



Sempra Energy (SRE)

Updated March 3rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$149	5 Year CAGR Estimate:	10.3%	Market Cap:	\$46.5 B
Fair Value Price:	\$169	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/21/2023 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	4/15/2023
Dividend Yield:	3.2%	5 Year Price Target	\$216	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Sempra Energy (SRE) was founded 22 years ago and has grown into a \$46.5 billion market cap company. It serves one of the largest utility customer bases in the U.S., as it distributes natural gas and electricity in Southern California (over 20 million customers) and owns a majority stake in Texas-based Oncor, a transmission and distribution business (over 10 million customers). The company also owns and operates other utilities and merchant renewable energy projects, liquefied natural gas facilities, and gas pipes and storage in the U.S. and Latin America.

Sempra Energy benefits from two key trends, namely the transition towards cleaner energy resources and the advance of the U.S. as a global energy leader. In 2018, the company sold most of its non-core assets in order to better focus on its large core North American regulated utility, LNG export, and Mexican infrastructure (IEnova) assets as well as deleverage the balance sheet. Given the strong competitive advantages enjoyed by these core assets, we believe that these moves have made Sempra Energy more attractive.

In late February, Sempra Energy reported (2/28/23) financial results for the fourth quarter of fiscal 2022. Its adjusted earnings-per-share grew 9% over the prior year's quarter, from \$2.16 to \$2.35, and beat the analysts' estimates by \$0.31. The company has exceeded the analysts' estimates for nine consecutive quarters and its business outlook remains positive. As a result, management raised the dividend by 4% and reaffirmed its guidance for earnings-per-share of \$8.60-\$9.20 in 2023. Given the tendency of management to issue conservative guidance and the great record of the company in beating analysts' estimates, we expect earnings-per-share of at least \$9.00 this year. As a utility, Sempra Energy is essentially immune to the pandemic and the highly inflationary environment prevailing right now.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.01	\$4.63	\$5.37	\$5.46	\$5.42	\$5.57	\$6.78	\$8.03	\$8.43	\$9.21	\$9.00	\$11.49
DPS	\$2.52	\$2.64	\$2.80	\$3.02	\$3.29	\$3.58	\$3.87	\$4.18	\$4.40	\$4.58	\$4.76	\$6.08
Shares²	249	251	251	251	252	270	289	290	320	316	316	350

Sempra's enormous economies of scale and regulated monopolies in California and Texas should enable it to capitalize on any economic growth in those regions to drive long term growth. Sempra Energy has a record 5-year capital plan of \$36 billion, which will be a major growth driver in the upcoming years. Oncor expects to grow its rate base to nearly \$28 billion by 2026, thus implying 8% average annual growth. Additionally, Sempra's assets in Mexico enjoy a first mover advantage, which should enable them to grow rapidly as Mexico begins to invest more seriously in its massively underdeveloped infrastructure. The LNG export portfolio should also see strong demand in the long run, as the U.S. continues its transition into a global energy exporting giant. The U.S. is expected to more than double its LNG export capacity by 2030. As a result, management has several expansion projects, which should contribute significantly to the company's cash flows. Overall, Sempra Energy expects to grow its earnings-per-share by 6%-8% per year on average in the long run. In order to be on the safe side, we have assumed 5% average annual growth over the next five years.

¹ Estimated date.

² 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.3	24.1	17.3	18.5	19.8	19.4	19.8	16.1	15.4	16.9	16.6	18.8
Avg. Yld.	2.8%	2.4%	3.0%	3.0%	3.1%	3.3%	2.9%	3.2%	3.4%	2.9%	3.2%	2.8%

Sempra Energy is currently trading at a price-to-earnings ratio of 16.6, which is lower than its 10-year average of 18.8. We expect the stock to trade close to its average valuation level in five years. If this occurs, the stock will enjoy a 2.6% annualized expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

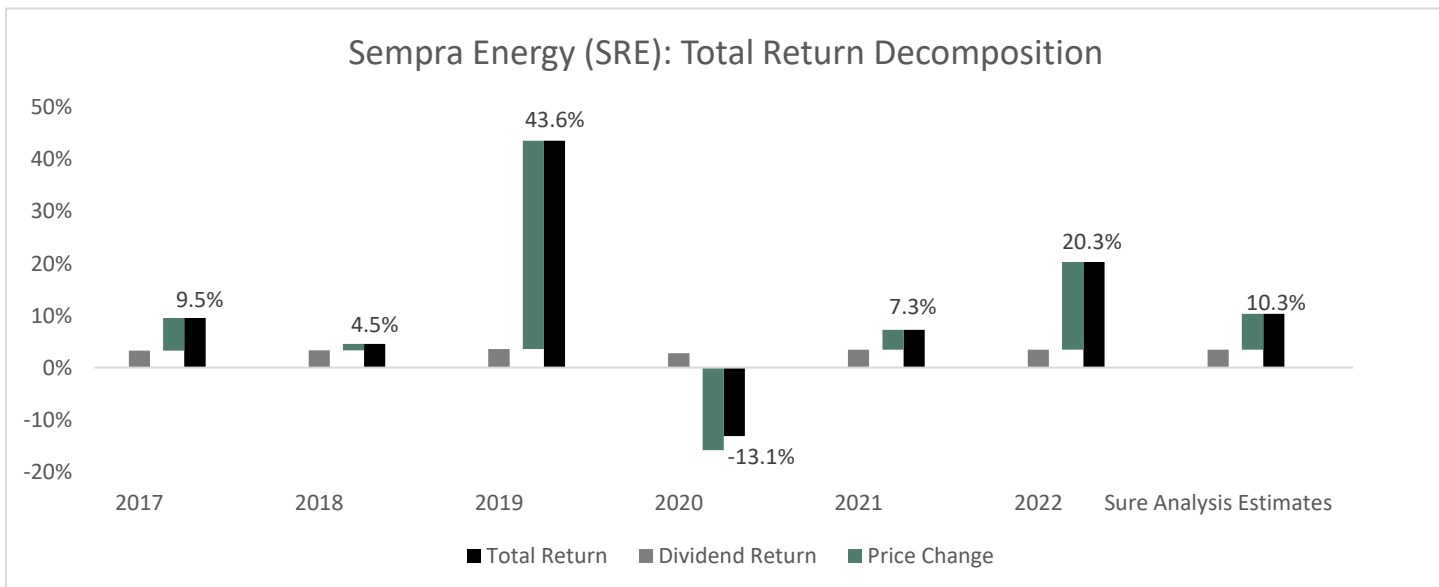
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62.8%	57.0%	52.1%	55.3%	60.7%	64.3%	57.1%	52.1%	52.2%	49.7%	52.9%	52.9%

