



Consolidated Edison Inc (ED)

Updated November 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	2.9%	Market Cap:	\$31.8 B
Fair Value Price:	\$73	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	11/15/22
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	12/15/22
Dividend Yield:	3.5%	5 Year Price Target	\$86	Years Of Dividend Growth:	48
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Consolidated Edison is a holding company that delivers electricity, natural gas, and steam to its customers in New York City and Westchester County. The company has annual revenues of nearly \$14 billion.

On October 1st, 2022, Consolidated Edison announced that it was selling its interest in its renewable energy business to RWE Renewables Americas, LLC for \$6.8 billion. The transaction is expected to close in the first half of 2023. As a result of this transaction, Consolidated Edison will not issue common stock this year while also withdrawing its share issuance guidance for 2023 and 2024.

On November 3rd, 2022, Consolidated Edison released third quarter results for the period ending September 30th, 2022. Revenue grew 15.3% to \$4.17 billion, \$449 million more than expected. Adjusted earnings of \$579 million, or \$1.63 per share, compared to adjusted earnings of \$499 million, or \$1.41 per share, in the previous year. Adjusted earnings-per-share was \$0.17 above estimates.

Results benefited from higher electric rates and lower costs related to heat events during the quarter. For example, higher rate bases for gas and electric customers added \$0.08 to the company's New York operations while lower costs related to heat events contributed \$0.04. Edison expects capital investments of nearly \$16 billion for the 2022 to 2024 time period, with \$4.7 billion targeted for green energy projects, such as smart systems and electric vehicles.

Consolidated Edison updated its guidance for 2022 as well. The company now expects adjusted earnings-per-share of \$4.50 to \$4.60 for the year, up from \$4.40 to \$4.60 previously. This would be a 3.6% increase from the prior year. The company also expects a five-year earnings growth of 5% to 7%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.86	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.18	\$4.39	\$4.55	\$5.40
DPS	\$2.42	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.10	\$3.16	\$3.75
Shares¹	293	293	293	293	305	310	315	334	337	354	354	350

In 2018, Consolidated Edison received approval to raise its rates by 6% per year in both the electric and gas delivery segments for the next three years. Thanks to rate hikes and population growth, the company has been able to raise its dividend for nearly five decades. Consolidated Edison initiated its biggest investment program in its history last year. It will install more than 5 million smart meters in its network by 2022 for a total cost of \$1.5 billion. This will help customers optimize energy use while the company will be able to realize lower peak demand and thus reduce its operating cost. The company also expects capital expense of ~\$4.6 billion for the 2022.

Consolidated Edison has grown its earnings-per-share at a 1.4% average annual rate during the last decade. The company has grown its earnings at a 3.4% annual rate, but it has also diluted its shareholders at a 2.1% annual rate. As the company will continue to face significant debt maturities in the next few years, it is likely to keep diluting its

¹ Share count in millions

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shareholders at its recent pace. Despite company guidance for higher growth, we reaffirm our estimate of 3.5% annualized earnings-per-share growth for 2022 to 2027 given recent-term results.

Following a 1.9% increase for the March 15th, 2022 payment, Consolidated Edison has raised its dividend for 48 consecutive years. The company is a member of the Dividend Aristocrat index and two years away from gaining entrance into the Dividend Kings.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.4	14.7	15.9	15.6	18.8	20.0	17.4	20.7	17.3	19.4	19.8	16.0
Avg. Yld.	4.1%	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.2%	3.6%	3.5%	4.3%

Just like most other utilities, Consolidated Edison reached somewhat overvalued levels in recent years thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. Shares of Consolidated Edison have decreased \$10, or 10%, since our August 16th, 2022 report. Shares trade with a price-to-earnings ratio of 19.8 based off of guidance for 2022. Consolidated Edison has traded at an average multiple of 19 over the last decade, but we believe that a multiple of 16 times earnings is appropriate given the company's lack of growth over the past few years. We expect multiple compression to reduce annual total returns by 4.2% through 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

