



# SJW Group (SJW)

Updated May 2<sup>nd</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$59	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Market Cap:</b>	\$1.8 B
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	7.6%	<b>Ex-Dividend Date:</b>	06/04/22
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.6%	<b>Dividend Payment Date:</b>	06/01/22
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$75	<b>Years Of Dividend Growth:</b>	54
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

SJW Group is a water utility company that produces, purchases, stores, purifies and distributes water to consumers and businesses in the Silicon Valley area of California, the area north of San Antonio, Texas, Connecticut, and Maine. SJW Group has a small real estate division that owns and develops properties for residential and warehouse customers in California and Tennessee. The company generates about \$600 million in annual revenues. SJW Group completed its acquisition of Connecticut Water, formerly known as CTWS, on October 9<sup>th</sup>, 2019.

On April 28<sup>th</sup>, 2022, SJW Group reported first quarter results for the period ending March 31<sup>st</sup>, 2022. Revenue grew 8.3% to \$124.3, which was \$7.3 million more than expected. Earnings-per-share of \$0.12 compared favorably to earnings-per-share of \$0.09 in the prior year and was \$0.03 ahead of estimates.

The revenue gain was due to a \$5.2 million increase in water rates, \$2.5 million contribution from new customers, and \$1.8 million in customer usage. Water production expenses increased \$2.7 million, or 6.2%, to \$46.3 million due to higher average per unit costs for purchased water, groundwater extraction, and energy charges.

SJW Group provided an updated outlook for 2022 as well, with the company expecting earnings-per-share of \$2.30 to \$2.40 for the year. This compares to prior guidance for earnings-per-share of \$2.43. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.18	\$1.12	\$2.54	\$1.85	\$2.57	\$2.86	\$1.82	\$1.35	\$2.14	\$2.03	<b>\$2.35</b>	<b>\$3.39</b>
<b>DPS</b>	\$0.71	\$0.73	\$0.75	\$0.78	\$0.81	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	<b>\$1.44</b>	<b>\$1.93</b>
<b>Shares<sup>1</sup></b>	19	20	20	20	21	21	29	29	29	30	<b>30</b>	<b>30</b>

SJW Group's earnings-per-share often vary wildly from year to year, but earnings-per-share growth over the past 10 years is 6.2%, an impressive growth rate for a water utility. Following the CTWS merger, we estimate that the SJW Group will grow earnings at the average growth rate of the combined companies (7.6%) due to revenue growth and rate increases. In connection with the CTWS merger, SJW Group issued nearly 8 million new shares on December 5<sup>th</sup>, 2018 in order to fund 50% of the proposed transaction, but we don't expect any significant additional dilution on the horizon.

SJW Group raised its dividend 5.6% for the March 1<sup>st</sup>, 2022 payment, marking 54 consecutive years of growth for this Dividend King. SJW has a 10-year average growth rate of 4.8%. We expect dividends to grow at a rate of 6% annually through 2027.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	20.4	24.3	11.2	16.6	15.7	18.8	32.7	47.8	30.0	36.1	<b>25.1</b>	<b>22.0</b>
<b>Avg. Yld.</b>	3.0%	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	2.0%	1.9%	<b>2.4%</b>	<b>2.6%</b>

<sup>1</sup> 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.



# SJW Group (SJW)

Updated May 2<sup>nd</sup>, 2022 by Nathan Parsh

Shares of SJW Group have decreased \$6, or 9.2%, since our February 18<sup>th</sup>, 2022 update. Price-to-earnings multiples for water utilities tend to be high, but SJW Group's multiple was extremely high in the 2018-2021 time period as it is today. Using EPS estimates for the year, the stock trades with a forward P/E of 25.1. We maintain our 2027 target P/E of 22. If shares were to revert to this target P/E by 2027, then valuation would be a 2.6% headwind to annual returns over this period of time.

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

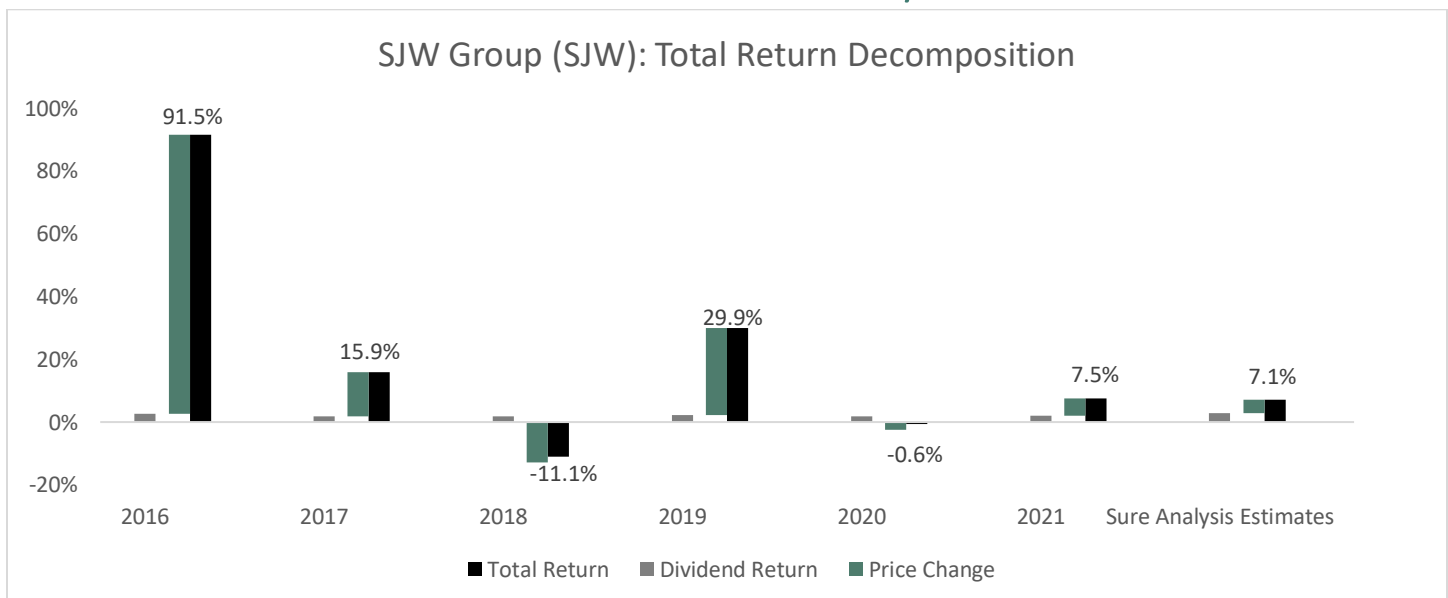
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60%	65%	30%	42%	32%	36%	62%	89%	60%	67%	61%	57%

