



OGE Energy Corp. (OGE)

Updated November 7th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	7.9%	Market Cap:	\$7.5 B
Fair Value Price:	\$36	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	1/6/2023 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	1/27/2023
Dividend Yield:	4.4%	5 Year Price Target	\$46	Years Of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

OGE Energy (OGE) was founded in 1995, in Oklahoma. It is the parent company of Oklahoma Gas and Electric Company (OG&E), a regulated electric utility that serves more than 860,000 customers in Oklahoma and western Arkansas. OGE Energy has a market cap of \$7.5 billion and makes 80%-85% of its annual utility earnings in the second and third quarter.

OGE Energy also owned 25.5% of Enable Midstream Partners (ENBL), a Master Limited Partnership (MLP) that owns and operates pipeline networks and storage tanks of natural gas and crude oil. On December 7th, 2021, Enable Midstream Partners was acquired by Energy Transfer (ET) in an all-stock deal. As a result, OGE Energy owned approximately 3.0% of Energy Transfer. The latter is an MLP which owns and operates one of the largest midstream portfolios in the U.S., with immense pipeline networks and storage tanks of natural gas, crude oil and natural gas liquids (NGLs). However, OGE Energy has sold most shares of Energy Transfer this year and thus it now owns less than 1% of Energy Transfer.

In early November, OGE Energy reported (11/3/22) financial results for the third quarter of fiscal 2022. Earnings-per-share grew 4%, from \$1.26 in last year's quarter to \$1.31, mostly thanks to warmer weather. The company lowered its guidance for earnings-per-share, as it now expects earnings-per-share of \$2.08-\$2.12 for the utility segment and a marginal loss in the stake at Energy Transfer. We have thus lowered our forecast for annual earnings-per-share from \$2.20 to \$2.12.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.79	\$1.94	\$1.98	\$1.36	\$1.69	\$3.10	\$2.12	\$2.16	\$2.08	\$2.36	\$2.12	\$2.71
DPS	\$0.79	\$0.84	\$0.93	\$1.03	\$1.13	\$1.24	\$1.36	\$1.48	\$1.57	\$1.62	\$1.66	\$2.20
Shares²	198.1	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5	200.9	201.0

As shown in the above table, OGE Energy has exhibited a lackluster performance record. The company has grown its earnings-per-share at a modest 3.1% average annual rate over the last decade. The record earnings in 2017 resulted from a non-recurring tax benefit and hence this is not representative of the current profit capability of OGE Energy.

With that said, the outlook of the company seems brighter than the last decade. OGE Energy has invested \$3.3 billion in growth projects in the last five years. In addition, the strong economy in Oklahoma and Arkansas are likely to drive material organic growth for OGE Energy in the upcoming years. Thanks to the recent completion of some growth projects and the focus of management in growing the utility business, the company could grow its earnings-per-share at a 5.0% average annual rate over the next five years. This is in line with management's long-term guidance of 5%-7% annual growth of earnings-per-share in the utility segment. Management also recently reaffirmed that it will keep growing the dividend while keeping a healthy balance sheet and a flat share count.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.2	17.7	18.3	22.0	17.7	11.4	16.5	19.7	16.2	14.3	17.9	16.9
Avg. Yld.	2.9%	2.5%	2.6%	3.4%	3.8%	3.5%	3.9%	3.5%	4.7%	4.8%	4.4%	4.8%

¹ Estimated date.

² 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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Investors should be especially careful with the valuation of slow-growth stocks, such as utilities. If they overpay for such stocks, they may need years to breakeven. Fortunately, this does not appear to be the case for OGE Energy right now. OGE Energy is currently trading at a price-to-earnings ratio of 17.9, which is modestly higher than its 10-year average of 16.9. We expect the stock to trade close to its average valuation level in five years. If this occurs, the stock will incur a -1.2% annualized contraction of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44.1%	43.3%	47.0%	75.7%	66.9%	40.0%	64.2%	68.5%	75.5%	68.6%	78.3%	81.3%

