



Public Service Enterprise Group Inc. (PEG)

Updated August 21st, 2022 by Felix Martinez

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	0.9%	Market Cap:	\$34.6 B
Fair Value Price:	\$52	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/08/22
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	09/30/22
Dividend Yield:	3.0%	5 Year Price Target	\$60	Years of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Sell

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 \$34.6 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 August 2nd, 2022, the company reported second-quarter results for Fiscal Year (FY)2022. The company reported a net Income of \$131 million, or \$0.26 per share for the quarter, compared to a net loss of \$(177) million, or \$(0.35) per share, in the second quarter of 2021. Non-GAAP operating earnings for the second quarter were \$320 million, or \$0.64 per share, compared to non-GAAP operating earnings of \$356 million, or \$0.70 per share in the second quarter of 2021. The company CEO Ralph Izzo will be stepping down from his CEO duties on September 1, 2022. He will be an executive chair of the board through the end of 2022. Ralph LaRossa will be the new CEO of the company.

The company has invested approximately \$741 million during the second quarter and approximately \$1.4 billion year to date and is on track to execute its planned 2022 capital investment program of \$2.9 billion. The 2022 capital spending program includes infrastructure upgrades to its transmission and distribution facilities, as well as the continued rollout of the Clean Energy Future investments in energy efficiency, energy cloud (smart meters), electric vehicle charging infrastructure, and the newly approved IAP.

The management team provided its non-GAAP Operating earnings guidance for the full year of 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
Shares¹	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 past five years. We see this slowing down, and we estimate a dividend growth rate of 4% going forward. The net margin has increased from 14.8% in FY2018 to 16.8% in FY2019. In FY2021, PEG had a net margin of (6.7)%.

¹ Share count is in millions.

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.



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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	20.0	15.0
Avg. Yld.	4.6%	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.1%	3.0%	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 15.0x earnings. This is in line with the company's 10-year average PE. Thus, we see an annual headwind due to multiple contractions. The current dividend yield of 3.0% 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

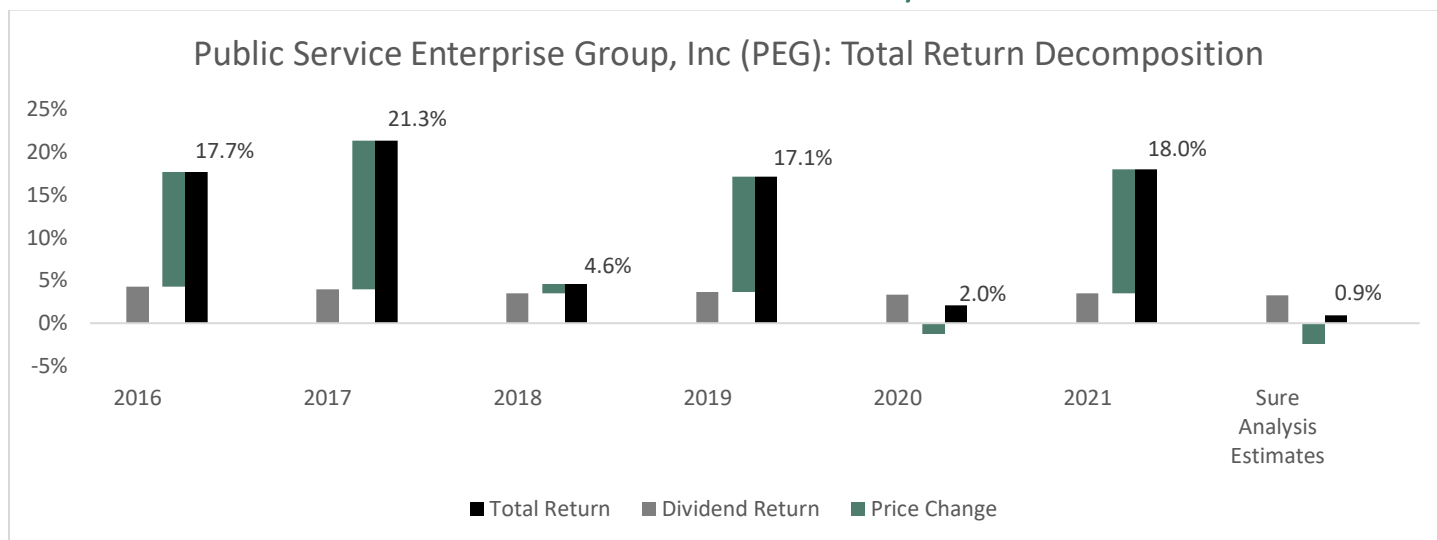
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58.2%	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	55.9%	62%	65%

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 1.2. Interest coverage decreased to a ratio of (1.2) compared to the 4.0 ratio 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 0.9%. Most of this return will come from the 3.0% 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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