Many investors own utility companies for their reliable earnings and dividends, especially for uncertain economic times. During the last recession, SJW Group experienced a decline in earnings that took several years to recover. A key competitive advantage for SJW Group, aside from the concluded merger, is that it operates in two areas, Silicon Valley and Central Texas, that have seen high levels of population growth in recent years. These areas need improved water infrastructure to serve a growing client base, so local governments often allow the company to raise rates at a relatively high level in order to fund these projects. For example, SJW Group was approved for a 4.2% increase in 2018 for its customers in the Silicon Valley area. The company applied for rate increases of 9.8%, 3.7% and 5.2% over the next three years for this area. SJW Group has pending rate cases in several states, including California, that should be announced in 2022. Investors should be aware of is that SJW Group's earnings are highly concentrated in California (60% of sales post Connecticut Water Service merger) and Connecticut (30% of sales post-merger).

## Final Thoughts & Recommendation

Following first quarter results, SJW Group is now projected to return 7.1% annually through 2027, which is up from our previous estimate of a 5.7% return. Projected returns stem from 7.6% earnings growth and a starting dividend yield of 2.4% that are offset by a low single-digit valuation reversion. SJW Group saw solid results during the quarter, though earnings estimates were revised downward slightly. Valuation has improved, but still remains above our target. We have lowered our five-year price target \$2 to \$75 and maintain our hold rating on shares of SJW Group 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.



# SJW Group (SJW)

Updated May 2<sup>nd</sup>, 2022 by Nathan Parsh

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	262	277	320	305	340	389	398	420	565	574
<b>Gross Profit</b>	141	142	182	179	196	213	211	224	317	319
<b>Gross Margin</b>	53.9%	51.5%	57.1%	58.8%	57.6%	54.7%	52.9%	53.3%	56.1%	55.5%
<b>SG&amp;A Exp.</b>	43	44	41	47	42	49	49	66	80	87
<b>D&amp;A Exp.</b>	35	37	39	42	46	51	57	68	92	96
<b>Operating Profit</b>	55	53	93	80	97	102	92	73	118	106
<b>Operating Margin</b>	21.1%	19.3%	29.1%	26.2%	28.7%	26.2%	23.1%	17.4%	20.8%	18.5%
<b>Net Profit</b>	22	22	52	38	53	59	39	23	62	60
<b>Net Margin</b>	8.5%	8.1%	16.2%	12.4%	15.6%	15.2%	9.7%	5.6%	10.9%	10.5%
<b>Free Cash Flow</b>	(32)	(34)	(38)	(12)	(31)	(51)	(57)	(53)	(111)	(124)
<b>Income Tax</b>	16	14	25	23	34	35	10	8	8	8

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1,087	1,110	1,269	1,337	1,443	1,458	1,956	3,132	3,311	3,492
<b>Cash &amp; Equivalents</b>	3	2	2	5	6	8	421	13	5	11
<b>Accounts Receivable</b>	12	14	15	16	16	17	19	36	47	54
<b>Inventories</b>	1	1								
<b>Goodwill &amp; Int. Ass.</b>	11	18	14	16	24	14	17	662	663	677
<b>Total Liabilities</b>	813	789	909	954	1,022	995	1,067	2,242	2,394	2,458
<b>Accounts Payable</b>	8	13	7	16	19	23	25	35	34	30
<b>Long-Term Debt</b>	356	358	398	415	448	456	531	1,423	1,539	1,595
<b>Shareholder's Equity</b>	275	321	360	384	422	463	889	890	917	1,035
<b>LTD/E Ratio</b>	1.30	1.11	1.11	1.08	1.06	0.98	0.60	1.60	1.68	1.54

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	2.1%	2.0%	4.4%	2.9%	3.8%	4.1%	2.3%	0.9%	1.9%	1.8%
<b>Return on Equity</b>	8.3%	7.5%	15.2%	10.2%	13.1%	13.4%	5.7%	2.6%	6.8%	6.2%
<b>ROIC</b>	3.6%	3.4%	7.2%	4.9%	6.3%	6.6%	3.3%	1.3%	2.6%	2.4%
<b>Shares Out.</b>	19	20	20	20	21	21	29	29	29	30
<b>Revenue/Share</b>	13.88	13.86	15.66	14.87	16.50	18.82	18.64	14.72	19.67	19.29
<b>FCF/Share</b>	(1.72)	(1.68)	(1.84)	(0.60)	(1.51)	(2.48)	(2.67)	(1.85)	(3.87)	(4.16)

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.