



South Jersey Industries (SJI)

Updated November 22nd, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	3.8%	Market Cap:	\$4.25B
Fair Value Price:	\$30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/09/22
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	12/29/22
Dividend Yield:	3.6%	5 Year Price Target	\$35	Years Of Dividend Growth:	23
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

South Jersey Industries traces its founding to 1910. Today, the company buys, transports, stores, and sells natural gas. The utility operates in three segments: SJI Utilities, SJI Midstream, and South Jersey Energy Solutions. Elizabethtown Gas was acquired in 2018. The company owns and operates rooftop solar generation at corporate sites, fuel cells, and is investing in renewable natural gas projects. Additionally, the utility owns oil, gas, and mineral rights in the Marcellus Shale region of Pennsylvania. South Jersey owns roughly 10,000 miles of distribution and transmission pipelines and serves more than 700,000 total customers (~409,000 at South Jersey Gas and ~302,000 at Elizabethtown Gas). Revenue is roughly 70% - 80% regulated and 20% - 30% unregulated. Total revenue was about \$1,992M in 2021.

South Jersey reported Q3 2022 results on November 3rd, 2022. For the quarter, total GAAP earnings were (-\$25.8M) or (-\$0.23) per share from (-\$10.7M) or (-\$0.10) per share in the prior year. Utility GAAP earnings rose to (-\$9.4M) from (-\$18.4M), non-utility GAAP earnings decreased to (-\$6.8M) from \$17.5M. In the Utility segment, South Jersey Gas and Elizabethtown Gas had higher earnings because of customer growth and better margins. The majority of new customers are conversions from oil and propane. The utility continues its infrastructure placement programs to improve reliability.

In the non-utility segment, lower Energy Management (Wholesale and Retail Services) was offset by higher Energy Production earnings. South Jersey's investment in solar and fuel cells is beginning to pay off combined with the benefits of investment tax credits. The utility is developing 10 dairy farms for renewable natural gas and a fuel cell in the Bronx.

The PennEast Midstream pipeline ceased development because it did not receive certain permits.

South Jersey is being acquired by Infrastructure Investments Fund (IIF) for \$36 per share in cash with an \$8.1B enterprise value. The deal is expected to close in Q4 2022 subject to shareholder and regulatory approvals.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.52	\$1.52	\$1.57	\$1.44	\$1.34	\$1.23	\$1.38	\$1.12	\$1.68	\$1.62	\$1.69	\$1.96
DPS	\$0.83	\$0.90	\$0.96	\$1.02	\$1.06	\$1.10	\$1.13	\$1.16	\$1.19	\$1.22	\$1.24	\$1.40
Shares¹	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6	117.3	124.4	166.5

South Jersey's earnings per share have been volatile over the past decade due to fluctuating natural gas prices, and rising share count. But in the past decade, revenue has more than doubled through organic growth and the acquisition of Elizabethtown Gas in 2018. Top line growth will be sluggish since the population of New Jersey is growing slowly, but SJI should achieve about 1.5% regulated utility growth through new construction and conversions to natural gas. This combined with efficiency improvements, capital spending, investment in clean energy, and 9.6% return on equity suggests that the rate base should grow at about 10% annually. Non-regulated non-utility growth will occur through investment in renewables. We expect earnings per share to grow at about 3% on average, supporting 2.5% growth on average in the dividend per share out to 2027. The payout ratio is reasonably conservative for a regulated utility. The dividend yield has returned to a more normal footing due to a spike in stock price after the acquisition announcement.

¹ Share count 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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.9	18.9	18.0	17.9	21.7	27.9	22.6	28.3	14.9	14.9	20.6	18.0
Avg. Yld.	3.2%	3.1%	3.4%	3.9%	3.6%	3.2%	3.6%	3.7%	4.8%	5.0%	3.6%	4.0%

South Jersey's stock price is flat since our last report because of the acquisition announcement. South Jersey's stock is no longer trading on fundamentals but instead on news about the acquisition. We have maintained our earnings estimate for 2022. Our fair value multiple for the long haul is 18X, below the average for the past decade. Our fair value estimate is now \$30. Our 5-year price target is now \$35.

