



Eversource Energy (ES)

Updated February 17th, 2023, by Patrick Neuwirth

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---|----------|
| Current Price: | \$80 | 5 Year CAGR Estimate: | 12.4% | Market Cap: | \$28 B |
| Fair Value Price: | \$96 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date¹: | 03/01/23 |
| % Fair Value: | 84% | 5 Year Valuation Multiple Estimate: | 3.6% | Dividend Payment Date¹: | 03/31/23 |
| Dividend Yield: | 3.4% | 5 Year Price Target | \$128 | Years Of Dividend Growth: | 25 |
| Dividend Risk Score: | B | Retirement Suitability Score: | B | Rating: | Buy |

Overview & Current Events

Eversource Energy is a diversified holding company with subsidiaries that provide regulated electric, gas, and water distribution service in the Northeast U.S. The company's utilities serve more than 4 million customers after acquiring NStar's Massachusetts utilities in 2012, Aquarion in 2017, and Columbia Gas in 2020. The company was formerly known as Northeast Utilities and changed its name to Eversource Energy in April 2015. Eversource Energy is a \$28 billion company and has about 9,200 employees.

On February 13th, 2023, Eversource Energy released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported revenue of \$3.0 billion, an increase of 22.1% versus same quarter of last year. The company reported earnings of \$320.2 million and earnings-per-share of \$0.92 compared with earnings of \$306.7 million and earnings-per-share of \$0.89 in the prior year. Eversource Energy earned \$1,419.9 million, or \$4.09 per share, for the full-year 2022.

Earnings from the Electric Transmission segment were \$155.8 million, up 11.8% from the prior-year quarter. The improvement primarily resulted from a higher level of investment in Eversource's electric transmission system. Earnings from the Electric Distribution segment were \$104.7 million, up 6% from the prior-year quarter. The improvement primarily resulted from a higher level of investment in Eversource's electric transmission system. Eversource Energy has the goal to invest \$18.1 billion in different projects (transmission, electric distribution) in the 2022 to 2026 timeframe, which will support its goal to be carbon neutral by 2030. Most notably, the company is planning to add 1,758 megawatts of offshore wind through a joint venture by 2025.

The company expects earnings per share to grow at a 5% to 7% compound annual rate from 2023 through 2027, the same as for dividend growth. The company projects 2023 earnings of between \$4.25 per share and \$4.43 per share.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.49 | \$2.58 | \$2.76 | \$2.96 | \$3.11 | \$3.25 | \$3.45 | \$3.64 | \$3.86 | \$4.09 | \$4.35 | \$5.82 |
| DPS | \$1.47 | \$1.57 | \$1.67 | \$1.78 | \$1.90 | \$2.02 | \$2.14 | \$2.27 | \$2.41 | \$2.55 | \$2.70 | \$3.61 |
| Shares² | 315 | 317 | 317 | 317 | 317 | 317 | 330 | 342 | 344 | 344 | 347 | 351 |

Eversource's long-term earnings growth track record is solid, growing EPS nearly every year since 2012. Over the last eight years, the average EPS growth rate is almost 6%.

We expect the company to grow its earnings-per-share by 6% per year on average over the next five years. The company has a good earnings track record and will benefit from rate hikes, transmission investments, and clean energy initiatives. This should compensate for the effects of higher operating and maintenance costs, and slightly higher average shares outstanding. There is also some lingering uncertainty about transmission rates.

¹ Estimated date.

² In millions.

