



Consolidated Edison Inc (ED)

Updated May 8th, 2022 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------|
| Current Price: | \$94 | 5 Year CAGR Estimate: | 1.9% | Market Cap: | \$33 B |
| Fair Value Price: | \$72 | 5 Year Growth Estimate: | 3.5% | Ex-Dividend Date: | 5/17/22 |
| % Fair Value: | 131% | 5 Year Valuation Multiple Estimate: | -5.2% | Dividend Payment Date: | 6/15/22 |
| Dividend Yield: | 3.4% | 5 Year Price Target | \$86 | Years Of Dividend Growth: | 48 |
| Dividend Risk Score: | B | Retirement Suitability Score: | B | Rating: | Sell |

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.

On May 5th, 2022, Consolidated Edison announced first quarter results for the period ending March 31st, 2022. Revenue grew 10.3% to \$4.1 billion, beating estimates by \$350 million. Adjusted earnings of \$522 million, or \$1.47 per share, compared to adjusted earnings of \$491 million, or \$1.44 per share, in the previous year. Adjusted earnings-per-share was \$0.01 lower than expected.

Higher rate bases for gas and electric customers added \$0.08 to the company's New York operations while recovery of late payments added \$0.04. Higher revenues in company's clean energy business added \$0.08 to results. Consolidated Edison expects capital investments of nearly \$16 billion for the 2022 to 2024 time period, with \$4.7 billion targeted for green energy projects, such as smart systems and electric vehicles.

Consolidated Edison confirmed its prior guidance for 2022 as well. The company expects 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 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$3.86 | \$3.93 | \$3.62 | \$4.05 | \$3.94 | \$4.12 | \$4.33 | \$4.38 | \$4.18 | \$4.39 | \$4.50 | \$5.34 |
| DPS | \$2.42 | \$2.46 | \$2.52 | \$2.60 | \$2.68 | \$2.76 | \$2.86 | \$2.96 | \$3.06 | \$3.10 | \$3.16 | \$3.75 |
| Shares¹ | 293 | 293 | 293 | 293 | 305 | 310 | 315 | 334 | 337 | 354 | 354 | 340 |

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 \$1.5 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.

¹ Share count in millions

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Following a 1.9% increase for the March 15th, 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.

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 | 20.9 | 16.0 |
| Avg. Yld. | 4.1% | 4.3% | 4.4% | 4.1% | 3.6% | 3.4% | 3.8% | 3.3% | 4.2% | 3.6% | 3.4% | 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 increased \$9, or 10.6%, since our February 19th, 2022 report. Shares trade with a price-to-earnings ratio of 20.9 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 compression to reduce annual total returns by 5.2% through 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

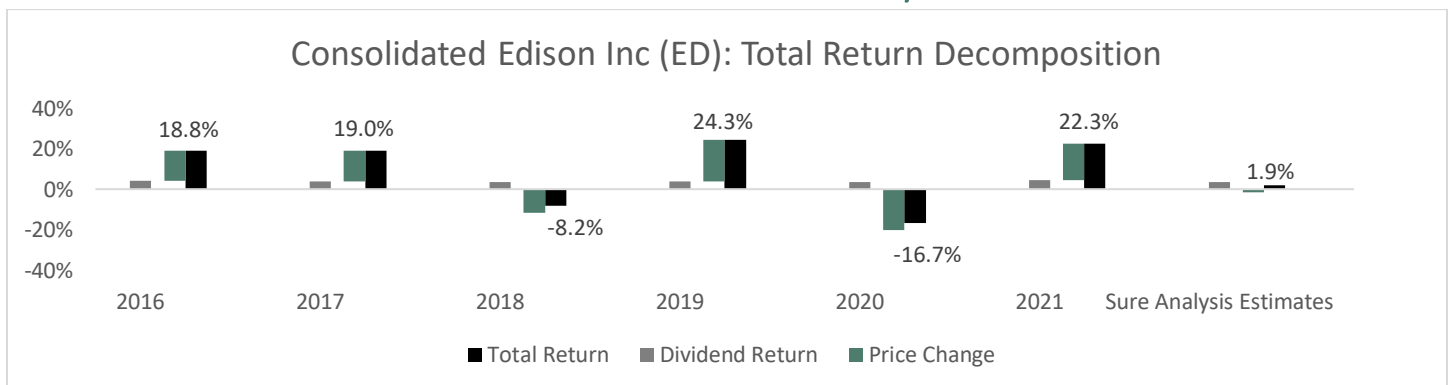
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 63% | 63% | 70% | 64% | 68% | 68% | 66% | 68% | 73% | 71% | 70% | 70% |

