



# South Jersey Industries (SJI)

Updated August 11<sup>th</sup>, 2022 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	4.1%	<b>Market Cap:</b>	\$4.20B
<b>Fair Value Price:</b>	\$30	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	09/08/22
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.4%	<b>Dividend Payment Date:</b>	10/04/22
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$35	<b>Years Of Dividend Growth:</b>	23
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

South Jersey Industries traces its founding to 1910. Today, the company buys, transports, stores, and sells natural gas. The utility operates in three segments: SJI Utilities, SJI Midstream, and South Jersey Energy Solutions. Elizabethtown Gas was acquired in 2018. The company owns and operates rooftop solar generation at corporate sites, fuel cells, and is investing in renewable natural gas projects. Additionally, the utility owns oil, gas, and mineral rights in the Marcellus Shale region of Pennsylvania. South Jersey owns roughly 10,000 miles of distribution and transmission pipeline and serves more than 700,000 total customers (~413,000 South Jersey Gas and ~307,000 Elizabethtown Gas). Revenue is roughly 70% - 80% regulated and 20% - 30% unregulated. Total revenue was about \$1,992M in 2021.

South Jersey reported Q2 2022 results on August 3<sup>rd</sup>, 2022. For the quarter, total GAAP earnings were (-\$18.7M) or (-\$0.15) per share from (-\$96.7M) or (-\$0.87) per share in the prior year. Utility GAAP earnings fell to \$1.5M from \$3.3M, non-utility GAAP earnings increased to (-\$11.3M) from (-\$90.7M). In the Utility segment, South Jersey Gas and Elizabethtown Gas had lower earnings because of higher expenses despite customer growth. The utility has two rate cases in process with the New Jersey Board of Public Utilities.

In the non-utility segment, performance improved with lower losses. Higher Energy Management (Wholesale and Retail Services) and Energy Production earnings were offset by lower Midstream earnings. South Jersey's investment in solar and fuel cells is beginning to payoff combined with the benefits of investment tax credits. The utility is developing 10 dairy farms for renewable natural gas.

South Jersey is being acquired by Infrastructure Investments Fund (IIF) for \$36 per share in cash with an \$8.1B enterprise value. The deal is expected to close in Q4 2022 subject to shareholder and regulatory approvals.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.52	\$1.52	\$1.57	\$1.44	\$1.34	\$1.23	\$1.38	\$1.12	\$1.68	\$1.62	<b>\$1.69</b>	<b>\$1.96</b>
<b>DPS</b>	\$0.83	\$0.90	\$0.96	\$1.02	\$1.06	\$1.10	\$1.13	\$1.16	\$1.19	\$1.22	<b>\$1.25</b>	<b>\$1.41</b>
<b>Shares<sup>1</sup></b>	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6	117.3	<b>124.4</b>	<b>166.5</b>

South Jersey's earnings per share have been volatile over the past decade due to fluctuating natural gas prices, and rising share count. But in the past decade, revenue has more than doubled through organic growth and the acquisition of Elizabethtown Gas in 2018. Top line growth will be slow since the population of New Jersey is growing slowly, but SJI should achieve about 1.5% regulated utility growth through new construction and conversions to natural gas. This combined with efficiency improvements, capital spending, investment in clean energy, and 9.6% return on equity suggests that the rate base should grow at about 10% annually. Non-regulated non-utility growth will occur through investment in renewables. We expect earnings per share to grow at about 3% on average supporting 2.5% growth on average in the dividend per share out to 2027. The payout ratio is reasonably conservative for a regulated utility. The dividend yield has returned to a more normal footing due to a spike in stock price after the acquisition announcement.

<sup>1</sup> Share count 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	16.9	18.9	18.0	17.9	21.7	27.9	22.6	28.3	14.9	14.9	<b>20.3</b>	<b>18.0</b>
Avg. Yld.	3.2%	3.1%	3.4%	3.9%	3.6%	3.2%	3.6%	3.7%	4.8%	5.0%	<b>3.6%</b>	<b>4.0%</b>

South Jersey's stock price is flat since our last report because of the acquisition announcement. South Jersey's stock is no longer trading on fundamentals but instead on news about the acquisition. We have maintained our earnings estimate for 2022. Our fair value multiple for the long haul is 18X, below the average for the past decade. Our fair value estimate is now \$30. Our 5-year price target is now \$35.