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The company has a long history of paying dividends and has increased its payout for 25 consecutive years. In February 2023, the quarterly dividend increased by 5.9% from \$0.6375 to \$0.6750 per share. Over the last five years, the average annual dividend growth rate is 6.0%. Eversource's target for yearly dividend growth is 5% to 7%.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 16.9 | 17.9 | 18.1 | 18.7 | 19.5 | 18.7 | 22.1 | 23.7 | 22.2 | 18.8 | 18.5 | 22.0 |
| Avg. Yld. | 1.9% | 3.4% | 3.3% | 3.2% | 3.1% | 3.3% | 2.8% | 2.6% | 2.8% | 3.3% | 3.4% | 2.8% |

During the past decade shares of Eversource Energy have traded with an average price-to-earnings ratio of about 21 times earnings and today, it stands at 18.5. We are using 22 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.4% and the dividend raises in the past years contributed to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 59% | 61% | 61% | 60% | 61% | 62% | 62% | 62% | 62% | 62% | 62% | 62% |

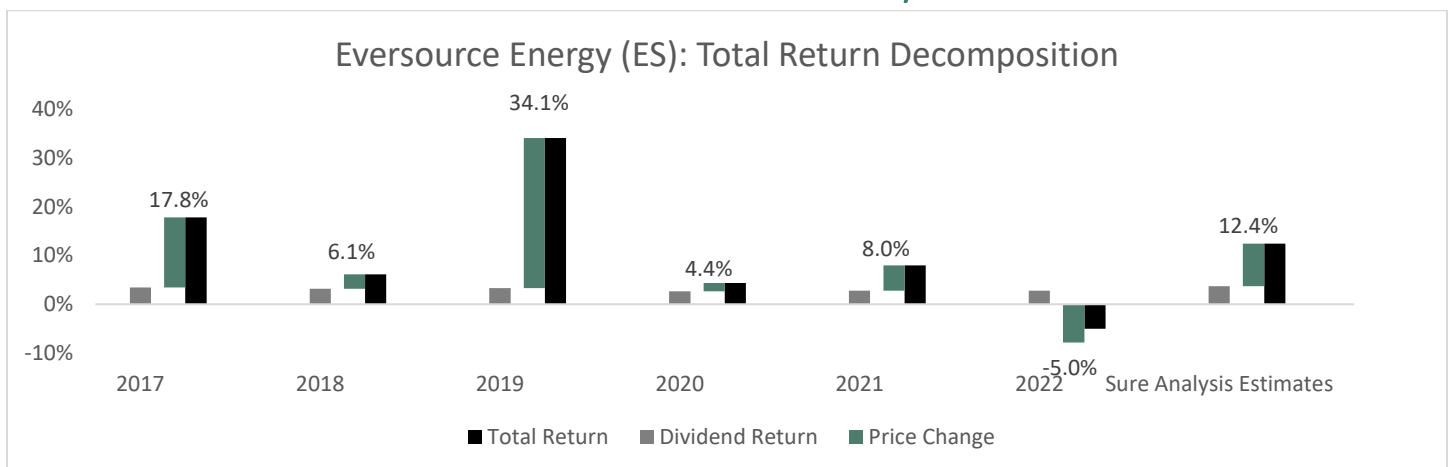
During the past five years, the company's dividend payout ratio has averaged around 64%. The company has a projected 2023 payout ratio of 62%, which indicates a sustainable dividend. Given the expected earnings growth, there is still room for the dividend to continue to grow at the same pace and extend the track record of consecutive dividend increases which is an important factor for dividend growth investors.

In 2022, Eversource Energy completed a \$3.8 billion core business construction program to enhance reliability, resilience of its infrastructure, and improving customer service and is investing heavily in renewable energy and growing its rate base in the years to come. This will help Eversource Energy to maintain a sustainable earnings growth rate and avoid service-related penalties in the future. Furthermore, Eversource Energy plans to invest \$4.46 billion in 2023.