Safety, Quality, Competitive Advantage, & Recession Resiliency

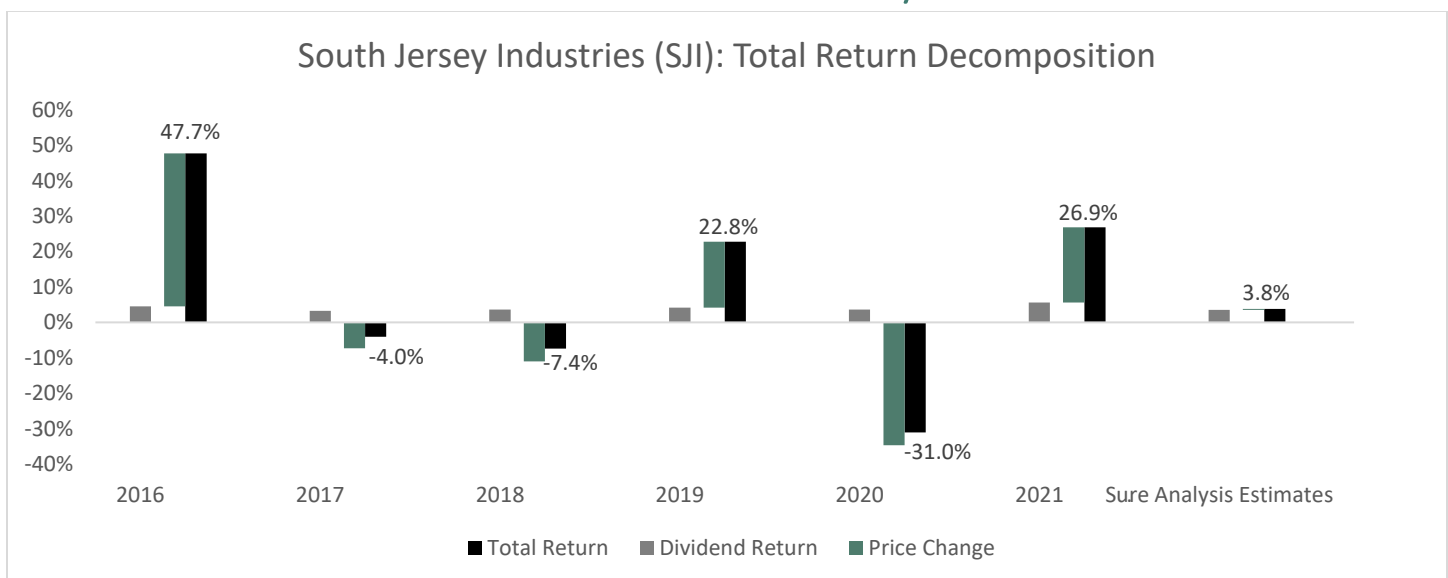
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	55%	59%	61%	71%	79%	89%	82%	104%	71%	75%	73%	72%

South Jersey's competitive advantage is that it owns two regulated natural gas utilities. This gives SJI a monopoly in its service area and a guaranteed return on equity as approved by regulators. After the Elizabethtown Gas acquisition in 2018, SJI is now the second largest natural gas utility in New Jersey. SJI's unregulated operations provide some risk for the utility. But the renewable energy production, and energy management are a smaller percentage of revenue and are currently growing. Recessions tend to suppress demand as businesses close and consumers cut costs. The utility has a solid balance sheet with a BBB/A3 rating and no significant maturities until 2030. At end of Q3 2022, SJI had approximately \$208.6 million in short-term and current long-term debt, and \$3,196 million in long-term debt. This is offset by ~\$61.6M in cash, cash equivalents and marketable securities.

Final Thoughts & Recommendation

At present we are forecasting 3.8% annualized total returns over the next five years from a dividend yield of 3.6%, 3% EPS growth, and (-2.7%) P/E multiple contraction. South Jersey is being acquired by the Infrastructure Investments Fund (IIF) for \$36 per share cash with an enterprise value of \$8.1B. The stock is no longer trading on fundamentals. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	706	731	887	960	1,037	1,243	1,641	1,629	1,541	1,992
Gross Profit	275	249	337	384	438	377	554	559	644	482
Gross Margin	38.9%	34.1%	37.9%	40.0%	42.3%	30.3%	33.7%	34.3%	41.8%	24.2%
D&A Exp.	55	65	79	91	110	123	133	133	171	212
Operating Profit	110	70	128	157	194	100	191	209	280	349
Operating Margin	15.6%	9.5%	14.4%	16.4%	18.7%	8.1%	11.6%	12.8%	18.1%	17.5%
Net Profit	92	82	97	105	119	(3)	18	77	157	88
Net Margin	13.0%	11.2%	10.9%	11.0%	11.5%	-0.3%	1.1%	4.7%	10.2%	4.4%
Free Cash Flow	(136)	(157)	(181)	(157)	(17)	(83)	(198)	(383)	(175)	(259)
Income Tax	11	(19)	4	1	54	(25)	1	21	23	47

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,631	2,925	3,349	3,472	2,552	3,865	5,957	6,365	6,689	7,309
Cash & Equivalents	5	4	4	4	1	8	30	6	34	29
Accounts Receivable	195	254	252	178	71	202	338	254	279	344
Inventories	58	61	65	59	13	53	62	55	42	61
Goodwill & Int. Ass.	-	-	-	30	-	4	735	702	707	707
Total Liabilities	1,895	2,098	2,417	2,434	1,712	2,673	4,690	4,942	5,022	5,309
Accounts Payable	193	260	273	186	35	285	410	232	257	330
Long-Term Debt	965	1,055	1,255	1,459	743	1,533	3,111	3,387	3,516	3,589
Shareholder's Equity	736	827	932	1,038	840	1,192	1,267	1,424	1,661	1,989
LTD/E Ratio	1.31	1.28	1.35	1.41	0.89	1.29	2.46	2.38	2.12	1.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.8%	2.9%	3.1%	3.1%	3.9%	-0.1%	0.4%	1.2%	2.4%	1.3%
Return on Equity	13.5%	10.4%	11.0%	10.7%	12.7%	-0.3%	1.4%	5.7%	10.2%	4.8%
ROIC	6.0%	4.6%	4.8%	4.5%	5.8%	-0.2%	0.5%	1.7%	3.1%	1.6%
Shares Out.	63.3	65.4	68.3	71.0	79.5	79.6	85.5	92.4	100.6	110.1
Revenue/Share	11.46	11.41	13.35	13.92	13.55	15.63	19.43	17.65	15.89	18.09
FCF/Share	(2.21)	(2.45)	(2.73)	(2.28)	(0.22)	(1.04)	(2.34)	(4.15)	(1.80)	(2.35)

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

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