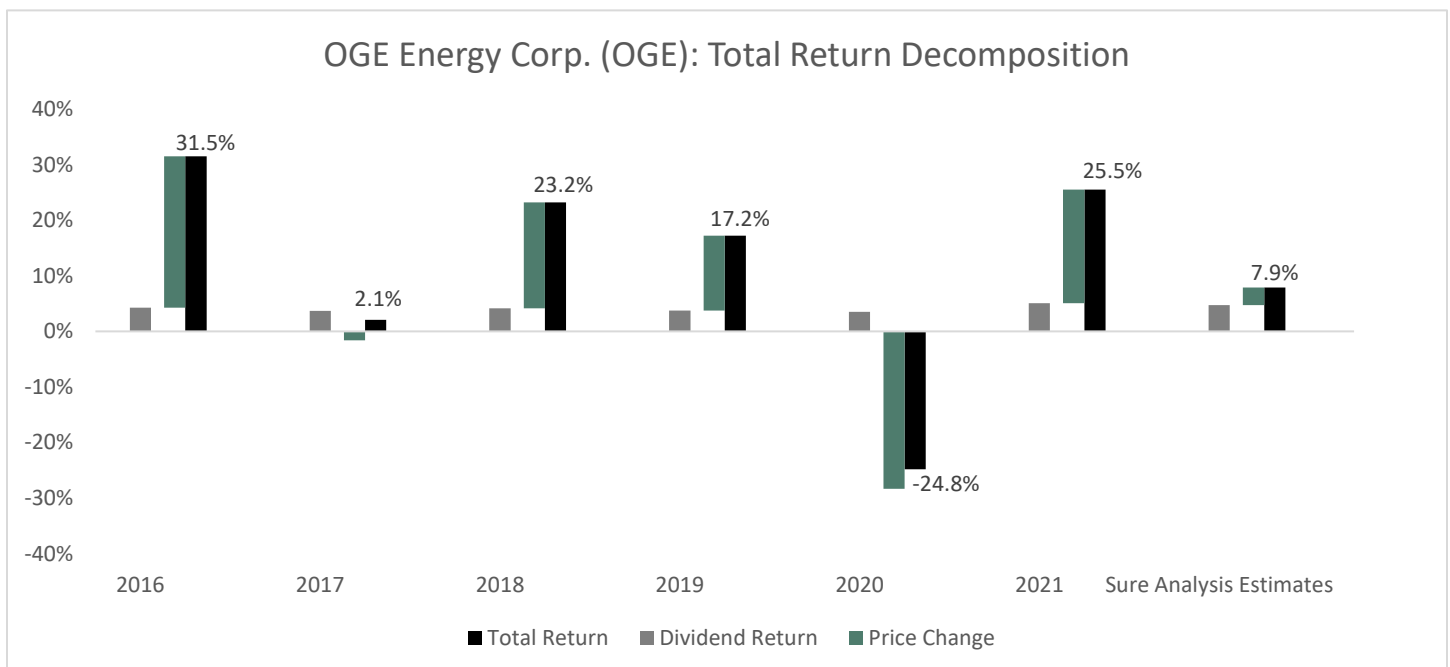
OGE Energy does its best to maintain its electricity rates as low as possible. Its rates are currently lower than the national average and thus they result in high customer satisfaction rates, which enable the company to grow its customer base. This is a major competitive advantage. The other competitive advantage of OGE Energy is the immense investment required from potential new entrants to build the infrastructure of the regulated business. This poses high barriers to entry and thus protects OGE Energy from potential new competitors.

On the other hand, OGE Energy is less resilient to downturns than most utilities due to its investment in the natural gas midstream business. Unlike most utility stocks, which have retrieved most of their COVID-driven losses, OGE Energy is still trading -17% below its pre-COVID level. However, OGE Energy has begun to divest its midstream business and thus it is on track to become a pure utility. Moreover, it is now offering a 4.4% dividend yield. Thanks to its decent payout ratio of 78% and its strong balance sheet, which has a BBB+ credit rating, OGE Energy can continue raising its dividend in the upcoming years. It raised its dividend by 1% in October. The stock is suitable for income-oriented investors.

Final Thoughts & Recommendation

OGE Energy passes under the radar of most investors due to its lackluster performance record but we expect the company to improve its performance in the upcoming years. The stock could offer a 7.9% average annual return over the next five years thanks to its 4.4% dividend yield and 5.0% earnings growth, partly offset by a -1.2% annualized contraction of its valuation level. It thus receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,671	2,868	2,453	2,197	2,259	2,261	2,270	2,232	2,122	3,654
Gross Profit	1,151	950	907	880	941	905	903	953	1,015	1,063
Gross Margin	31.4%	33.1%	37.0%	40.1%	41.7%	40.0%	39.8%	42.7%	47.8%	29.1%
D&A Exp.	375	299	281	308	323	284	322	355	391	416
Operating Profit	669	554	537	481	531	532	490	504	522	544
Operating Margin	18.2%	19.3%	21.9%	21.9%	23.5%	23.5%	21.6%	22.6%	24.6%	14.9%
Net Profit	355	388	396	271	338	619	426	434	(174)	737
Net Margin	9.7%	13.5%	16.1%	12.3%	15.0%	27.4%	18.7%	19.4%	-8.2%	20.2%
Free Cash Flow	(105)	(367)	152	319	(15)	(40)	378	46	62	(1,092)
Income Tax	135	130	173	97	148	(49)	72	30	(127)	141

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,922	9,135	9,528	9,581	9,940	10,413	10,749	11,024	10,719	12,606
Cash & Equivalents	2	7	6	75	0	14	94	---	1	---
Acc. Receivable	295	192	194	175	176	191	175	154	158	162
Inventories	174	155	137	194	162	165	184	137	153	159
Goodwill & Int.	167	---	---	---	---	---	---	---	---	---
Total Liabilities	6,850	6,098	6,283	6,255	6,496	6,562	6,744	6,885	7,087	8,550
Accounts Payable	397	251	179	263	205	230	239	195	252	274
Long-Term Debt	3,280	2,840	2,853	2,739	2,867	3,168	3,147	3,307	3,589	4,983
Total Equity	2,767	3,037	3,244	3,326	3,444	3,851	4,005	4,140	3,632	4,056
LTD/E Ratio	1.19	0.94	0.88	0.82	0.83	0.82	0.79	0.80	0.99	1.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.8%	4.1%	4.2%	2.8%	3.5%	6.1%	4.0%	4.0%	-1.6%	6.3%
Return on Equity	13.3%	13.4%	12.6%	8.3%	10.0%	17.0%	10.8%	10.6%	-4.5%	19.2%
ROIC	5.8%	6.3%	6.6%	4.5%	5.5%	9.3%	6.0%	5.9%	-2.4%	9.1%
Shares Out.	198.1	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5
Revenue/Share	18.53	14.38	12.27	11.01	11.30	11.31	11.32	11.12	10.61	18.24
FCF/Share	(0.53)	(1.84)	0.76	1.60	(0.08)	(0.20)	1.88	0.23	0.31	(5.45)

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

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