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

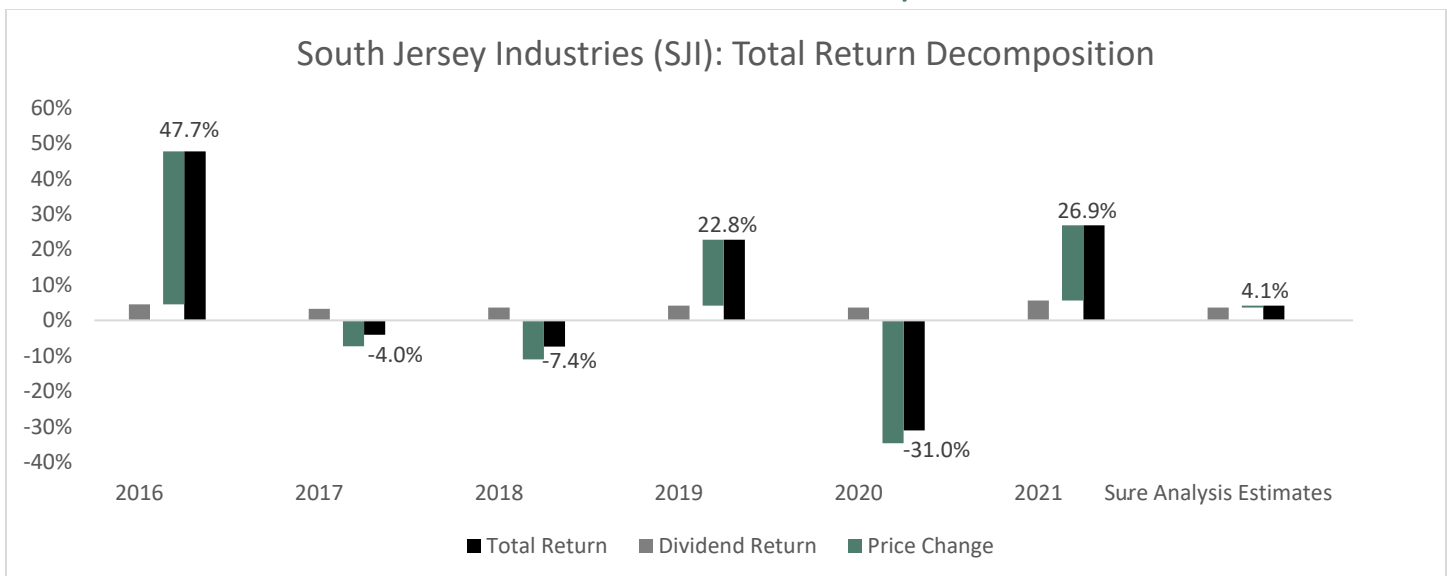
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	55%	59%	61%	71%	79%	89%	82%	104%	71%	75%	<b>74%</b>	<b>72%</b>

South Jersey's competitive advantage is that it owns two regulated natural gas utilities. This gives SJI a monopoly in its service area and a guaranteed return on equity as approved by regulators. After the Elizabethtown Gas acquisition in 2018, SJI is now the second largest natural gas utility in New Jersey. SJI's unregulated operations provide some risk for the utility. But the midstream pipeline, renewable energy production, and energy management are a smaller percentage of revenue and are currently growing. Recessions tend to suppress demand as businesses close and consumers cut costs. The utility has a solid balance sheet with a BBB/A3 rating and no significant maturities until 2030. At end of Q2 2022, SJI had approximately \$365 million in short-term and current long-term debt, and \$3,178 million in long-term debt. This is offset by ~\$53.5M in cash, cash equivalents and marketable securities.

## Final Thoughts & Recommendation

At present we are forecasting 4.1% annualized total returns over the next five years from a dividend yield of 3.6%, 3% EPS growth, and (-2.4%) P/E multiple contraction. South Jersey is being acquired by the Infrastructure Investments Fund (IIF) for \$36 per share cash with an enterprise value of \$8.1B. The stock is no longer trading on fundamentals. At the current price, we rate this stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	706	731	887	960	1,037	1,243	1,641	1,629	1,541	1,992
<b>Gross Profit</b>	275	249	337	384	438	377	554	559	644	482
<b>Gross Margin</b>	38.9%	34.1%	37.9%	40.0%	42.3%	30.3%	33.7%	34.3%	41.8%	24.2%
<b>D&amp;A Exp.</b>	55	65	79	91	110	123	133	133	171	212
<b>Operating Profit</b>	110	70	128	157	194	100	191	209	280	349
<b>Operating Margin</b>	15.6%	9.5%	14.4%	16.4%	18.7%	8.1%	11.6%	12.8%	18.1%	17.5%
<b>Net Profit</b>	92	82	97	105	119	(3)	18	77	157	88
<b>Net Margin</b>	13.0%	11.2%	10.9%	11.0%	11.5%	-0.3%	1.1%	4.7%	10.2%	4.4%
<b>Free Cash Flow</b>	(136)	(157)	(181)	(157)	(17)	(83)	(198)	(383)	(175)	(259)
<b>Income Tax</b>	11	(19)	4	1	54	(25)	1	21	23	47

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,631	2,925	3,349	3,472	2,552	3,865	5,957	6,365	6,689	7,309
<b>Cash &amp; Equivalents</b>	5	4	4	4	1	8	30	6	34	29
<b>Accounts Receivable</b>	195	254	252	178	71	202	338	254	279	344
<b>Inventories</b>	58	61	65	59	13	53	62	55	42	61
<b>Goodwill &amp; Int. Ass.</b>	-	-	-	30	-	4	735	702	707	707
<b>Total Liabilities</b>	1,895	2,098	2,417	2,434	1,712	2,673	4,690	4,942	5,022	5,309
<b>Accounts Payable</b>	193	260	273	186	35	285	410	232	257	330
<b>Long-Term Debt</b>	965	1,055	1,255	1,459	743	1,533	3,111	3,387	3,516	3,589
<b>Shareholder's Equity</b>	736	827	932	1,038	840	1,192	1,267	1,424	1,661	1,989
<b>LTD/E Ratio</b>	1.31	1.28	1.35	1.41	0.89	1.29	2.46	2.38	2.12	1.80

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	3.8%	2.9%	3.1%	3.1%	3.9%	-0.1%	0.4%	1.2%	2.4%	1.3%
<b>Return on Equity</b>	13.5%	10.4%	11.0%	10.7%	12.7%	-0.3%	1.4%	5.7%	10.2%	4.8%
<b>ROIC</b>	6.0%	4.6%	4.8%	4.5%	5.8%	-0.2%	0.5%	1.7%	3.1%	1.6%
<b>Shares Out.</b>	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6	110.1
<b>Revenue/Share</b>	11.46	11.41	13.35	13.92	13.55	15.63	19.43	17.65	15.89	18.09
<b>FCF/Share</b>	(2.21)	(2.45)	(2.73)	(2.28)	(0.22)	(1.04)	(2.34)	(4.15)	(1.80)	(2.35)

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

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