Constellation Energy Corporation (CEG)

Updated November 12th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	-12.5%	**Market Cap:**	$30 Billion
Fair Value Price:	$40	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/14/2022
% Fair Value:	230%	**5 Year Valuation Multiple Estimate:**	-15.4%	**Dividend Payment Date:**	12/9/2022
Dividend Yield:	0.6%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Constellation Energy Corporation was spun off from Exelon Corporation on February 1st, 2022. Shareholders received one share of Constellation Energy for three shares of Exelon that they owned. Constellation Energy provides clean and sustainable energy solutions to homes, commercial businesses, and wholesale customers such as municipalities and cooperatives. The company's energy products include electric, natural gas, and renewables and markets such products to companies of all sizes. Constellation Energy operates 13 nuclear plants with a combined 21 gigawatts of capacity. The company operates in the lower 48 U.S. states, Canada, and the United Kingdom.

On October 31st, 2022, Constellation Energy declared a quarterly dividend of $0.1410, the company's fourth dividend since the spinoff.

On November 8th, 2022, Constellation Energy announced third quarter results for the period ending September 30th, 2022. Revenue totaled $6.05 billion, a 37.2% improvement from the prior year and $2.13 billion more than expected. Adjusted earnings-per-share of $0.54 was $0.24 below estimates.

Constellation Energy's nuclear fleet produced 43,794 gigawatt-hours in the third quarter, down slightly from 44,350 gigawatt-hours in the prior year. Nuclear plants achieved a 96.4% capacity factor, down from 97.7% last year. Energy capture for the wind and solar facilities was down 10 basis points to 95.7% while the dispatch match rate for gas and hydro was 98.8%, compared to 99.4% in the prior year.

Constellation Energy is expected to earn $3.33 per share in 2022, up from $2.88 and $2.81 previously. 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
EPS	$1.92	$2.31	$2.10	$2.54	$1.80	$2.78	$2.07	$3.22	$3.22	$2.82	***$3.33***	***$3.68***
DPS	$2.10	$1.46	$1.24	$1.24	$1.26	$1.31	$1.38	$1.45	$1.53	$1.53	***$0.56***	***$0.62***
Shares[1]	855	857	860	920	924	963	968	972	976	980	***328***	***328***

Note that we have elected to show Exelon Corporation's history in the table above to illustrate the type of operating company from which Constellation Energy was spun off. This is an imperfect measure, but does offer some clues to the consistency of the new business. We project 2% annual earnings growth through 2027, though we may raise this expected growth rate following the passing of legislation providing tax credits to support carbon-free nuclear energy resources.

We believe Exelon Corporation's dividend history could serve as a good indicator for Constellation Energy's future safety and growth. The parent company cut its dividend in both 2013 and 2014 in an effort to pay off debt associated with mergers and acquisitions. Exelon Corporation slowly began raising its dividend once again in 2016. The company cut its dividend by 11.8% for the March 10th, 2022 payment following the spinoff. However, shareholders that continue to hold the Constellation Energy shares following the spinoff will see a combined dividend for 2022 that was at least equal to the distribution prior to the spinoff.

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[1] 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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.1	13.4	16.0	12.6	18.7	13.4	20.1	14.2	13.1	14.6	***27.6***	***12.0***
Avg. Yld.	5.7%	4.7%	3.7%	3.9%	3.7%	3.5%	3.3%	3.2%	3.6%	3.7%	***0.6%***	***1.4%***

Shares of Constellation Energy have increased $12, or 15%, since our August 17th, 2022 report. We are again using Exelon Corporation's history to provide contextual clues to show how shares have traded in the past. During the last decade, Exelon Corporation traded with an average price-to-earnings ratio, or P/E, of 15.5. Accounting for years that earnings-per-share suffered a sizeable decline (2012, 2016, 2018), the P/E ratio has averaged 13.6. Due to Constellation Energy only recent independence, along with the reluctance of some to embrace nuclear energy, we have assigned a target P/E of 12. With shares trading near 28x estimates for the year, this implies a significant headwind from multiple compression. In fact, multiple contraction could lead to a 15.4% annual headwind to total returns through 2027.

Shares of the company yield 0.6% today, well below what utility stocks typically offer.

