



Portland General Electric (POR)

Updated October 28th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	12.7%	Market Cap:	\$4.5 B
Fair Value Price:	\$54	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/26/2022
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	01/17/2023
Dividend Yield:	4.0%	5 Year Price Target:	\$72	Years of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Portland General Electric is an electric utility based in Portland, Oregon, providing electricity to about 900,000 customers in 51 cities. The company owns or contracts a little more than 3.3 gigawatts of energy generation, between 49% gas, 11% coal, 19% wind & solar, and 21% hydro. Portland General trades on the NYSE under the ticker POR and has a market capitalization of \$4.5 billion. POR has 3,000 full-time employees. In 2021, the corporation generated \$2.4 billion in revenue. The company is diversified by customer, with 39% of retail deliveries going to residential customers, 35% to commercial clients, and 26% to industrial clients. The company is forecasting that 80% of its power delivered to customers by 2030 will be carbon free, and 100% carbon free by 2040.

On April 22nd, 2022, Portland General Electric announced a 5.2% increase to the quarterly dividend to \$0.4525 per share.

Portland General released third quarter 2022 results on October 25th, 2022. POR reported net income of \$58 million, compared to \$50 million in the third quarter of 2021. The company earned \$0.65 per diluted share, compared to \$0.56 in the same prior year period.

Retail energy delivers in in the first nine months of fiscal 2022 increased 2.6% compared to the first nine months of fiscal 2021. This increase was driven by growth in industrial demand, and warmer weather.

Leadership has reaffirmed its 2022 full-year guidance for diluted earnings per share to \$2.68 at the midpoint based on a series of assumptions, most notably a 2.0% to 2.5% increase in annual energy deliveries. The company also expects adjusted EPS to be between \$2.74 and \$2.89, for a mid-point of \$2.82.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.87	\$1.84	\$2.18	\$2.04	\$2.16	\$2.29	\$2.37	\$2.39	\$2.75	\$2.72	\$2.82	\$3.77
DPS	\$1.08	\$1.10	\$1.12	\$1.18	\$1.26	\$1.34	\$1.43	\$1.52	\$1.59	\$1.70	\$1.81	\$2.42
Shares¹	75.6	78.1	78.2	88.8	89.0	89.1	89.3	89.6	89.6	89.6	90.0	95.0

Portland General has demonstrated a clear history of consistent per share earnings growth. In the past nine and five years, POR has grown adjusted earnings per share by 4.3% and 4.7% per year on average, respectively. In October 2022, management upgraded the company's long-term EPS growth guidance to 5% to 7% (from 4% to 6% previously), and we believe this to be a fair estimate, at right around 6% earnings growth into 2027. Leadership also estimates that the company can grow the dividend by 5% to 7% over the long-term, for a 6% mid-point, which is in-line with the trailing 5-year average dividend growth rate of 6.2%.

We expect that POR will generate this earnings growth through increased annual energy deliveries, as a result of commercial growth as the economy recovers, and strong growth in industrial energy demand due to customer expansions. Rate increases, customer additions, and completion of construction projects will all further fuel POR's earnings growth. The company has increased the share count over the last decade, though not at an alarming rate (nearly 2% per year over the last nine years). This is not preferred but is common among utility companies with constant capital expenditures who pay out a large portion of the corporation's earnings to shareholders as dividends.

¹ In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.0	16.9	15.3	17.7	19.1	20.0	18.4	22.3	26.6	24.5	16.1	19.0
Avg. Yld.	4.1%	3.7%	3.3%	3.3%	3.1%	2.9%	3.3%	2.8%	3.5%	3.4%	4.0%	3.4%

The current PE of 16.1 is discounted compared to POR's average historical PE ratio. In the past nine and five years, POR has traded at a valuation of 19.5- and 22.4-times earnings on average. We estimate the company can grow into the valuation of 19.0 times earnings. This PE growth from 16.1 to 19.0 would result in valuation gains of 3.3% annually due to multiple expansion. With a generally lower valuation today, the dividend is elevated historically, at 4.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	60%	51%	58%	58%	59%	60%	64%	58%	62%	64%	64%

Portland General's payout ratio has remained within or below their target payout ratio for the last decade, with the target payout ratio of 60% to 70%. Even going forward, we estimate that POR will likely remain within its target payout ratio as the dividend grows in-line with earnings-per-share.

