Constellation Energy Corporation (CEG)

Updated May 14th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	-6.1%	**Market Cap:**	$17.8 Billion
Fair Value Price:	$34	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	5/12/2022
% Fair Value:	163%	**5 Year Valuation Multiple Estimate:**	-9.3%	**Dividend Payment Date:**	6/10/2022
Dividend Yield:	1.0%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Constellation Energy Corporation was spun off from Exelon Corporation on February 1st, 2022. Shareholders received one share of Constellation Energy for three shares of Exelon that they owned. Constellation Energy provides clean and sustainable energy solutions to homes, commercial businesses, and wholesale customers such as municipalities and cooperatives. The company's energy products include electric, natural gas, and renewables and markets such products to companies of all sizes. Constellation Energy operates 13 nuclear plants with a combined 21 gigawatts of capacity. The company operates in the lower 48 U.S. states, Canada, and the United Kingdom.

On April 26th, 2022, Constellation Energy declared a quarterly dividend of $0.1410, the company's second dividend since the spinoff.

On May 12th, 2022, Constellation Energy announced first quarter results for the period ending March 31st, 2022. Revenue totaled $5.59 billion, but was $752 million less than expected. GAAP earnings-per-share of $0.32 was $0.94 below estimates. On an adjusted basis, earnings-per-share of $1.81 was $0.81 above what analysts had anticipated.

Constellation Energy's nuclear fleet produced 42,951 gigawatt-hours in the first quarter, down slightly from 43,466 gigawatt-hours in the prior year. Nuclear plants achieved a 93% capacity factor, down slightly from 94.2% last year. Energy capture for the wind and solar facilities was down 30 basis points to 96.1%. Dispatch match rate for gas and hydro was 99.4%, compared to 68.5% in the prior year. The prior year was impacted by the unplanned outages at Texas sites due to an extreme cold-weather event. The company also reduced its debt obligations by $2.5 billion during the quarter. Constellation Energy is expected to earn $2.81 per share in 2022. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.92	$2.31	$2.10	$2.54	$1.80	$2.78	$2.07	$3.22	$3.22	$2.82	***$2.81***	***$3.10***
DPS	$2.10	$1.46	$1.24	$1.24	$1.26	$1.31	$1.38	$1.45	$1.53	$1.53	***$0.56***	***$0.62***
Shares[1]	855	857	860	920	924	963	968	972	976	980	***328***	***328***

Note that we have elected to show Exelon Corporation's history in the table above to illustrate the type of operating company from which Constellation Energy was spun off. This is an imperfect measure, but does offer some clues to the consistency of the new business. We project 2% annual earnings growth through 2027.

We believe Exelon Corporation's dividend history could serve as a good indicator for Constellation Energy's future safety and growth. The parent company cut its dividend in both 2013 and 2014 in an effort to pay off debt associated with mergers and acquisitions. Exelon Corporation slowly began raising its dividend once again in 2016. The company cut its dividend by 11.8% for the March 10th, 2022 payment following the spinoff. However, shareholders that continue to hold the Constellation Energy shares following the spinoff will see a combined dividend for 2022 that was at least equal to the distribution prior to the spinoff.

---

[1] In millions of shares

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.

Constellation Energy Corporation (CEG)

Updated May 14th, 2022 by Nathan Parsh

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.1	13.4	16.0	12.6	18.7	13.4	20.1	14.2	13.1	14.6	***19.6***	***12.0***
Avg. Yld.	5.7%	4.7%	3.7%	3.9%	3.7%	3.5%	3.3%	3.2%	3.6%	3.7%	***1.0%***	***1.7%***

We are again using Exelon Corporation's history to provide contextual clues to show how shares have traded in the past. During the last decade, Exelon Corporation traded with an average price-to-earnings ratio, or P/E, of 15.5. Accounting for years that earnings-per-share suffered a sizeable decline (2012, 2016, 2018), the P/E ratio has averaged 13.6. Due to Constellation Energy only recent independence, along with the reluctance of some to embrace nuclear energy, we have assigned a target P/E of 12. With shares trading near 20x estimates for the year, this implies a significant headwind from multiple compression. In fact, multiple contraction could lead to a 9.3% annual headwind to total returns through 2027.

Shares of the company yield 1.0% today, well below what utility stocks typically offer.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	109%	63%	59%	49%	70%	47%	67%	45%	48%	*54%*	***20%***	***20%***

