



Consolidated Edison Inc (ED)

Updated February 18th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$93	5 Year CAGR Estimate:	3.4%	Market Cap:	\$33 B
Fair Value Price:	\$78	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	02/14/23
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	03/15/23
Dividend Yield:	3.5%	5 Year Price Target	\$92	Years Of Dividend Growth:	49
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Consolidated Edison is a holding company that delivers electricity, natural gas, and steam to its customers in New York City and Westchester County. The company has annual revenues of more than \$14 billion.

On October 1st, 2022, Consolidated Edison announced that it had agreed to sell its Clean Energy Businesses and its subsidiaries to RWE Renewables Americas, LLC for \$6.8 billion. The deal is expected to close near the end of the first quarter of 2023.

On February 16th, 2023, Consolidated Edison announced fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue grew 17.8% to \$4.03 billion, beating estimates by \$850 million. Adjusted earnings of \$288 million, or \$0.81 per share, compared to adjusted earnings of \$355 million, or \$1.00 per share, in the previous year. Adjusted earnings-per-share was \$0.01 higher than expected. For the year, revenue grew 14.6% to \$15.7 billion. Adjusted earnings totaled \$1.62 billion, or \$4.57 per share, compared to \$1.53 billion, or \$4.39 per share, in 2021.

Higher rate bases for gas and electric customers were the primary contributors to results in the CECONY business, while wholesale revenues were higher in the Clean Energy Business. Consolidated Edison expects capital investments of nearly \$15 billion for the 2023 to 2025 time period.

Consolidated Edison provided guidance for 2023 as well. The company expects adjusted earnings-per-share of \$4.75 to \$4.95 for 2023. This would be a 6.1% increase from the prior year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.93	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.18	\$4.39	\$4.57	\$4.85	\$5.76
DPS	\$2.46	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.10	\$3.16	\$3.24	\$3.85
Shares¹	293	293	293	305	310	315	334	337	354	356	356	356

In 2018, Consolidated Edison received approval to raise its rates by 6% per year in both the electric and gas delivery segments for the next three years. Thanks to rate hikes and population growth, the company has been able to raise its dividend for nearly five decades. Consolidated Edison initiated its biggest investment program in its history last year. It has installed more than 5 million smart meters in its network through the end of 2022. This will help customers optimize energy use while the company will be able to realize lower peak demand and thus reduce its operating cost. The company also expects capital expense of ~\$4.8 billion for 2023 and \$9.8 billion for 2024 and 2025.

Consolidated Edison has grown its earnings-per-share at a 1.7% average annual rate during the last decade. The company has grown its dividend at a 2.8% annual rate, but it has also diluted its shareholders at a 2.2% annual rate. That said, management stated on the fourth quarter conference call that share issuance will likely not occur over the next two years following the sale of its Clean Energy Business.

¹ Share count in millions

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Despite company guidance for higher growth, we reaffirm our estimate of 3.5% annualized earnings-per-share growth for 2023 to 2028 given recent-term results.

Following a 2.5% increase for the upcoming March 15th, 2023 payment, Consolidated Edison has raised its dividend for 49 consecutive years. The company is a member of the Dividend Aristocrat index and just one year away from gaining entrance into the Dividend Kings.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.7	15.9	15.6	18.8	20.0	17.4	20.7	17.3	19.4	20.9	19.2	16.0
Avg. Yld.	4.3%	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.2%	3.6%	3.3%	3.5%	4.2%

Just like most other utilities, Consolidated Edison reached somewhat overvalued levels in recent years thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. Shares of Consolidated Edison have increased \$3, or 3.3%, since our November 7th, 2022 report. Shares trade with a price-to-earnings ratio of 19.2 based off of guidance for 2022. Consolidated Edison has traded at an average multiple of 18 over the last decade, but we believe that a multiple of 16 times earnings is appropriate given the company's lack of growth over the past few years. We expect valuation multiple compression to reduce annual total returns by 3.6% through 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

