



SJW Group (SJW)

Updated July 30th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	4.7%	Market Cap:	\$2.0 B
Fair Value Price:	\$52	5 Year Growth Estimate:	7.6%	Ex-Dividend Date:	08/05/22
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	09/01/22
Dividend Yield:	2.2%	5 Year Price Target	\$75	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 9th, 2019.

On July 28th, 2022, SJW Group reported second quarter results for the period ending June 30th, 2022. Revenue declined 2.1% to \$149 million, which was \$5.5 million less than expected. Earnings-per-share of \$0.38 compared unfavorably to earnings-per-share of \$0.69 in the prior year and was \$0.28 below estimates.

Revenue for the period was impacted by a change in the approved Water Revenue Adjustment in Connecticut, which shifted nearly \$4 million of revenue from second quarter to the second half of 2022. The decrease in revenue was also due to a decline in customer usage of \$6.6 million. This was partially offset by \$7.5 million in cumulative water rate increases and new customers. Water production expenses declined \$1.3 million, or 2.1%, to \$59.7 million due to lower customer usage and the availability of lower cost surface water supply.

SJW Group reaffirmed its 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.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.18	\$1.12	\$2.54	\$1.85	\$2.57	\$2.86	\$1.82	\$1.35	\$2.14	\$2.03	\$2.35	\$3.39
DPS	\$0.71	\$0.73	\$0.75	\$0.78	\$0.81	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	\$1.93
Shares¹	19	20	20	20	21	21	29	29	29	30	30	30

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 5th, 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 1st, 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
Avg. P/E	20.4	24.3	11.2	16.6	15.7	18.8	32.7	47.8	30.0	36.1	28.1	22.0
Avg. Yld.	3.0%	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	2.0%	1.9%	2.2%	2.6%

¹ In millions of shares

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Shares of SJW Group have increased \$7, or 11.9%, since our May 2nd, 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 28.1. 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 4.8% headwind to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

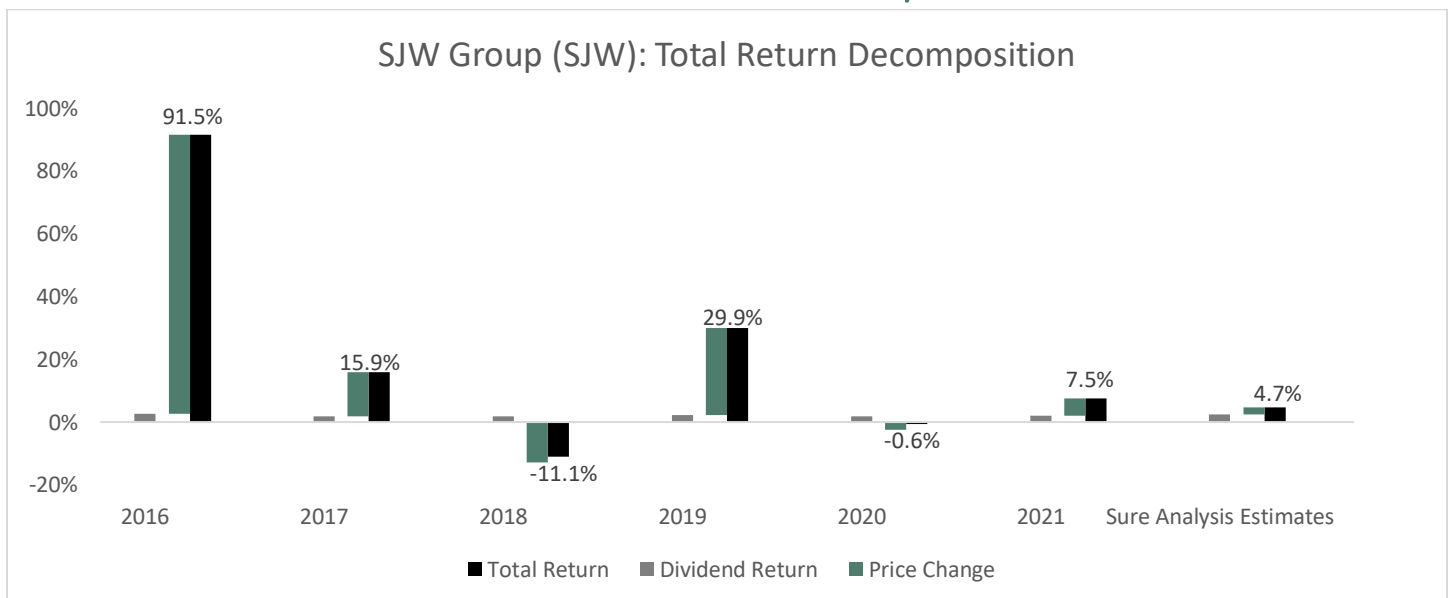
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60%	65%	30%	42%	32%	36%	62%	89%	60%	67%	61%	57%

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 second quarter results, SJW Group is now projected to return 4.7% annually through 2027, which is down from our previous estimate of a 7.1% return. Projected returns stem from 7.6% earnings growth and a starting dividend yield of 2.2% that are offset by a low single-digit valuation reversion. SJW Group's quarter was mixed, partially because of timing with respect to an adjustment that will be made up later this year. We note that the stock has a market beating yield and SJW Group is a Dividend King. We reiterate our five-year price target of \$75 and maintain our hold rating on shares of SJW Group due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,087	1,110	1,269	1,337	1,443	1,458	1,956	3,132	3,311	3,492
Cash & Equivalents	3	2	2	5	6	8	421	13	5	11
Accounts Receivable	12	14	15	16	16	17	19	36	47	54
Inventories	1	1								
Goodwill & Int. Ass.	11	18	14	16	24	14	17	662	663	677
Total Liabilities	813	789	909	954	1,022	995	1,067	2,242	2,394	2,458
Accounts Payable	8	13	7	16	19	23	25	35	34	30
Long-Term Debt	356	358	398	415	448	456	531	1,423	1,539	1,595
Shareholder's Equity	275	321	360	384	422	463	889	890	917	1,035
LTD/E Ratio	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
Return on Assets	2.1%	2.0%	4.4%	2.9%	3.8%	4.1%	2.3%	0.9%	1.9%	1.8%
Return on Equity	8.3%	7.5%	15.2%	10.2%	13.1%	13.4%	5.7%	2.6%	6.8%	6.2%
ROIC	3.6%	3.4%	7.2%	4.9%	6.3%	6.6%	3.3%	1.3%	2.6%	2.4%
Shares Out.	19	20	20	20	21	21	29	29	29	30
Revenue/Share	13.88	13.86	15.66	14.87	16.50	18.82	18.64	14.72	19.67	19.29
FCF/Share	(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.

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