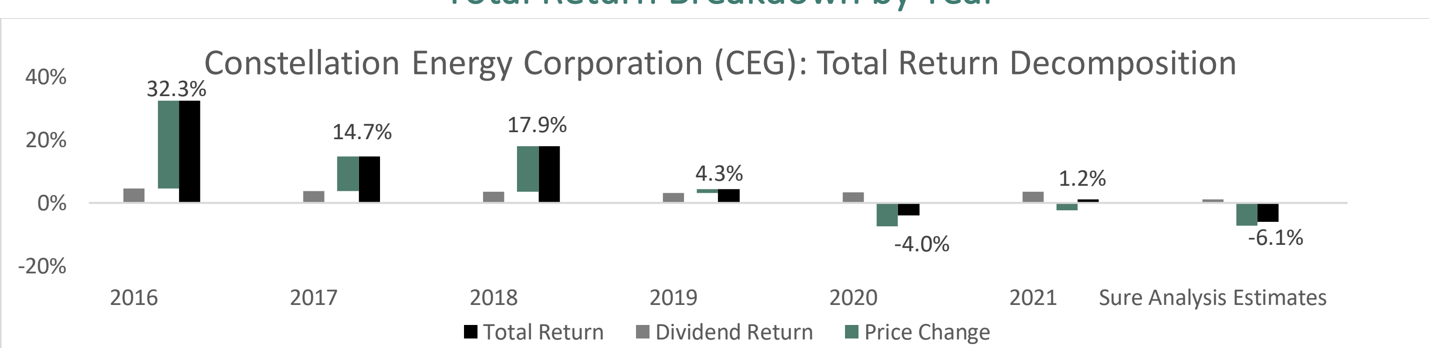
Constellation Energy does have some interesting competitive advantages. For one, the company is a major provider of energy in the U.S. The company is also present in nearly every state and has international operations. This gives it a size and scale that is unmatched among utility companies. Constellation Energy is highly focused on renewable forms of energy and has a goal to have its own operations be 100% carbon-free by 2040. The emphasis being placed on such forms of energy positions Constellation Energy ahead of many of its peer groups. Lastly, utility companies are often more recession proof than those in other sectors as customers typically prioritize power even in economic downturns. This usually results in slow, but consistent growth leading to higher dividends over time. Parent company Exelon Corporation did reduce its dividend several times during the last decade, but this was because the company raised a large amount of debt to fund mergers and acquisitions that are performing well today.

Constellation Energy has a very healthy projected payout ratio, especially for a utility company.

Final Thoughts & Recommendation

After first quarter results, Constellation Energy is expected to have an annual loss of 6.1% through 2027. Our projection stems from a 2% earnings growth rate and starting yield of 1.0% that are more than offset by a high single-digit headwind from valuation compression. There are some positives working in Constellation Energy's favor, but the valuation leaves a lot to be desired in our view. We initiate coverage of Constellation Energy with a five-year price target of $37 and view shares as a sell due to projected returns.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Constellation Energy Corporation (CEG)

Updated May 14th, 2022 by Nathan Parsh

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	23,489	24,888	27,429	29,447	31,366	33,558	35,978	34,438	33,039
Gross Profit	5,371	6,894	5,858	8,041	8,772	9,498	9,971	10,326	9,527
Gross Margin	22.9%	27.7%	21.4%	27.3%	28.0%	28.3%	27.7%	30.0%	28.8%
Operating Profit	2,471	3,646	2,390	4,391	3,260	3,939	3,835	4,342	2,799
Operating Margin	10.5%	14.6%	8.7%	14.9%	10.4%	11.7%	10.7%	12.6%	8.5%
Net Profit	1,160	1,719	1,623	2,269	1,121	3,779	2,005	2,936	1,963
Net Margin	4.9%	6.9%	5.9%	7.7%	3.6%	11.3%	5.6%	8.5%	5.9%
Free Cash Flow	342	948	(1,620)	(8)	(92)	(104)	1,050	(589)	(3,813)
Income Tax	627	1,044	666	1,073	753	(126)	118	774	373

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	78,561	79,924	86,416	95,384	114,904	116,770	119,634	124,977	129,317
Cash & Equivalents	1,486	1,609	1,878	6,502	635	1,105	1,349	587	663
Accounts Receivable	3,087	2,981	3,482	3,187	4,158	4,445	4,607	4,592	3,231
Goodwill & Int. Ass.	2,625	2,625	2,672	2,672	6,677	6,650	6,795	6,677	6,677
Total Liabilities	56,831	56,984	62,283	68,090	87,292	84,583	86,587	90,404	94,449
Long-Term Debt	19,603	20,121	22,115	26,319	35,913	35,582	36,528	37,799	39,333
Shareholder's Equity	21,431	22,732	22,608	25,793	25,837	29,896	30,741	32,224	32,585
LTD/E Ratio	0.91	0.89	0.98	1.02	1.39	1.19	1.19	1.17	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.7%	2.2%	2.0%	2.5%	1.1%	3.3%	1.7%	2.4%	1.5%	1.3%
Return on Equity	6.5%	7.8%	7.2%	9.4%	4.3%	13.6%	6.6%	9.3%	6.1%	5.1%
ROIC	3.4%	4.1%	3.6%	4.5%	1.9%	5.8%	2.9%	4.1%	2.7%	2.3%
Shares Out.	855	857	860	920	924	963	968	972	976	980
Revenue/Share	28.68	28.94	31.75	32.98	33.84	35.36	37.13	35.36	33.82	37.09
FCF/Share	0.42	1.10	(1.88)	(0.01)	(0.10)	(0.11)	1.08	(0.60)	(3.90)	(5.07)

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.