



OGE Energy Corp. (OGE)

Updated August 22nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	9.7%	Market Cap:	\$6.8 B
Fair Value Price:	\$35	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	10/6/2023 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	10/27/2023
Dividend Yield:	4.9%	5 Year Price Target	\$44	Years Of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

OGE Energy (OGE) was founded in 1995, in Oklahoma. It is the parent company of Oklahoma Gas and Electric Company (OG&E), a regulated electric utility that serves about 890,000 customers in Oklahoma and western Arkansas. OGE Energy has a market cap of \$6.8 billion and makes 80%-85% of its annual utility earnings in the second and third quarter.

OGE Energy also owned 25.5% of Enable Midstream Partners (ENBL), a Master Limited Partnership (MLP) that owns and operates pipeline networks and storage tanks of natural gas and crude oil. On December 7th, 2021, Enable Midstream Partners was acquired by Energy Transfer (ET) in an all-stock deal. As a result, OGE Energy owned approximately 3.0% of Energy Transfer. The latter is an MLP that owns and operates one of the largest midstream portfolios in the U.S., with immense pipeline networks and storage tanks of natural gas, crude oil and natural gas liquids (NGLs). However, OGE Energy sold its shares of Energy Transfer last year and thus it is now a pure regulated utility.

In early August, OGE Energy reported (8/9/23) financial results for the second quarter of fiscal 2023. Adjusted earnings-per-share edged down marginally, from \$0.45 in the prior year's quarter to \$0.44, mostly due to less favorable weather, higher depreciation because of a greater asset base and increased interest expense. The company reiterated its lackluster guidance for earnings-per-share in 2023, expecting earnings-per-share of \$1.93-\$2.07. We still expect earnings-per-share of about \$2.02, slightly above the mid-point of the guidance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.94	\$1.98	\$1.36	\$1.69	\$3.10	\$2.12	\$2.16	\$2.08	\$2.36	\$2.08	\$2.02	\$2.58
DPS	\$0.84	\$0.93	\$1.03	\$1.13	\$1.24	\$1.36	\$1.48	\$1.57	\$1.62	\$1.64	\$1.66	\$2.20
Shares²	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5	200.8	201.0	201.0

As shown in the above table, OGE Energy has exhibited a lackluster performance record. The company has grown its earnings-per-share at a modest 0.8% average annual rate over the last decade. The record earnings in 2017 resulted from a non-recurring tax benefit and hence this is not representative of the current profit capability of OGE Energy.

With that said, the outlook of the company seems brighter than the last decade. OGE Energy has invested \$3.3 billion in growth projects in the last five years. In addition, the strong economy in Oklahoma and Arkansas are likely to drive material organic growth for OGE Energy in the upcoming years. Thanks to the recent completion of some growth projects and the focus of management on growing the utility business, the company could grow its earnings-per-share at a 5.0% average annual rate over the next five years. This is in line with management's long-term guidance of 5%-7% annual growth of earnings-per-share. Management also recently reaffirmed that it will keep growing the dividend while keeping a healthy balance sheet and a flat share count.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.7	18.3	22.0	17.7	11.4	16.5	19.7	16.2	14.3	18.9	16.8	17.1
Avg. Yld.	2.5%	2.6%	3.4%	3.8%	3.5%	3.9%	3.5%	4.7%	4.8%	4.2%	4.9%	5.0%

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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Investors should be especially careful with the valuation of slow-growth stocks, such as utilities. If they overpay for such stocks, they may need years to breakeven. OGE Energy is currently trading at a price-to-earnings ratio of 16.8, which is slightly lower than its 5-year average of 17.1. We expect the stock to trade close to its average valuation level in five years. If this occurs, the stock will enjoy a 0.3% 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	43.3%	47.0%	75.7%	66.9%	40.0%	64.2%	68.5%	75.5%	68.6%	78.8%	82.2%	85.4%

