Chesapeake Utilities Corporation (CPK)

Updated February 26th, 2023, by Tiago Dias

Key Metrics

Current Price:	$128	**5 Year CAGR Estimate:**	-0.8%	**Market Cap:**	$2.3 B
Fair Value Price:	$83	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/14/2023
% Fair Value:	155%	**5 Year Valuation Multiple Estimate:**	-8.4%	**Dividend Payment Date:**	04/05/2023
Dividend Yield:	1.7%	**5 Year Price Target**	$110	**Years Of Dividend Growth:**	19
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Chesapeake Utilities Corporation (CPK) is a diversified energy delivery company operating primarily in the Mid-Atlantic region and engaged in distribution of natural gas, propane gas and electricity. Founded in 1947, this $2.3 billion market cap company has raised its dividend every year since 2004.

Chesapeake reported Q4 and full year 2022 earnings on February 22nd, 2022. For the quarter, earnings-per-share equalled $1.47, an increase over the $1.28 reported in Q4 2021. For the full year, earnings were $5.04 per share, a 6.6% increase compared to the year before. The company declared a new quarterly dividend of $0.535 per share, in line with the previous quarterly dividend. This brings the company's forward dividend to $2.14, an amount well covered by the company's earnings.

The company's year over year growth has been driven by pipeline expansions, regulatory initiatives, natural gas organic growth, acquisitions, and higher earnings in the company's unregulated business. They have recently received approval for the Florida natural gas rate case, with a final decision expected to be issued in March.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.26	$2.47	$2.68	$2.86	$2.68	$3.45	$3.72	$4.21	$4.73	$5.04	***$5.50***	***$7.36***
DPS	$1.01	$1.07	$1.12	$1.19	$1.26	$1.39	$1.55	$1.69	$1.84	$2.09	***$2.14***	***$2.86***
Shares	15	15	16	16	16	16	17	18	19	18	***18.0***	***22.0***

Utility companies are often seen as stable businesses with low volatility in their dividends, at the expense of limited growth opportunities. Chesapeake Utilities certainly has the earnings and dividend stability, but over the past decade it seems to have successfully dodged the low growth drawback that characterizes many of its competitors.

There's only so long that a company can swim against the current, however, and its most recent organic customer growth guidance of around 5%, well below its 10% average over the past decade, indicates that the business is maturing in a way that is bringing its fundamentals closer to those of its peers. Although, it is still an above average company within the utility sector. It's for this reason that we estimate a 6% earnings growth over the next 5 years, with earnings in 2028 of around $7.36. This estimate is in line with the company's own guidance and represents a significant slowing down of the business compared to its performance in the past decade.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.6	17.7	19.1	21.8	27.8	22.9	24.7	21.6	25.6	25.0	***23.3***	***15.0***
Avg. Yld.	2.9%	2.4%	2.2%	1.9%	1.7%	1.8%	1.7%	1.9%	1.5%	1.7%	***1.7%***	***2.6%***

Over the past decade, Chesapeake has consistently traded at a premium and this premium has only increased over time to its current valuation of 23.3 times earnings. While the company's fundamentals are certainly impressive, it's clear that the valuation that investors have given the company has been lofty. While it's possible that this premium will continue to be paid by investors, given the expected slowdown of organic growth, the current overvaluation, and the expected interest rate increases we would expect the company to be re-rated over the coming years to around a 15 P/E. This is in line with the general market average, but a significant downturn to its current valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

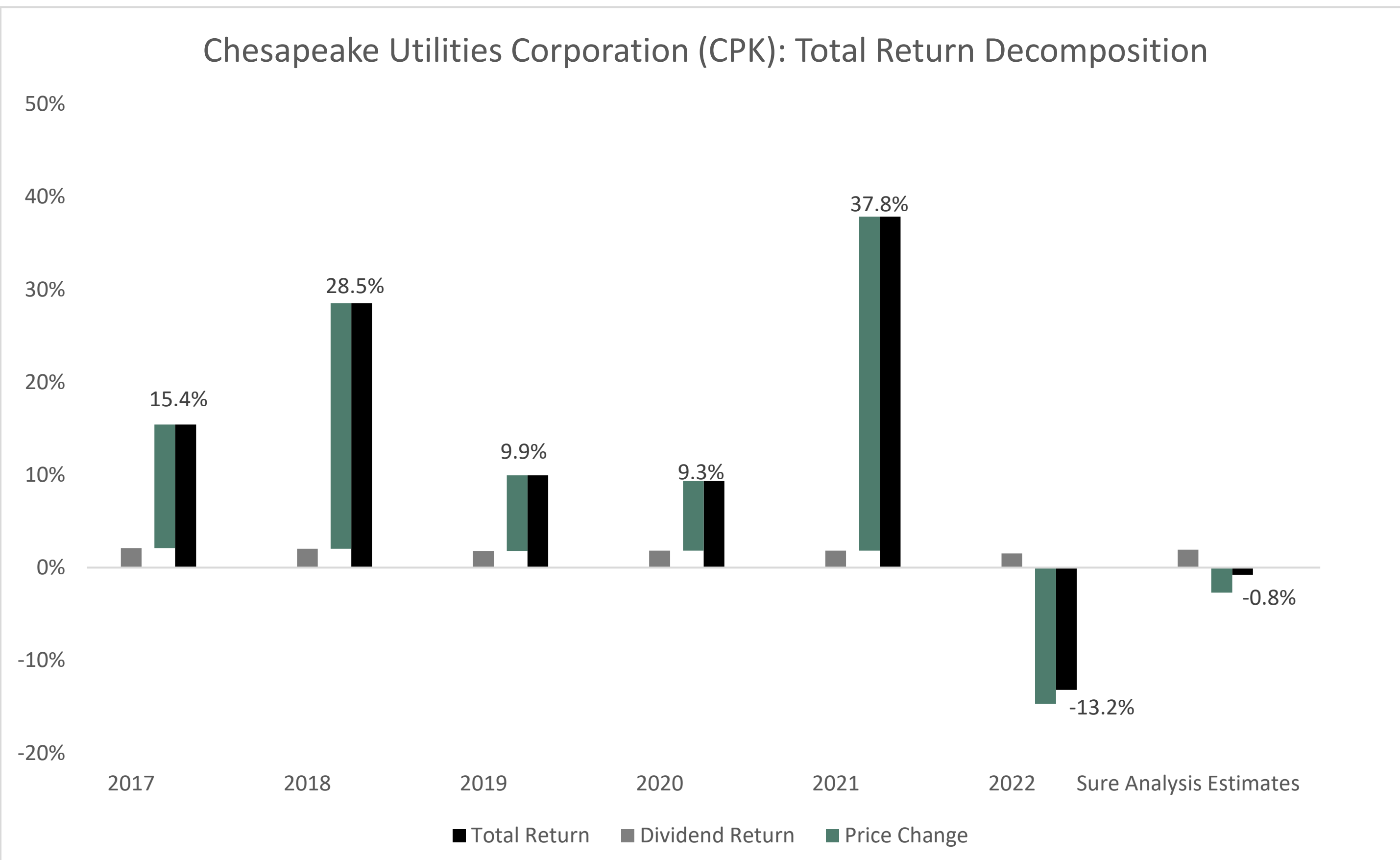
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	45%	43%	42%	42%	47%	40%	42%	40%	39%	41%	***39%***	***39%***

