# Public Service Enterprise Group Inc. (PEG)

*Updated November 24th, 2022 by Felix Martinez*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $59 | **5 Year CAGR Estimate:** | 4.2% | **Market Cap:** | $29.4 B |
| **Fair Value Price:** | $52 | **5 Year Growth Estimate:** | 3.0% | **Ex-Dividend Date:** | 12/08/22 |
| **% Fair Value:** | 113% | **5 Year Valuation Multiple Estimate:** | -2.5% | **Dividend Payment Date:** | 12/30/22 |
| **Dividend Yield:** | 3.7% | **5 Year Price Target** | $60 | **Years of Dividend Growth:** | 11 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## Overview & Current Events

The Public Service Enterprise Group (PEG) is a publicly-traded diversified energy company headquartered in Newark, New Jersey, established in 1985. However, The company has a history that dates back to 1903, when it was initially called Public Service Corporation. PEG's principal operating subsidiaries are Public Service Electric and Gas Co. (PSE&G), PSEG Power, and PSEG Long Island. The company is one of the ten largest electric companies in the U.S. PSE&G provides electric and natural gas services and services to 2.3 million electric customers and 1.9 million gas customers. PSE&G accounted for over 66% of PEG revenues in 2021. PEG has approximately 13,000 employees and a market cap of $29.4 billion. The company has been growing dividends for eleven consecutive years, and PEG has been paying the same or higher dividends for 19 years in a row.

On October 31st, 2022, the company reported third quarter and nine months results for Fiscal Year (FY)2022. The company reported a net Income of $114 million, or $0.22 per share for the quarter, compared to a net loss of $(1,564) million, or $(3.10) per share, in the third quarter of 2021. Non-GAAP operating earnings for the third quarter were $429 million, or $0.86 per share, compared to non-GAAP operating earnings of $495 million, or $0.98 per share in the third quarter of 2021. The management team expects that the company will be on track to deliver on its earnings guidance for the full year, which they have narrowed to $3.40 to $3.50 per share. So far, the company has invested approximately $795 million during the third quarter and $2.2 billion year to date. PEG now expects a revised capital-spending forecast of $3 billion for 2022, up from the planned 2022 capital program of $2.9 billion.

The management team provided its non-GAAP Operating earnings guidance for the full year of 2022 of $3.40 - $3.50 per share. Thus, we will use $3.47 a share for our fair value calculations, 4.9% lower than what PEG earned in FY2021.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.44 | $2.58 | $2.76 | $2.91 | $2.90 | $2.93 | $3.12 | $3.28 | $3.43 | $3.65 | ***$3.47*** | ***$4.02*** |
| **DPS** | $1.42 | $1.44 | $1.48 | $1.56 | $1.64 | $1.72 | $1.80 | $1.88 | $1.96 | $2.04 | ***$2.16*** | ***$2.63*** |
| **Shares[1]** | 507.0 | 508.0 | 508.0 | 508.0 | 508.0 | 507.0 | 507.0 | 507.0 | 507.0 | 504.0 | ***504.0*** | ***504.0*** |

The company does not have strong growth prospects as it is a utility company and heavily regulated by the government. However, we estimate a 3% annual earnings growth rate for the next five years. This is lower than the 3.4% growth rate that the company has experienced for the past 5-year average. It is also lower than the 4.6% earnings growth over the past decade. The dividend has been growing slightly better than earnings. The dividend has had a CAGR of 4.7% for the past five years. We see this slowing down, and we estimate a dividend growth rate of 4% going forward. The net margin has increased from 14.8% in FY2018 to 16.8% in FY2019. In FY2021, PEG had a net margin of (6.7)%.

[1] Share count is in millions.

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## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 12.5 | 12.4 | 15 | 13.3 | 15.1 | 17.6 | 16.7 | 17.9 | 17.0 | 18.3 | ***17.0*** | ***15.0*** |
| Avg. Yld. | 4.6% | 4.5% | 3.6% | 4.0% | 3.7% | 3.3% | 3.5% | 3.2% | 3.4% | 3.1% | ***3.7%*** | ***4.4%*** |

The company looks to be overvalued at today's price. Because of the slow growth prospects, we think that a fair PE is 15.0x earnings. This is in line with the company's 10-year average PE. Thus, we see an annual headwind due to multiple contractions. The current dividend yield of 3.7% is higher than its 5-year average of 3.4% but not as attractive as other utility companies with a higher dividend yield.