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

Following first quarter results, Consolidated Edison is expected to return 1.9% annually through 2027, down from our prior estimate of 3.9%. Projected returns stem from a 3.5% earnings growth rate and a starting yield of 3.4% that are offset by mid-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 now rate shares of the company as a sell due to projected returns. We maintain our five-year price target of \$86.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| Revenue | 12,188 | 12,354 | 12,919 | 12,554 | 12,075 | 12,033 | 12,337 | 12,574 | 12,246 | 13,676 |
| Gross Profit | 5,119 | 5,163 | 5,112 | 5,494 | 5,923 | 6,269 | 6,237 | 6,766 | 7,149 | 7,668 |
| Gross Margin | 42.0% | 41.8% | 39.6% | 43.8% | 49.1% | 52.1% | 50.6% | 53.8% | 58.4% | 56.1% |
| D&A Exp. | 955 | 1,024 | 1,071 | 1,130 | 1,216 | 1,341 | 1,438 | 1,684 | 1,920 | 2,032 |
| Operating Profit | 2,339 | 2,244 | 2,164 | 2,427 | 2,676 | 2,773 | 2,533 | 2,676 | 2,654 | 2,826 |
| Op. Margin | 19.2% | 18.2% | 16.8% | 19.3% | 22.2% | 23.0% | 20.5% | 21.3% | 21.7% | 20.7% |
| Net Profit | 1,141 | 1,062 | 1,092 | 1,193 | 1,245 | 1,525 | 1,382 | 1,343 | 1,101 | 1,346 |
| Net Margin | 9.4% | 8.6% | 8.5% | 9.5% | 10.3% | 12.7% | 11.2% | 10.7% | 9.0% | 9.8% |
| Free Cash Flow | 530 | 14 | 412 | 223 | (221) | (76) | (802) | (352) | (1,711) | (1,220) |
| Income Tax | 600 | 476 | 568 | 605 | 698 | 472 | 401 | 296 | 90 | 190 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 41,209 | 40,647 | 44,071 | 45,642 | 48,255 | 48,111 | 53,920 | 58,079 | 62,895 | 63,116 |
| Cash & Equivalents | 394 | 674 | 699 | 944 | 776 | 797 | 895 | 981 | 1,272 | 992 |
| Acc. Receivable | 1,222 | 1,251 | 1,201 | 1,052 | 1,106 | 1,103 | 1,267 | 1,236 | 1,701 | 1,943 |
| Inventories | 330 | 363 | 372 | 350 | 339 | 334 | 358 | 352 | 356 | 437 |
| Goodwill & Int. | 431 | 433 | 432 | 431 | 552 | 559 | 2,094 | 2,003 | 1,906 | 1,732 |
| Total Liabilities | 29,340 | 28,402 | 31,486 | 32,581 | 33,949 | 32,686 | 37,081 | 39,866 | 43,830 | 42,780 |
| Accounts Payable | 1,215 | 1,017 | 1,035 | 1,008 | 1,147 | 1,286 | 1,187 | 1,164 | 1,475 | 1,497 |
| Long-Term Debt | 11,307 | 12,425 | 12,906 | 14,274 | 15,828 | 16,606 | 20,711 | 21,665 | 24,219 | 24,532 |
| Total Equity | 11,869 | 12,245 | 12,576 | 13,052 | 14,298 | 15,418 | 16,726 | 18,022 | 18,847 | 20,037 |
| LTD/E Ratio | 0.95 | 1.01 | 1.03 | 1.09 | 1.11 | 1.08 | 1.24 | 1.20 | 1.29 | 1.22 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 2.8% | 2.6% | 2.6% | 2.7% | 2.7% | 3.2% | 2.7% | 2.4% | 1.8% | 2.1% |
| Return on Equity | 9.8% | 8.8% | 8.8% | 9.3% | 9.1% | 10.3% | 8.6% | 7.7% | 6.0% | 6.9% |
| ROIC | 5.0% | 4.4% | 4.4% | 4.5% | 4.3% | 4.9% | 4.0% | 3.5% | 2.6% | 3.1% |
| Shares Out. | 293 | 293 | 293 | 293 | 305 | 310 | 315 | 334 | 337 | 354 |
| Revenue/Share | 41.39 | 41.96 | 43.94 | 42.64 | 40.00 | 38.97 | 39.43 | 38.16 | 36.48 | 39.14 |
| FCF/Share | 1.80 | 0.05 | 1.40 | 0.76 | (0.73) | (0.25) | (2.56) | (1.07) | (5.10) | (3.49) |

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

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