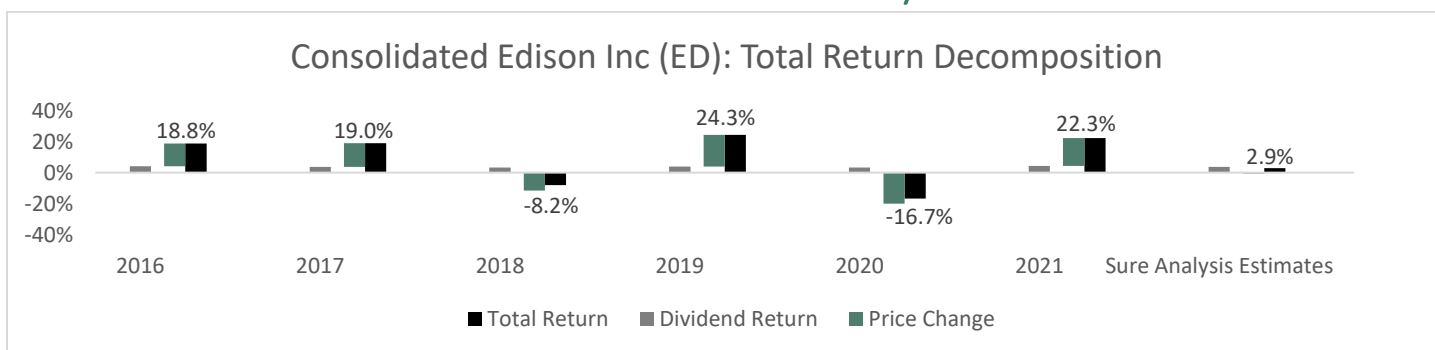
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	63%	70%	64%	68%	68%	66%	68%	73%	71%	69%	69%

Just like most other utilities, thanks to its heavy investments in infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt. One key competitive advantage for Consolidated Edison is that consumers do not curtail their electricity consumption even during the roughest economic periods, so the stock is resilient during recessions. This resiliency should be attractive to investors. In the Great Recession, when most companies saw their earnings collapse, earnings for Consolidated Edison fell just 3% in 2008 and 7% in 2009, and it took only one year to return to the pre-crisis level.

Final Thoughts & Recommendation

Following third quarter results, Consolidated Edison is expected to return 2.9% annually through 2027, up from our prior estimate of 0.6%. Projected returns stem from a 3.5% earnings growth rate and a starting yield of 3.5% that are offset by mid-single-digit multiple reversion. For income investors, we continue to believe that Consolidated Edison is a solid investment option given its track record and market beating yield. However, we continue to rate shares of the company as a sell due to projected returns. We maintain our five-year price target of \$86.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	12,188	12,354	12,919	12,554	12,075	12,033	12,337	12,574	12,246	13,676
Gross Profit	5,119	5,163	5,112	5,494	5,923	6,269	6,237	6,766	7,149	7,668
Gross Margin	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%	58.4%	56.1%
D&A Exp.	955	1,024	1,071	1,130	1,216	1,341	1,438	1,684	1,920	2,032
Operating Profit	2,339	2,244	2,164	2,427	2,676	2,773	2,533	2,676	2,654	2,826
Op. Margin	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%	21.7%	20.7%
Net Profit	1,141	1,062	1,092	1,193	1,245	1,525	1,382	1,343	1,101	1,346
Net Margin	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%	9.0%	9.8%
Free Cash Flow	530	14	412	223	(221)	(76)	(802)	(352)	(1,711)	(1,220)
Income Tax	600	476	568	605	698	472	401	296	90	190

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	41,209	40,647	44,071	45,642	48,255	48,111	53,920	58,079	62,895	63,116
Cash & Equivalents	394	674	699	944	776	797	895	981	1,272	992
Acc. Receivable	1,222	1,251	1,201	1,052	1,106	1,103	1,267	1,236	1,701	1,943
Inventories	330	363	372	350	339	334	358	352	356	437
Goodwill & Int.	431	433	432	431	552	559	2,094	2,003	1,906	1,732
Total Liabilities	29,340	28,402	31,486	32,581	33,949	32,686	37,081	39,866	43,830	42,780
Accounts Payable	1,215	1,017	1,035	1,008	1,147	1,286	1,187	1,164	1,475	1,497
Long-Term Debt	11,307	12,425	12,906	14,274	15,828	16,606	20,711	21,665	24,219	24,532
Total Equity	11,869	12,245	12,576	13,052	14,298	15,418	16,726	18,022	18,847	20,037
LTD/E Ratio	0.95	1.01	1.03	1.09	1.11	1.08	1.24	1.20	1.29	1.22

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%	1.8%	2.1%
Return on Equity	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%	6.0%	6.9%
ROIC	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%	2.6%	3.1%
Shares Out.	293	293	293	293	305	310	315	334	337	354
Revenue/Share	41.39	41.96	43.94	42.64	40.00	38.97	39.43	38.16	36.48	39.14
FCF/Share	1.80	0.05	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)	(5.10)	(3.49)

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

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