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

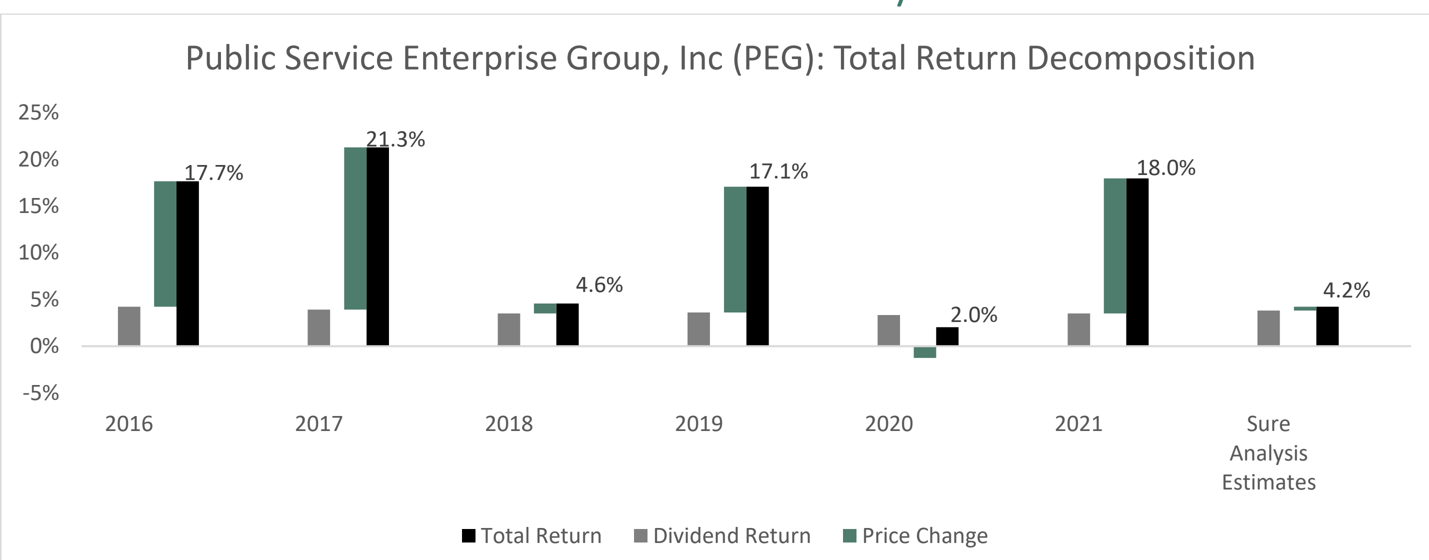
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 58.2% | 55.8% | 53.6% | 53.6% | 56.6% | 58.7% | 57.7% | 57.3% | 57.1% | 55.9% | ***62%*** | ***65%*** |

PEG's competitive advantage is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high entry barriers to potential competitors. During the Great Recession of 2008-2009, The Company grew earnings from $2.71 in 2007 to $2.92 in 2008 and $3.12 in 2009. The dividend was well covered, and the company increased its dividend by 10.3% in 2008. This shows the dividend safety and the resilience of this company. However, in 2011, the company froze its dividend, losing its dividend increase streak, but it has grown since then. The company has a stable balance sheet with a debt-to-equity ratio of 1.5. Interest coverage ratio of 2.2x. However, the company does have more debt than assets, as the current ratio is 0.6. PEG's dividend payout ratio has been in the uptrend but is still safe for the foreseeable future.

