Public Service Enterprise Group Inc. (PEG)

Updated August 12th, 2023 by Felix Martinez

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	3.8%	**Market Cap:**	$30.38 B
Fair Value Price:	$52	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	09/07/23
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	09/29/23
Dividend Yield:	3.8%	**5 Year Price Target**	$60	**Years of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

The Public Service Enterprise Group (PEG) is a publicly-traded diversified energy company headquartered in Newark, New Jersey, established in 1985. However, The company has a history that dates back to 1903, when it was initially called Public Service Corporation. PEG's principal operating subsidiaries are Public Service Electric and Gas Co. (PSE&G), PSEG Power, and PSEG Long Island. The company is one of the ten largest electric companies in the U.S. PSE&G provides electric and natural gas services and services to 2.3 million electric customers and 1.9 million gas customers. PSE&G accounted for over 66% of PEG revenues in 2022. PEG has approximately 13,000 employees and a market cap of $30.38 billion. The company has been growing dividends for twelve consecutive years, and PEG has been paying the same or higher dividends for 20 years in a row.

On August 1st, 2023, the company reported second quarter results for Fiscal Year (FY)2023. The Net Income for Q2 2023 surged to $591 million, marking a substantial increase from $131 million in Q2 2022. The per-share earnings also displayed a robust growth trend, with Diluted Earnings Per Share rising from $0.26 to $1.18.

Non-GAAP Operating Earnings, another crucial metric, demonstrated an upward trajectory as well, reaching $351 million or $0.70 per share for Q2 2023, compared to $320 million or $0.64 per share in the corresponding quarter of 2022. The company's performance was grounded in several factors, including the consistent growth in regulated operations, effectively managed costs, and strategic investments. Ralph LaRossa, PSEG's CEO, emphasized the alignment of these achievements with the company's long-term growth strategy, highlighting a capital spending budget of $3.5 billion to support clean energy initiatives and a projected rate base growth trajectory of 6% to 7.5% through 2027. This performance positions PSEG well to maintain its positive momentum throughout the year.

Operational subsidiaries, namely Public Service Electric and Gas (PSE&G) and PSEG Power & Other, showcased distinctive results as well. PSE&G reported a favorable net transmission margin and growth in the distribution rate base, while PSEG Power & Other exhibited improved power margins. The company's forecast for the remainder of 2023 remains consistent, reflecting a commitment to sustained growth and resilience amid evolving market dynamics.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.58	$2.76	$2.91	$2.90	$2.93	$3.12	$3.28	$3.43	$3.65	$3.47	***$3.45***	***$4.00***
DPS	$1.44	$1.48	$1.56	$1.64	$1.72	$1.80	$1.88	$1.96	$2.04	$2.16	***$2.40***	***$2.92***
Shares[1]	508.0	508.0	508.0	508.0	507.0	507.0	507.0	507.0	504.0	504.0	***504.0***	***504.0***

The company does not have strong growth prospects as it is a utility company and heavily regulated by the government. However, we estimate a 3% annual earnings growth rate for the next five years. This is higher than the 2.0% growth rate that the company has experienced for the past 5-year average. However, it is lower than the 3.3% earnings growth over the past decade. The dividend has been growing slightly better than earnings. The dividend has had a CAGR of 5.9% for the past five years. We see this slowing down, and we estimate a dividend growth rate of 4% going forward. The net margin has increased from 14.8% in FY2018 to 16.8% in FY2019. In FY2022, PEG had a net margin of 10.5%.

[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.4	15	13.3	15.1	17.6	16.7	17.9	17.0	18.3	17.7	***17.6***	***15.0***
Avg. Yld.	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.1%	3.5%	***3.8%***	***4.9%***

The company looks to be overvalued at today's price. Because of the slow growth prospects, we think that a fair PE is 15.0x earnings. This is in line with the company's 10-year average PE. Thus, we see an annual headwind due to multiple contractions. The current dividend yield of 3.8% is higher than its 5-year average of 3.4% but not as attractive as other utility companies with a higher dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

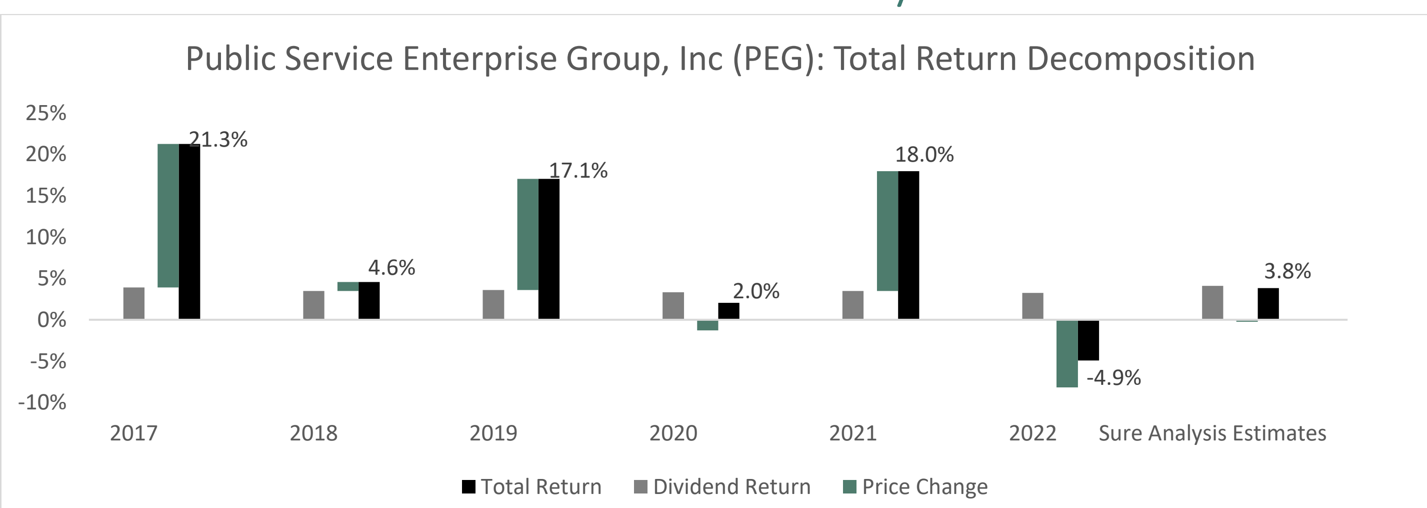
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	55.9%	62.2%	***70%***	***73%***