Safety, Quality, Competitive Advantage, & Recession Resiliency

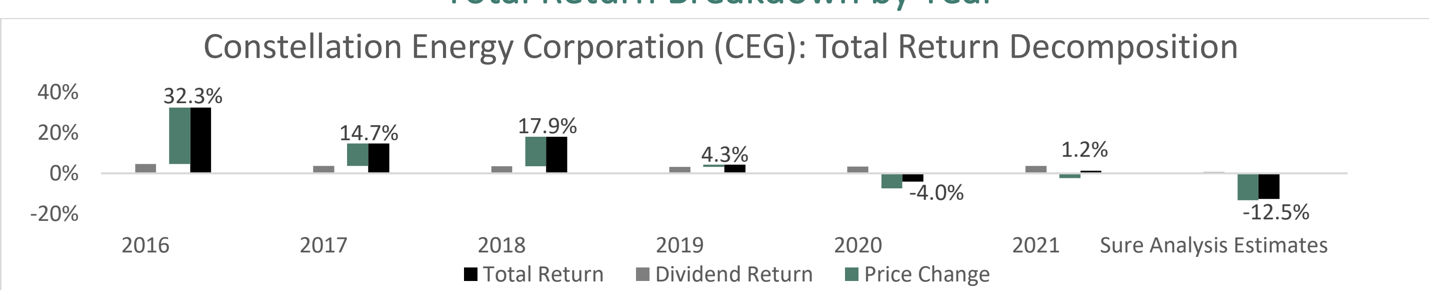
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	109%	63%	59%	49%	70%	47%	67%	45%	48%	*54%*	***17%***	***17%***

Constellation Energy does have some interesting competitive advantages. For one, the company is a major provider of energy in the U.S. The company is also present in nearly every state and has international operations. This gives it a size and scale that is unmatched among utility companies. Constellation Energy is highly focused on renewable forms of energy and has a goal to have its own operations be 100% carbon-free by 2040. The emphasis being placed on such forms of energy positions Constellation Energy ahead of many of its peer groups. Lastly, utility companies are often more recession proof than those in other sectors as customers typically prioritize power even in economic downturns. This usually results in slow, but consistent growth leading to higher dividends over time. Parent company Exelon Corporation did reduce its dividend several times during the last decade, but this was because the company raised a large amount of debt to fund mergers and acquisitions that are performing well today. Constellation Energy has a very healthy projected payout ratio, especially for a utility company.

Final Thoughts & Recommendation

After third quarter results, Constellation Energy is expected to have an annual loss of 12.5% through 2027, matching our prior estimate. Our projection stems from a 2% earnings growth rate and a starting yield of 0.6% that are more than offset by a mid-double-digit headwind from valuation compression. Constellation Energy produced a solid quarter and recent legislation has boosted investor interest in the stock. That said, the valuation leaves much to be desired. We raise our five-year price target $6 to $44 to reflect earnings estimates for the year, but continue to view shares of Constellation Energy as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	23,489	24,888	27,429	29,447	31,366	33,558	35,978	34,438	33,039
Gross Profit	5,371	6,894	5,858	8,041	8,772	9,498	9,971	10,326	9,527
Gross Margin	22.9%	27.7%	21.4%	27.3%	28.0%	28.3%	27.7%	30.0%	28.8%
Operating Profit	2,471	3,646	2,390	4,391	3,260	3,939	3,835	4,342	2,799
Operating Margin	10.5%	14.6%	8.7%	14.9%	10.4%	11.7%	10.7%	12.6%	8.5%
Net Profit	1,160	1,719	1,623	2,269	1,121	3,779	2,005	2,936	1,963
Net Margin	4.9%	6.9%	5.9%	7.7%	3.6%	11.3%	5.6%	8.5%	5.9%
Free Cash Flow	342	948	(1,620)	(8)	(92)	(104)	1,050	(589)	(3,813)
Income Tax	627	1,044	666	1,073	753	(126)	118	774	373

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	78,561	79,924	86,416	95,384	114,904	116,770	119,634	124,977	129,317
Cash & Equivalents	1,486	1,609	1,878	6,502	635	1,105	1,349	587	663
Accounts Receivable	3,087	2,981	3,482	3,187	4,158	4,445	4,607	4,592	3,231
Goodwill & Int. Ass.	2,625	2,625	2,672	2,672	6,677	6,650	6,795	6,677	6,677
Total Liabilities	56,831	56,984	62,283	68,090	87,292	84,583	86,587	90,404	94,449
Long-Term Debt	19,603	20,121	22,115	26,319	35,913	35,582	36,528	37,799	39,333
Shareholder's Equity	21,431	22,732	22,608	25,793	25,837	29,896	30,741	32,224	32,585
LTD/E Ratio	0.91	0.89	0.98	1.02	1.39	1.19	1.19	1.17	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.7%	2.2%	2.0%	2.5%	1.1%	3.3%	1.7%	2.4%	1.5%	1.3%
Return on Equity	6.5%	7.8%	7.2%	9.4%	4.3%	13.6%	6.6%	9.3%	6.1%	5.1%
ROIC	3.4%	4.1%	3.6%	4.5%	1.9%	5.8%	2.9%	4.1%	2.7%	2.3%
Shares Out.	855	857	860	920	924	963	968	972	976	980
Revenue/Share	28.68	28.94	31.75	32.98	33.84	35.36	37.13	35.36	33.82	37.09
FCF/Share	0.42	1.10	(1.88)	(0.01)	(0.10)	(0.11)	1.08	(0.60)	(3.90)	(5.07)

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