 0.9. PEG's dividend payout ratio has been in the uptrend but is still safe for the foreseeable future.

Final Thoughts & Recommendation

The company is safe to invest in, as most utility companies are. However, at the current price, PEG is overvalued relative to our fair price estimate of \$52. There are not many growth prospects available to the company currently. Thus, we see a 5-year projected annual return of 1.4%. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10,886	10,415	8,966	9,094	9,696	10,076	9,696	10,076	9,603	9,722
Gross Profit	\$3,850	\$4,176	\$3,074	\$3,415	\$3,402	\$3,593	\$3,402	\$3,593	\$3,432	\$2,997
Gross Margin	35.4%	40.1%	34.3%	37.6%	35.1%	35.7%	35.1%	35.7%	35.7%	30.8%
D&A Exp.	\$1,427	\$1,427	\$1,679	\$2,185	\$1,345	\$1,426	\$1,345	\$1,426	\$1,469	\$1,403
Operating Profit	\$2,623	\$2,962	\$1,598	\$1,429	\$2,244	\$2,345	\$2,244	\$2,345	\$2,147	\$1,762
Operating Margin	24.1%	28.4%	17.8%	15.7%	23.1%	23.3%	23.1%	23.3%	22.4%	18.1%
Net Profit	\$1,518	\$1,679	\$887	\$1,574	\$1,438	\$1,693	\$1,438	\$1,693	\$1,905	-\$648
Net Margin	13.9%	16.1%	9.9%	17.3%	14.8%	16.8%	14.8%	16.8%	19.8%	-6.7%
Free Cash Flow	239	-50	-985	-1,047	-1,145	115	-1145	115	68	-1,081
Income Tax	\$938	\$1,001	\$411	-\$306	\$417	\$257	\$417	\$257	\$396	-\$441

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	35,287	37,535	40,070	42,716	45,326	47,730	45,326	47,730	50,050	48,999
Cash & Equivalents	\$402	\$394	\$423	\$313	\$177	\$147	\$177	\$147	\$543	\$818
Accounts Receivable	\$1,254	\$1,068	\$1,161	\$1,348	\$1,435	\$1,313	\$1,435	\$1,313	\$1,410	\$18,59
Inventories	\$1,022	\$976	\$887	\$866	\$902	\$897	\$902	\$897	\$878	\$744
Goodwill & Int. Ass.	\$100	\$118	\$114	\$130	\$159	\$149	159	149	158	20
Total Liabilities	23,101	24,468	26,940	28,869	30,949	32,641	30,949	32,641	34,066	34,561
Accounts Payable	\$1,178	\$1,369	\$1,459	\$1,694	\$1,451	\$1,358	\$1,451	\$1,358	\$1,332	\$1,315
Long-Term Debt	9,098	9,932	11,783	13,610	15,478	16,223	15,478	16,223	17,243	19,438
Shareholder's Equity	12,185	13,066	13,130	13,847	14,377	15,089	14,377	15,089	15,984	14,438
LTD/E Ratio	0.75	0.76	0.90	0.98	1.08	1.08	1.08	1.08	1.08	1.35

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.5%	4.6%	2.3%	3.8%	3.3%	3.6%	3.3%	3.6%	3.9%	-1.3%
Return on Equity	12.8%	13.3%	6.8%	11.7%	10.2%	11.5%	10.2%	11.5%	12.3%	-4.3%
ROIC	7.3%	7.6%	3.7%	6.0%	5.0%	5.5%	5.0%	5.5%	5.9%	-1.9%
Shares Out.	508	508	508	507	507	507	507	507	507	504
Revenue/Share	\$21.43	\$20.50	\$17.65	\$17.94	\$19.12	\$19.87	\$19.12	\$19.87	\$18.94	19.29
FCF/Share	\$0.47	-\$0.10	-\$1.94	-\$2.07	-\$2.26	\$0.23	-\$2.26	\$0.23	\$0.13	-2.14

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

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