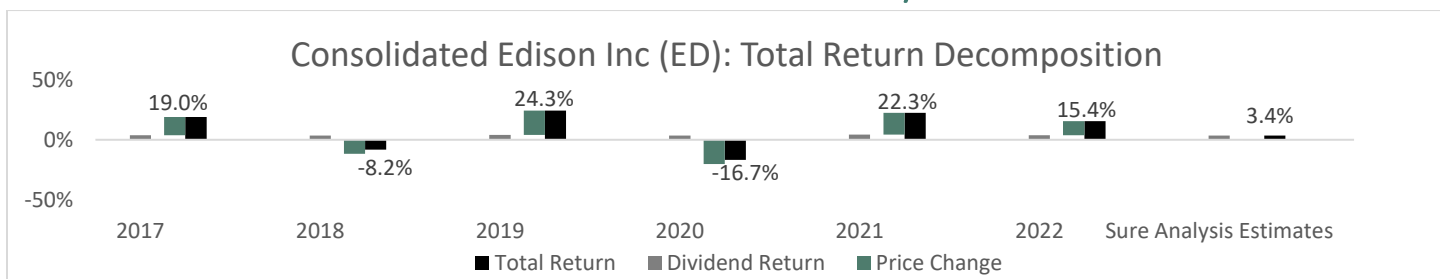
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	63%	70%	64%	68%	68%	66%	68%	73%	71%	69%	67%	67%

Just like most other utilities, thanks to its heavy investments in infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt. One key competitive advantage for Consolidated Edison is that consumers do not curtail their electricity consumption even during the roughest economic periods, so the stock is resilient during recessions. This resiliency should be attractive to investors. In the Great Recession, when most companies saw their earnings collapse, earnings for Consolidated Edison fell just 3% in 2008 and 7% in 2009, and it took only one year to return to the pre-crisis level.

Final Thoughts & Recommendation

Following fourth quarter results, Consolidated Edison is expected to return 3.4% annually through 2028, up from our prior estimate of 2.9%. Projected returns stem from a 3.5% earnings growth rate and a starting yield of 3.5% that are offset by low single-digit multiple reversion. For income investors, we continue to believe that Consolidated Edison is a solid investment option given its track record and market beating yield. We have raised our five-year price target \$6 to \$92 due to EPS guidance for the year. However, we continue to rate shares of the company as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	12,188	12,354	12,919	12,554	12,075	12,033	12,337	12,574	12,246	13,676
Gross Profit	5,119	5,163	5,112	5,494	5,923	6,269	6,237	6,766	7,149	7,668
Gross Margin	42.0%	41.8%	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%	58.4%	56.1%
D&A Exp.	955	1,024	1,071	1,130	1,216	1,341	1,438	1,684	1,920	2,032
Operating Profit	2,339	2,244	2,164	2,427	2,676	2,773	2,533	2,676	2,654	2,826
Op. Margin	19.2%	18.2%	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%	21.7%	20.7%
Net Profit	1,141	1,062	1,092	1,193	1,245	1,525	1,382	1,343	1,101	1,346
Net Margin	9.4%	8.6%	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%	9.0%	9.8%
Free Cash Flow	530	14	412	223	(221)	(76)	(802)	(352)	(1,711)	(1,220)
Income Tax	600	476	568	605	698	472	401	296	90	190

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	41,209	40,647	44,071	45,642	48,255	48,111	53,920	58,079	62,895	63,116
Cash & Equivalents	394	674	699	944	776	797	895	981	1,272	992
Acc. Receivable	1,222	1,251	1,201	1,052	1,106	1,103	1,267	1,236	1,701	1,943
Inventories	330	363	372	350	339	334	358	352	356	437
Goodwill & Int.	431	433	432	431	552	559	2,094	2,003	1,906	1,732
Total Liabilities	29,340	28,402	31,486	32,581	33,949	32,686	37,081	39,866	43,830	42,780
Accounts Payable	1,215	1,017	1,035	1,008	1,147	1,286	1,187	1,164	1,475	1,497
Long-Term Debt	11,307	12,425	12,906	14,274	15,828	16,606	20,711	21,665	24,219	24,532
Total Equity	11,869	12,245	12,576	13,052	14,298	15,418	16,726	18,022	18,847	20,037
LTD/E Ratio	0.95	1.01	1.03	1.09	1.11	1.08	1.24	1.20	1.29	1.22

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	2.6%	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%	1.8%	2.1%
Return on Equity	9.8%	8.8%	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%	6.0%	6.9%
ROIC	5.0%	4.4%	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%	2.6%	3.1%
Shares Out.	293	293	293	293	305	310	315	334	337	354
Revenue/Share	41.39	41.96	43.94	42.64	40.00	38.97	39.43	38.16	36.48	39.14
FCF/Share	1.80	0.05	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)	(5.10)	(3.49)

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

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