## Final Thoughts & Recommendation

The company is safe to invest in, as most utility companies are. However, at the current price, PEG is overvalued relative to our fair price estimate of $52. There are not many growth prospects available to the company currently. Thus, we see a 5-year projected annual return of 4.2%. Most of this return will come from the 3.7% dividend yield. We rate PEG as a hold at the current price.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 10,886 | 10,415 | 8,966 | 9,094 | 9,696 | 10,076 | 9,696 | 10,076 | 9,603 | 9,722 |
| **Gross Profit** | $3,850 | $4,176 | $3,074 | $3,415 | $3,402 | $3,593 | $3,402 | $3,593 | $3,432 | $2,997 |
| **Gross Margin** | 35.4% | 40.1% | 34.3% | 37.6% | 35.1% | 35.7% | 35.1% | 35.7% | 35.7% | 30.8% |
| **D&A Exp.** | $1,427 | $1,427 | $1,679 | $2,185 | $1,345 | $1,426 | $1,345 | $1,426 | $1,469 | $1,403 |
| **Operating Profit** | $2,623 | $2,962 | $1,598 | $1,429 | $2,244 | $2,345 | $2,244 | $2,345 | $2,147 | $1,762 |
| **Operating Margin** | 24.1% | 28.4% | 17.8% | 15.7% | 23.1% | 23.3% | 23.1% | 23.3% | 22.4% | 18.1% |
| **Net Profit** | $1,518 | $1,679 | $887 | $1,574 | $1,438 | $1,693 | $1,438 | $1,693 | $1,905 | $-648 |
| **Net Margin** | 13.9% | 16.1% | 9.9% | 17.3% | 14.8% | 16.8% | 14.8% | 16.8% | 19.8% | -6.7% |
| **Free Cash Flow** | 239 | -50 | -985 | -1,047 | -1,145 | 115 | -1145 | 115 | 68 | -1,081 |
| **Income Tax** | $938 | $1,001 | $411 | -$306 | $417 | $257 | $417 | $257 | $396 | $-441 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 35,287 | 37,535 | 40,070 | 42,716 | 45,326 | 47,730 | 45,326 | 47,730 | 50,050 | 48,999 |
| **Cash & Equivalents** | $402 | $394 | $423 | $313 | $177 | $147 | $177 | $147 | $543 | $818 |
| **Accounts Receivable** | $1,254 | $1,068 | $1,161 | $1,348 | $1,435 | $1,313 | $1,435 | $1,313 | $1,410 | $18,59 |
| **Inventories** | $1,022 | $976 | $887 | $866 | $902 | $897 | $902 | $897 | $878 | $744 |
| **Goodwill & Int. Ass.** | $100 | $118 | $114 | $130 | $159 | $149 | 159 | 149 | 158 | 20 |
| **Total Liabilities** | 23,101 | 24,468 | 26,940 | 28,869 | 30,949 | 32,641 | 30,949 | 32,641 | 34,066 | 34,561 |
| **Accounts Payable** | $1,178 | $1,369 | $1,459 | $1,694 | $1,451 | $1,358 | $1,451 | $1,358 | $1,332 | $1,315 |
| **Long-Term Debt** | 9,098 | 9,932 | 11,783 | 13,610 | 15,478 | 16,223 | 15,478 | 16,223 | 17,243 | 19,438 |
| **Shareholder's Equity** | 12,185 | 13,066 | 13,130 | 13,847 | 14,377 | 15,089 | 14,377 | 15,089 | 15,984 | 14,438 |
| **LTD/E Ratio** | 0.75 | 0.76 | 0.90 | 0.98 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.35 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 4.5% | 4.6% | 2.3% | 3.8% | 3.3% | 3.6% | 3.3% | 3.6% | 3.9% | -1.3% |
| **Return on Equity** | 12.8% | 13.3% | 6.8% | 11.7% | 10.2% | 11.5% | 10.2% | 11.5% | 12.3% | -4.3% |
| **ROIC** | 7.3% | 7.6% | 3.7% | 6.0% | 5.0% | 5.5% | 5.0% | 5.5% | 5.9% | -1.9% |
| **Shares Out.** | 508 | 508 | 508 | 507 | 507 | 507 | 507 | 507 | 507 | 504 |
| **Revenue/Share** | $21.43 | $20.50 | $17.65 | $17.94 | $19.12 | $19.87 | $19.12 | $19.87 | $18.94 | 19.29 |
| **FCF/Share** | $0.47 | -$0.10 | -$1.94 | -$2.07 | -$2.26 | $0.23 | $-2.26 | $0.23 | $0.13 | -2.14 |

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