



# SJW Group (SJW)

Updated February 25<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$78	<b>5 Year CAGR Estimate:</b>	2.5%	<b>Market Cap:</b>	\$2.4 B
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	02/03/23
<b>% Fair Value:</b>	145%	<b>5 Year Valuation Multiple Estimate:</b>	-7.1%	<b>Dividend Payment Date:</b>	03/01/23
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$79	<b>Years Of Dividend Growth:</b>	55
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Sell

## Overview & Current Events

SJW Group is a water utility company that produces, purchases, stores, purifies and distributes water to consumers and businesses in the Silicon Valley area of California, the area north of San Antonio, Texas, Connecticut, and Maine. SJW Group has a small real estate division that owns and develops properties for residential and warehouse customers in California and Tennessee. The company generates about \$630 million in annual revenues. SJW Group completed its acquisition of Connecticut Water, formerly known as CTWS, on October 9<sup>th</sup>, 2019.

On February 23<sup>rd</sup>, 2023, SJW Group reported fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue increased 22.7% to \$171.4 million, which was \$14 million above estimates. Earnings-per-share of \$1.09 compared favorably to earnings-per-share of \$0.60 in the prior year and was \$0.06 higher than expected. For the year, revenue grew 8.2% to \$620.7 million while adjusted earnings-per-share of \$2.43 compared to \$2.03 in 2021.

Growth for the quarter was largely due to water rate increases and new customers, offset by a decrease in customer usage. A change in the approved Water Revenue Adjustment in Connecticut that shifted revenue from the first nine months of the year into the fourth quarter also aided results. Water production expenses increased \$0.7 million, or 1.3%, compared to the prior year. Higher labor costs and an increase in water production costs drove this increase.

SJW Group provided an outlook for 2023 as well, with the company expecting earnings-per-share in a range of \$2.40 to \$2.50 for the year. At the midpoint, this would be a slightly improvement 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
<b>EPS</b>	\$1.12	\$2.54	\$1.85	\$2.57	\$2.86	\$1.82	\$1.35	\$2.14	\$2.03	\$2.43	<b>\$2.45</b>	<b>\$3.60</b>
<b>DPS</b>	\$0.73	\$0.75	\$0.78	\$0.81	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	<b>\$1.52</b>	<b>\$2.03</b>
<b>Shares<sup>1</sup></b>	20	20	20	21	21	29	29	29	30	30	<b>30</b>	<b>30</b>

SJW Group's earnings-per-share often vary wildly from year to year, but earnings-per-share growth over the past 10 years is 6.2%, an impressive growth rate for a water utility. Following the CTWS merger, we estimate that the SJW Group will grow earnings at the average growth rate slightly ahead of the combined companies (8.0%) due to revenue growth and rate increases. In connection with the CTWS merger, SJW Group issued nearly 8 million new shares on December 5<sup>th</sup>, 2018 in order to fund 50% of the proposed transaction, but we don't expect any significant additional dilution on the horizon.

SJW Group raised its dividend 5.6% for the March 1<sup>st</sup>, 2023 payment, marking 55 consecutive years of growth for this Dividend King. SJW has a 10-year average growth rate of 4.8%. We expect dividends to grow at a rate of 6% annually through 2028.

<sup>1</sup> In millions of shares

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.



# SJW Group (SJW)

Updated February 25<sup>th</sup>, 2023 by Nathan Parsh

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.3	11.2	16.6	15.7	18.8	32.7	47.8	30.0	36.1	33.4	31.8	22.0
Avg. Yld.	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	2.0%	1.9%	1.8%	1.9%	2.6%

Shares of SJW Group have increased \$8, or 11.4%, since our October 31<sup>st</sup>, 2022 update. Price-to-earnings multiples for water utilities tend to be high, but SJW Group's multiple was extremely high in the 2018-2021 time period as it is today. Using EPS estimates for the year, the stock trades with a forward P/E of 31.8. We maintain our 2028 target P/E of 22. If shares were to revert to this target P/E by 2028, then valuation would be a 7.1% headwind to annual returns over this period of time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

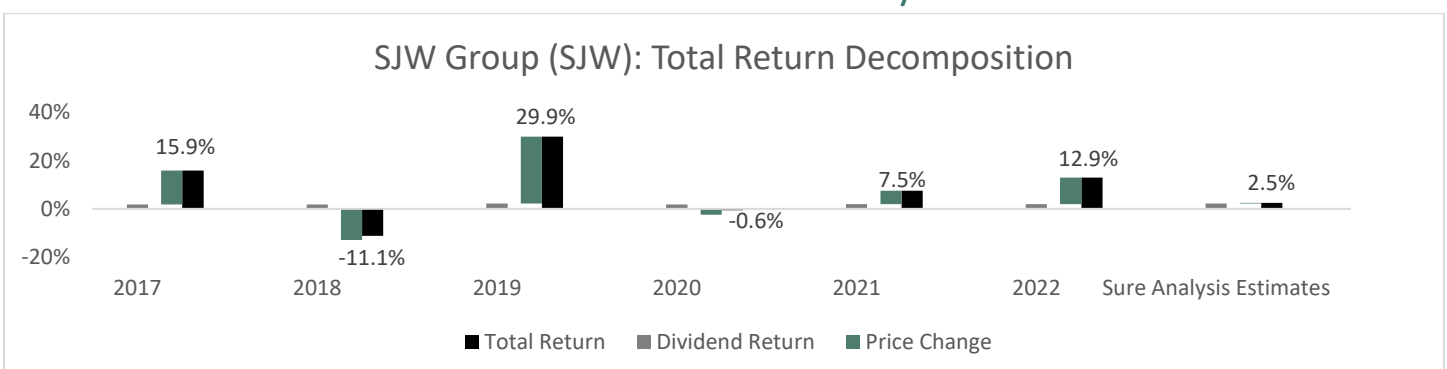
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65%	30%	42%	32%	36%	62%	89%	60%	67%	59%	62%	57%