Final Thoughts & Recommendation

Eversource Energy is a steady company in terms of its earnings growth track record, its earnings growth outlook, dividend growth, and its infrastructure investments related to the net-zero carbon emission target of 2030. The company's dividend yield is below the electric utility industry average; however, the 25 years of consecutive dividend increases is noteworthy. We estimate a total return of 12.4% based on a 6.0% EPS growth, a 3.4% yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| Revenue | 6,274 | 7,301 | 7,742 | 7,955 | 7,639 | 7,752 | 8,448 | 8,526 | 8,904 | 9,863 |
| Gross Profit | 2,606 | 3,303 | 3,293 | 3,539 | 3,796 | 3,910 | 3,974 | 4,123 | 4,436 | 4,751 |
| Gross Margin | 41.5% | 45.2% | 42.5% | 44.5% | 49.7% | 50.4% | 47.0% | 48.4% | 49.8% | 48.2% |
| D&A Exp. | 519 | 611 | 615 | 240 | 787 | 864 | 1,072 | 1,081 | 1,159 | 1,335 |
| Operating Profit | 1,260 | 1,572 | 1,633 | 1,764 | 1,841 | 1,888 | 1,700 | 1,830 | 1,989 | 1,993 |
| Operating Margin | 20.1% | 21.5% | 21.1% | 22.2% | 24.1% | 24.4% | 20.1% | 21.5% | 22.3% | 20.2% |
| Net Profit | 526 | 786 | 820 | 878 | 942 | 988 | 1,033 | 909 | 1,205 | 1,221 |
| Net Margin | 8.4% | 10.8% | 10.6% | 11.0% | 12.3% | 12.7% | 12.2% | 10.7% | 13.5% | 12.4% |
| Free Cash Flow | (311) | 207 | 48 | 96 | 231 | (352) | (739) | (902) | (1,260) | (1,212) |
| Income Tax | 275 | 427 | 468 | 540 | 555 | 579 | 289 | 273 | 346 | 344 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 28,303 | 27,796 | 29,740 | 30,580 | 32,053 | 36,220 | 38,241 | 41,124 | 46,100 | 48,492 |
| Cash & Equivalents | 46 | 43 | 39 | 24 | 30 | 38 | 108 | 15 | 107 | 67 |
| Accounts Receivable | 793 | 765 | 856 | 775 | 847 | 925 | 994 | 989 | 1,196 | 1,226 |
| Inventories | 268 | 303 | 350 | 336 | 329 | 223 | 238 | 236 | 266 | 268 |
| Goodwill & Int. Ass. | 3,519 | 3,519 | 3,519 | 3,519 | 3,519 | 4,427 | 4,427 | 4,427 | 4,446 | 4,477 |
| Total Liabilities | 19,066 | 18,184 | 19,764 | 20,228 | 21,341 | 25,134 | 26,754 | 28,494 | 31,880 | 33,737 |
| Accounts Payable | 764 | 742 | 868 | 814 | 885 | 1,085 | 1,120 | 1,148 | 1,371 | 1,672 |
| Long-Term Debt | 9,166 | 9,403 | 9,771 | 10,195 | 10,752 | 13,414 | 14,632 | 15,571 | 17,969 | 20,219 |
| Shareholder's Equity | 9,237 | 9,612 | 9,977 | 10,352 | 10,712 | 11,086 | 11,487 | 12,630 | 14,064 | 14,600 |
| LTD/E Ratio | 0.99 | 0.98 | 0.98 | 0.98 | 1.00 | 1.21 | 1.27 | 1.23 | 1.28 | 1.38 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Return on Assets | 2.4% | 2.8% | 2.8% | 2.9% | 3.0% | 2.9% | 2.8% | 2.3% | 2.8% | 2.6% |
| Return on Equity | 7.9% | 8.3% | 8.4% | 8.6% | 8.9% | 9.1% | 9.2% | 7.5% | 9.0% | 8.5% |
| ROIC | 3.8% | 4.2% | 4.2% | 4.4% | 4.5% | 4.3% | 4.1% | 3.3% | 4.0% | 3.6% |
| Shares Out. | 314 | 315 | 317 | 317 | 317 | 317 | 317 | 330 | 342 | 344 |
| Revenue/Share | 22.57 | 23.09 | 24.39 | 24.98 | 23.99 | 24.37 | 26.57 | 26.40 | 26.20 | 28.62 |
| FCF/Share | (1.12) | 0.65 | 0.15 | 0.30 | 0.73 | (1.11) | (2.33) | (2.79) | (3.71) | (3.52) |

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

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