PEG's competitive advantage is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high entry barriers to potential competitors. During the Great Recession of 2008-2009, The Company grew earnings from $2.71 in 2007 to $2.92 in 2008 and $3.12 in 2009. The dividend was well covered, and the company increased its dividend by 10.3% in 2008. This shows the dividend safety and the resilience of this company. However, in 2011, the company froze its dividend, losing its dividend increase streak, but it has grown since then. The company has a stable balance sheet with a debt-to-equity ratio of 1.3. Interest coverage ratio of 6.3x. However, the company does have more debt than assets, as the current ratio is 0.8. PEG's dividend payout ratio has been in the uptrend but is still safe for the foreseeable future.

Final Thoughts & Recommendation

The company is safe to invest in, as most utility companies are. However, at the current price, PEG is overvalued relative to our fair price estimate of $52. There are not many growth prospects available to the company currently. Thus, we see a 5-year projected annual return of 3.8%. Most of this return will come from the 3.8% dividend yield. We rate PEG as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10,415	8,966	9,094	9,696	10,076	9,696	10,076	9,603	9,722	9800
Gross Profit	$4,176	$3,074	$3,415	$3,402	$3,593	$3,402	$3,593	$3,432	$2,997	2604
Gross Margin	40.1%	34.3%	37.6%	35.1%	35.7%	35.1%	35.7%	35.7%	30.8%	26.6%
D&A Exp.	$1,427	$1,679	$2,185	$1,345	$1,426	$1,345	$1,426	$1,469	$1,403	1283
Operating Profit	$2,962	$1,598	$1,429	$2,244	$2,345	$2,244	$2,345	$2,147	$1,762	1477
Operating Margin	28.4%	17.8%	15.7%	23.1%	23.3%	23.1%	23.3%	22.4%	18.1%	15.1%
Net Profit	$1,679	$887	$1,574	$1,438	$1,693	$1,438	$1,693	$1,905	$-648	1031
Net Margin	16.1%	9.9%	17.3%	14.8%	16.8%	14.8%	16.8%	19.8%	-6.7%	10.5%
Free Cash Flow	-50	-985	-1,047	-1,145	115	-1145	115	68	-1,081	-1385
Income Tax	$1,001	$411	-$306	$417	$257	$417	$257	$396	$-441	-29

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	37,535	40,070	42,716	45,326	47,730	45,326	47,730	50,050	48,999	48718
Cash & Equivalents	$394	$423	$313	$177	$147	$177	$147	$543	$818	465
Accounts Receivable	$1,068	$1,161	$1,348	$1,435	$1,313	$1,435	$1,313	$1,410	$18,59	1944
Inventories	$976	$887	$866	$902	$897	$902	$897	$878	$744	960
Goodwill & Int. Ass.	$118	$114	$130	$159	$149	159	149	158	20	14
Total Liabilities	24,468	26,940	28,869	30,949	32,641	30,949	32,641	34,066	34,561	34989
Accounts Payable	$1,369	$1,459	$1,694	$1,451	$1,358	$1,451	$1,358	$1,332	$1,315	1271
Long-Term Debt	9,932	11,783	13,610	15,478	16,223	15,478	16,223	17,243	19,438	20270
Shareholder's Equity	13,066	13,130	13,847	14,377	15,089	14,377	15,089	15,984	14,438	13729
LTD/E Ratio	0.76	0.90	0.98	1.08	1.08	1.08	1.08	1.08	1.35	1.48

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.6%	2.3%	3.8%	3.3%	3.6%	3.3%	3.6%	3.9%	-1.3%	2.1%
Return on Equity	13.3%	6.8%	11.7%	10.2%	11.5%	10.2%	11.5%	12.3%	-4.3%	7.3%
ROIC	7.6%	3.7%	6.0%	5.0%	5.5%	5.0%	5.5%	5.9%	-1.9%	3.0%
Shares Out.	508	508	507	507	507	507	507	507	504	501.0
Revenue/Share	$20.50	$17.65	$17.94	$19.12	$19.87	$19.12	$19.87	$18.94	19.29	19.6
FCF/Share	-$0.10	-$1.94	-$2.07	-$2.26	$0.23	$-2.26	$0.23	$0.13	-2.14	-2.8

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

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