Chesapeake has managed to provide above average returns over the past decade as a result of its unique business model that straddles the line between regulated and non-regulated utilities. By having parts of its business regulated, it has managed to maintain a consistent and stable earnings power that allows it to comfortably pay consistently increasing dividends, at the same time its unregulated business brings in above average organic growth that has only recently begun showing signs of slowing down. This strategy has allowed it to outperform its competitors and become a truly high-quality business that most investors would be happy to own.

Final Thoughts & Recommendation

While there is no doubt about the quality of the business, nor the stability of its earnings and dividends, the core determining factor of any investment is the potential return. It is precisely here that Chesapeake disappoints, since its valuation is significantly out of step with its favorable, but not favorable enough, prospects. Despite an impressive 6% expected earnings growth rate, the low dividend yield of only 1.7% and significant headwinds driven by the potential for a valuation multiple re-rating lead us to expect a poor total return. Shares earn a sell rating.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	444	499	459	499	450	490	480	488	570	681
Gross Profit	101	109	120	133	143	153	172	193	218	238
Gross Margin	22.6%	21.8%	26.1%	26.6%	31.8%	31.3%	35.8%	39.5%	38.2%	34.9%
D&A Exp.	30	33	37	39	45	49	55	68	73	80
Operating Profit	63	69	76	86	90	95	106	113	131	143
Op. Margin	14.1%	13.9%	16.6%	17.2%	19.9%	19.3%	22.1%	23.1%	23.0%	21.0%
Net Profit	33	36	41	45	58	57	65	71	83	90
Net Margin	7.4%	7.2%	9.0%	9.0%	12.9%	11.5%	13.6%	14.6%	14.6%	13.2%
Free Cash Flow	(24)	(18)	(39)	(66)	(65)	(123)	(82)	(7)	(36)	31
Income Tax	22	24	27	28	15	21	21	24	29	34

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	838	904	1,067	1,229	1,415	1,694	1,783	1,932	2,115	2,215
Cash & Equivalents	3	5	3	4	6	6	7	3	5	6
Acc. Receivable	75	53	41	63	77	54	50	57	58	63
Inventories	15	11	10	11	20	17	12	11	21	26
Goodwill & Int.	7	7	17	17	24	25	41	47	58	64
Total Liabilities	559	604	709	783	929	1,175	1,222	1,235	1,341	1,382
Accounts Payable	53	45	39	57	75	99	54	60	53	61
Long-Term Debt	235	256	332	359	458	622	733	698	789	802
Total Equity	279	300	358	446	486	518	562	697	774	833
D/E Ratio	0.84	0.85	0.93	0.80	0.94	1.20	1.31	1.00	1.02	0.96

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.2%	4.1%	4.2%	3.9%	4.4%	3.6%	3.7%	3.8%	4.1%	4.1%
Return on Equity	12.2%	12.5%	12.5%	11.1%	12.5%	11.3%	12.1%	11.4%	11.3%	11.2%
ROIC	7.0%	6.7%	6.6%	6.0%	6.6%	5.4%	5.4%	5.3%	5.6%	5.6%
Shares Out.	15	15	16	16	16	16	17	18	19	18
Revenue/Share	30.55	34.16	30.33	31.95	27.45	29.86	29.16	29.11	32.32	38.23
FCF/Share	(1.66)	(1.22)	(2.57)	(4.21)	(3.98)	(7.49)	(4.97)	(0.39)	(2.07)	1.72

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