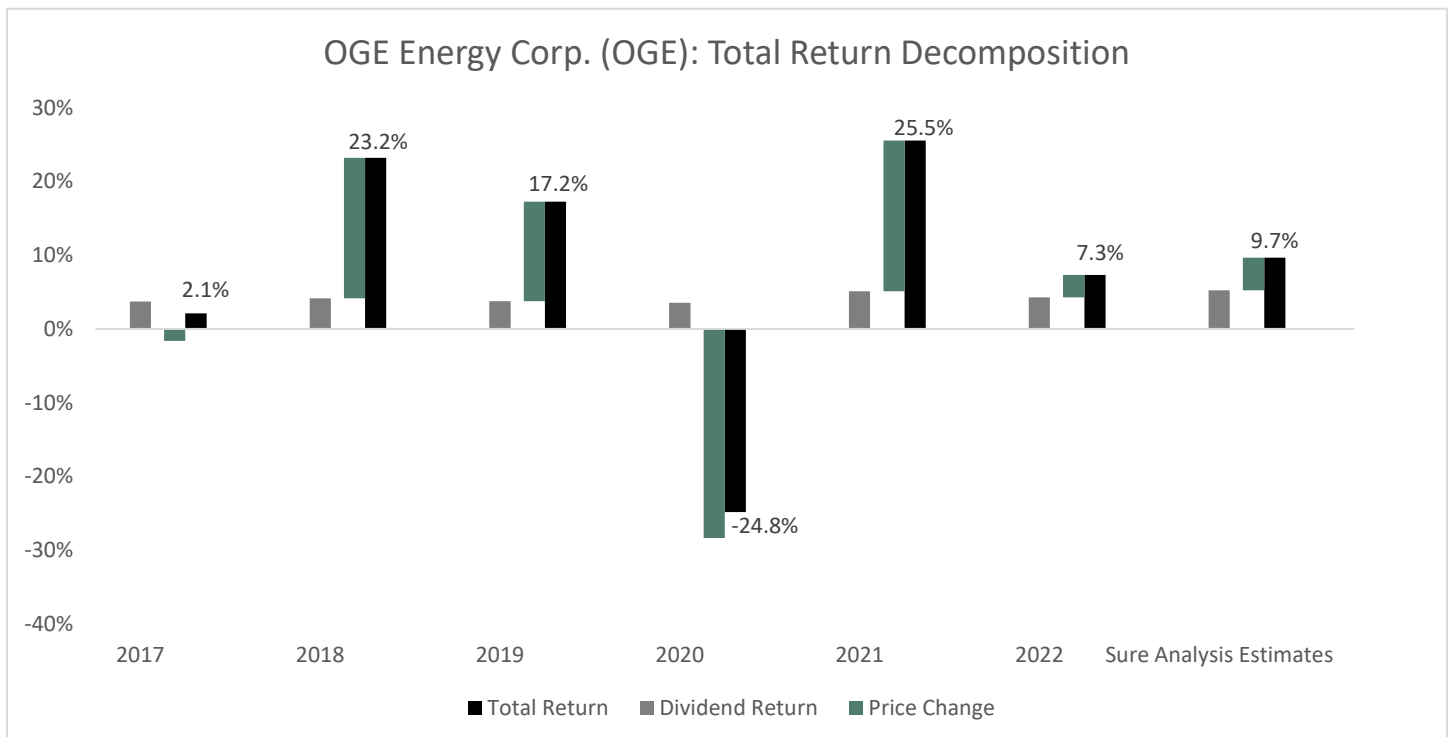
OGE Energy does its best to maintain its electricity rates as low as possible. Its rates are currently lower than the national average and thus they result in high customer satisfaction rates, which enable the company to grow its customer base. This is a major competitive advantage. The other competitive advantage of OGE Energy is the immense investment required from potential new entrants to build the infrastructure of the regulated business. This poses high barriers to entry and thus protects OGE Energy from potential new competitors.

OGE Energy became a pure regulated utility in late 2022. However, it has failed to grow its earnings-per-share meaningfully over the last decade, unlike many utilities, which have enjoyed significant rate hikes year after year. On the bright side, OGE Energy is now offering a 4.9% dividend yield. Thanks to its decent payout ratio (for a utility) of 82% and its strong balance sheet, which has a BBB+ credit rating, OGE Energy can continue raising its dividend in the upcoming years. It raised its dividend by 1% in October-2022. The stock is suitable for income-oriented investors.

Final Thoughts & Recommendation

OGE Energy passes under the radar of most investors due to its lackluster performance record, but we expect the company to improve its performance in the upcoming years. The stock could offer a 9.7% average annual return over the next five years thanks to its 4.9% dividend yield, 5.0% earnings growth and a 0.3% annualized expansion of its valuation level. 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	2,868	2,453	2,197	2,259	2,261	2,270	2,232	2,122	3,654	3,376
Gross Profit	950	907	880	941	905	903	953	1,015	1,063	1,212
Gross Margin	33.1%	37.0%	40.1%	41.7%	40.0%	39.8%	42.7%	47.8%	29.1%	35.9%
D&A Exp.	299	281	308	323	284	322	355	391	416	461
Operating Profit	554	537	481	531	532	490	504	522	544	650
Operating Margin	19.3%	21.9%	21.9%	23.5%	23.5%	21.6%	22.6%	24.6%	14.9%	19.3%
Net Profit	388	396	271	338	619	426	434	(174)	737	666
Net Margin	13.5%	16.1%	12.3%	15.0%	27.4%	18.7%	19.4%	-8.2%	20.2%	19.7%
Free Cash Flow	(367)	152	319	(15)	(40)	378	46	62	(1,092)	(208)
Income Tax	130	173	97	148	(49)	72	30	(127)	141	124

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,135	9,528	9,581	9,940	10,413	10,749	11,024	10,719	12,606	12,545
Cash & Equivalents	7	6	75	0	14	94	---	1	0	88
Acc. Receivable	192	194	175	176	191	175	154	158	162	250
Inventories	155	137	194	162	165	184	137	153	159	289
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	6,098	6,283	6,255	6,496	6,562	6,744	6,885	7,087	8,550	8,131
Accounts Payable	251	179	263	205	230	239	195	252	274	449
Long-Term Debt	2,840	2,853	2,739	2,867	3,168	3,147	3,307	3,589	4,983	4,549
Total Equity	3,037	3,244	3,326	3,444	3,851	4,005	4,140	3,632	4,056	4,413
LTD/E Ratio	0.94	0.88	0.82	0.83	0.82	0.79	0.80	0.99	1.23	1.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.1%	4.2%	2.8%	3.5%	6.1%	4.0%	4.0%	-1.6%	6.3%	5.3%
Return on Equity	13.4%	12.6%	8.3%	10.0%	17.0%	10.8%	10.6%	-4.5%	19.2%	15.7%
ROIC	6.3%	6.6%	4.5%	5.5%	9.3%	6.0%	5.9%	-2.4%	9.1%	7.4%
Shares Out.	199.4	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5	200.8
Revenue/Share	14.38	12.27	11.01	11.30	11.31	11.32	11.12	10.61	18.24	16.81
FCF/Share	(1.84)	0.76	1.60	(0.08)	(0.20)	1.88	0.23	0.31	(5.45)	(1.03)

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

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