Many investors own utility companies for their reliable earnings and dividends, especially for uncertain economic times. During the last recession, SJW Group experienced a decline in earnings that took several years to recover. A key competitive advantage for SJW Group, aside from the concluded merger, is that it operates in two areas, Silicon Valley and Central Texas, that have seen high levels of population growth in recent years. These areas need improved water infrastructure to serve a growing client base, so local governments often allow the company to raise rates at a relatively high level in order to fund these projects. For example, SJW Group was approved for a 4.2% increase in 2018 for its customers in the Silicon Valley area. The company applied for rate increases of 9.8%, 3.7% and 5.2% over the next three years for this area. SJW Group settled pending rate cases in several states in 2022. During the third quarter of 2022, SJW Group stated that the California rate increase would add \$25.1 million to revenue for the year. Investors should be aware of is that SJW Group's earnings are highly concentrated in California (60% of sales post Connecticut Water Service merger) and Connecticut (30% of sales post-merger).

## Final Thoughts & Recommendation

After fourth quarter results, SJW Group is now projected to return 2.5% annually through 2028, which is down from our previous estimate of a 3.5% return. Our projected return stems from 8% earnings growth and a starting dividend yield of 1.9% that are offset by a mid-single-digit valuation reversion. SJW Group's quarter and year were both strong and we note that the stock has a market beating yield and SJW Group is a Dividend King. We have raised our five-year price target \$4 to \$79 to reflect EPS guidance for the year. That said, the stock's valuation leaves much to be desired. We reiterate our sell rating on shares of SJW Group due to projected returns.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# SJW Group (SJW)

Updated February 25<sup>th</sup>, 2023 by Nathan Parsh

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	277	320	305	340	389	398	420	565	574	621
Gross Profit	142	182	179	196	213	211	224	317	319	357
Gross Margin	51.5%	57.1%	58.8%	57.6%	54.7%	52.9%	53.3%	56.1%	55.5%	57.5%
SG&A Exp.	44	41	47	42	49	49	66	80	87	95
D&A Exp.	37	39	42	46	51	57	68	92	96	106
Operating Profit	53	93	80	97	102	92	73	118	106	125
Operating Margin	19.3%	29.1%	26.2%	28.7%	26.2%	23.1%	17.4%	20.8%	18.5%	20.1%
Net Profit	22	52	38	53	59	39	23	62	60	74
Net Margin	8.1%	16.2%	12.4%	15.6%	15.2%	9.7%	5.6%	10.9%	10.5%	11.9%
Free Cash Flow	(34)	(38)	(12)	(31)	(51)	(57)	(53)	(111)	(124)	(78)
Income Tax	14	25	23	34	35	10	8	8	8	8

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,110	1,269	1,337	1,443	1,458	1,956	3,132	3,311	3,492	3,633
Cash & Equivalents	2	2	5	6	8	421	13	5	11	12
Accounts Receivable	14	15	16	16	17	19	36	47	54	59
Inventories	1									
Goodwill & Int. Ass.	18	14	16	24	14	17	662	663	677	657
Total Liabilities	789	909	954	1,022	995	1,067	2,242	2,394	2,458	2,522
Accounts Payable	13	7	16	19	23	25	35	34	30	30
Long-Term Debt	358	398	415	448	456	531	1,423	1,539	1,595	1,656
Shareholder's Equity	321	360	384	422	463	889	890	917	1,035	1,111
LTD/E Ratio	1.11	1.11	1.08	1.06	0.98	0.60	1.60	1.68	1.54	1.49

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.0%	4.4%	2.9%	3.8%	4.1%	2.3%	0.9%	1.9%	1.8%	2.1%
Return on Equity	7.5%	15.2%	10.2%	13.1%	13.4%	5.7%	2.6%	6.8%	6.2%	6.9%
ROIC	3.4%	7.2%	4.9%	6.3%	6.6%	3.3%	1.3%	2.6%	2.4%	2.7%
Shares Out.	20	20	20	21	21	29	29	29	30	30
Revenue/Share	13.86	15.66	14.87	16.50	18.82	18.64	14.72	19.67	19.29	20.40
FCF/Share	(1.68)	(1.84)	(0.60)	(1.51)	(2.48)	(2.67)	(1.85)	(3.87)	(4.16)	(2.57)

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.