As a regulated utility in possession of dominant businesses in their respective regions, Sempra Energy possesses a clear moat around a significant portion of its earnings. At the same time, however, the regulated nature of its pricing prevents it from earning surplus profits. These businesses, as well as the stable, mission-critical nature of its infrastructure business in Mexico make it quite recession resistant. As proof of this, Sempra's earnings-per-share increased during the Great Recession (2008 and 2009) and have increased throughout the coronavirus crisis as well. However, its LNG export business and international exposure make it somewhat susceptible to commodity price, geopolitical, and currency exchange risks. Nevertheless, its high-quality assets, low payout ratio, stable cash flows and strong growth prospects make it a fairly low-risk investment. Moreover, while the company has a somewhat weak balance sheet, it has improved its interest coverage ratio to 2.6 thanks to the sale of non-core assets.

Final Thoughts & Recommendation

Sempra Energy owns quality assets, many of which are in recession-resistant businesses. Its utilities businesses are dominant players in their fields and its LNG export and infrastructure businesses have strong growth potential. Combined, they create a business that has both stable and defensive characteristics. The stock could offer a 10.3% average annual return over the next five years thanks to 5.0% growth, its 3.2% dividend and a 2.6% valuation tailwind. It thus receives a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10557	11035	10231	10183	11207	11687	10829	11370	12857	14439
Gross Profit	3371	3346	3592	3353	4277	4414	4692	5042	5301	5211
Gross Margin	31.9%	30.3%	35.1%	32.9%	38.2%	37.8%	43.3%	44.3%	41.2%	36.1%
D&A Exp.	1113	1156	1250	1312	1490	1549	1569	1,666	1,855	2,019
Operating Profit	1959	1888	2026	1731	2519	2491	2627	2,833	2,850	2,557
Operating Margin	18.6%	17.1%	19.8%	17.0%	22.5%	21.3%	24.3%	24.9%	22.2%	17.7%
Net Profit	1009	1162	1350	1371	257	1050	2198	3,933	1,318	2,139
Net Margin	9.6%	10.5%	13.2%	13.5%	2.3%	9.0%	20.3%	34.6%	10.3%	14.8%
Free Cash Flow	-788	-962	-258	-1903	-324	-337	-620	-2,085	-1,173	-4,215
Income Tax	366	300	341	389	1276	96	315	249	99	556

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	37244	39651	41150	47786	50454	60638	65665	66,623	72,045	78,574
Cash & Equivalents	904	570	403	349	288	190	108	960	559	370
Acc. Receivable	1308	1242	1283	1390	1307	1488	1261	1,578	2,469	3,320
Inventories	287	396	298	258	307	296	277	308	389	403
Goodwill & Int.	1450	1346	1223	2912	2993	2645	1815	1,804	1,972	1,946
Total Liabilities	25394	27551	28571	32545	35314	41390	43860	41,689	44,626	49,318
Accounts Payable	1088	1198	1133	1346	1350	1324	1234	1,359	1,849	2,269
Long-Term Debt	12945	14288	14663	17121	19412	25363	25816	24,206	24,645	28,919
Total Equity	11028	11346	11829	12971	12690	14900	17691	20,246	26,001	26,226
LTD/E Ratio	1.17	1.26	1.24	1.32	1.53	1.48	1.29	1.03	0.95	1.07

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	3.0%	3.3%	3.1%	0.5%	1.9%	3.5%	5.9%	1.9%	2.8%
Return on Equity	9.5%	10.4%	11.7%	11.1%	2.0%	7.6%	13.5%	20.7%	5.7%	8.3%
ROIC	4.2%	4.5%	5.0%	4.6%	0.8%	2.7%	4.8%	8.1%	2.6%	3.9%
Shares Out.	249	251	251	251	252	270	289	290	320	316
Revenue/Share	42.34	44.02	40.77	40.54	44.42	43.31	38.40	38.90	41.07	45.64
FCF/Share	-3.16	-3.84	-1.03	-7.58	-1.28	-1.25	-2.20	-7.13	-3.75	-13.32

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

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