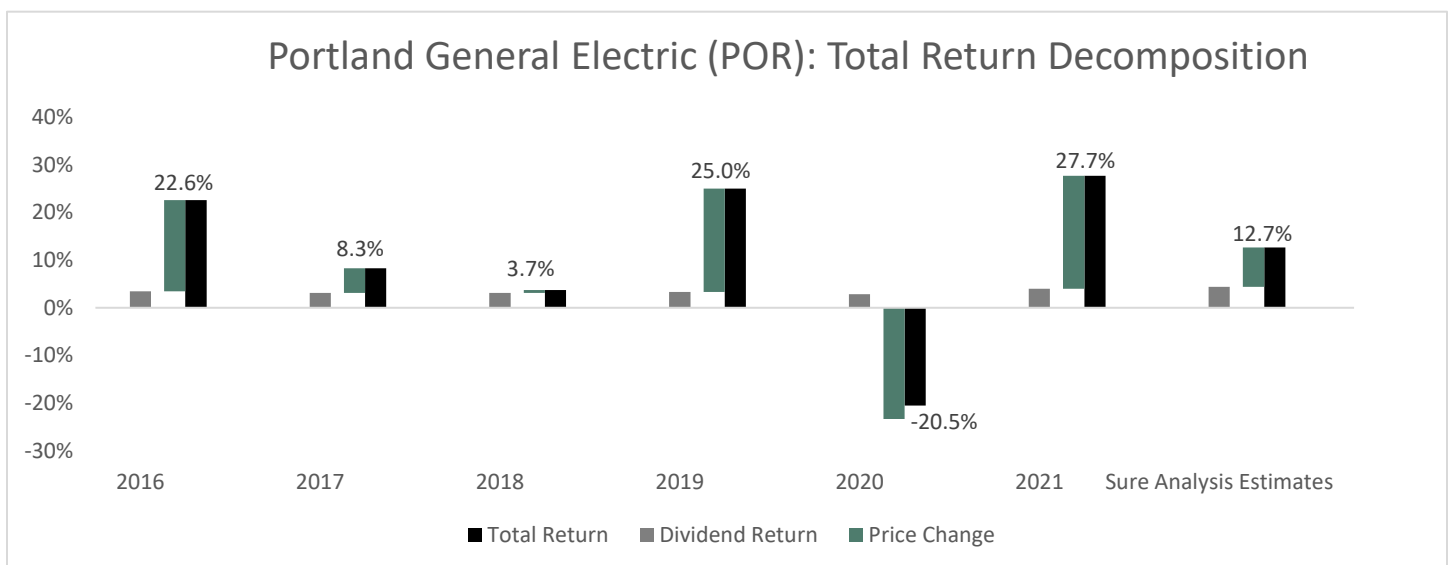
During the great financial crisis, earnings fell roughly 44% from peak to trough, however the dividend was fairly well covered throughout the entire ordeal, and it kept growing year-after-year to result in a 15 year annual dividend raise streak. It's worth noting too, that if we ignored the year 2007 where POR generated significantly higher earnings than on average (the peak), the financial crisis barely harmed POR's earnings as it's risen consistently from 2006 onwards.

We don't see POR as having a significant competitive advantage in its business among its peers, though it does dominate in its geographical area of Oregon and serves roughly half of the residential population.

Final Thoughts & Recommendation

Portland General Electric is a consistent earnings grower and dominates in its geographical location. The corporation has kept within their target payout ratio, which has allowed for them to grow the dividend for fifteen consecutive years and counting. We believe POR is trading at 85% fair value, with the potential to generate 12.7% in total annualized returns, thus we are upgrading POR from a hold to a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,805	1,810	1,900	1,898	1,923	2,009	1,991	2,123	2,145	2,396
Gross Profit	1,079	1,053	1,187	1,237	1,306	1,417	1,420	1,509	1,437	1,574
Gross Margin	59.8%	58.2%	62.5%	65.2%	67.9%	70.5%	71.3%	71.1%	67.0%	65.7%
SG&A Exp.	427	444	484	507	526	569	563	613	576	646
D&A Exp.	248	248	301	305	321	345	382	409	454	404
Operating Profit	302	206	293	309	340	380	346	353	269	378
Op. Margin	16.7%	11.4%	15.4%	16.3%	17.7%	18.9%	17.4%	16.6%	12.5%	15.8%
Net Profit	141	105	175	172	193	187	212	214	155	244
Net Margin	7.8%	5.8%	9.2%	9.1%	10.0%	9.3%	10.6%	10.1%	7.2%	10.2%
Free Cash Flow	191	-112	-487	-78	-22	83	35	-60	-217	-104
Income Taxes	64	21	61	45	50	86	17	27	0	23

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,670	6,101	7,042	7,210	7,527	7,838	8,110	8,394	9,069	9,494
Cash & Equivalents	12	107	127	4	6	39	119	30	257	52
Acct Receivables	152	146	149	158	155	168	193	253	271	329
Inventories	78	65	82	83	82	78	84	96	72	78
Total Liabilities	3,940	4,281	5,131	4,952	5,183	5,422	5,604	5,803	6,456	6,787
Accounts Payable	98	173	156	98	129	132	168	165	153	244
Long-Term Debt	1,653	1,916	2,501	2,199	2,350	2,426	2,478	2,597	3,196	3,285
Total Equity	1,728	1,819	1,911	2,258	2,344	2,416	2,506	2,591	2,613	2,707
LTD/E Ratio	0.96	1.05	1.31	0.97	1.00	1.00	0.99	1.00	1.22	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.5%	1.8%	2.7%	2.4%	2.6%	2.4%	2.7%	2.6%	1.8%	2.6%
Return on Equity	8.3%	5.9%	9.4%	8.3%	8.4%	7.9%	8.6%	8.4%	6.0%	9.2%
ROIC	4.1%	2.9%	4.3%	3.9%	4.2%	3.9%	4.3%	4.2%	2.8%	4.1%
Shares Out.	75.6	78.1	78.2	88.8	89.0	89.1	89.3	89.6	89.6	75.6
Revenue/Share	23.86	23.39	23.60	22.50	21.59	22.53	22.28	23.71	23.93	26.73
FCF/Share	2.52	-1.45	-6.05	-0.92	-0.25	0.93	0.39	-0.67	-2.42	-1.16

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

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