



Portland General Electric (POR)

Updated August 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	10.4%	Market Cap:	\$4.6 B
Fair Value Price:	\$51	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	09/22/2023
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	10/16/2023
Dividend Yield:	4.0%	5 Year Price Target:	\$67	Years of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Portland General Electric is an electric utility based in Portland, Oregon, providing electricity to more than 900,000 customers in 51 cities. The company owns or contracts more than 3.3 gigawatts of energy generation, between gas, coal, wind & solar, and hydro. Portland General trades on the NYSE under the ticker POR and has a market capitalization of \$4.6 billion. POR has 3,000 full-time employees. In 2022, the corporation generated \$2.6 billion in revenue. The company is diversified by customer, with 52% of retail deliveries going to residential customers, 33% to commercial clients, and 14% to industrial clients. The company is forecasting that 80% of its power delivered to customers by 2030 will be carbon free, and 100% carbon free by 2040.

On April 22nd, 2023, Portland General Electric announced a 5% increase to the quarterly dividend to \$0.475 per share.

Portland General reported second quarter 2023 results on July 28th, 2023. Portland General reported net income of \$39 million for the second quarter. The company earned \$0.39 per diluted share on a GAAP basis, and \$0.44 non-GAAP, compared to \$0.72 in Q2 2022.

Retail energy deliveries in Q2 increased 4.4% compared to the same prior year period. This increase was driven by growth in residential, commercial, and industrial demand.

Leadership reaffirmed its 2023 full year guidance for adjusted earnings per share of \$2.68 at the midpoint based on a series of assumptions, most notably a 2.5% to 3.0% increase in annual energy deliveries.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.84	\$2.18	\$2.04	\$2.16	\$2.29	\$2.37	\$2.39	\$2.75	\$2.72	\$2.74	\$2.68	\$3.50
DPS	\$1.10	\$1.12	\$1.18	\$1.26	\$1.34	\$1.43	\$1.52	\$1.59	\$1.70	\$1.79	\$1.90	\$2.54
Shares¹	78.1	78.2	88.8	89.0	89.1	89.3	89.6	89.6	89.6	89.6	93.0	100.0

Portland General has demonstrated a clear history of consistent per share earnings growth. In the past nine and five years, POR has grown adjusted earnings per share by 4.5% and 3.7% per year on average, respectively. In October 2022, management upgraded the company's long-term EPS growth guidance to 5% to 7% (from 4% to 6% previously), and we believe this to be a fair estimate, at right around 5.5% earnings growth into 2028. As of June 2023, Portland General maintained that long-term guidance. Leadership also estimates that the company can grow the dividend by 5% to 7% over the long term, for a 6% mid-point, which is in-line with the trailing 10-year average dividend growth rate of 5.5%.

We expect that POR will generate this earnings growth through increased annual energy deliveries, as a result of commercial growth as the economy recovers, and strong growth in industrial energy demand due to customer expansion. Rate increases, customer additions, and completion of construction projects will all further fuel POR's earnings growth. The company has increased the share count over the last decade, though not at an alarming rate (nearly 2% per year over the last nine years). A rising share count is common among utility companies with constant capital expenditures who pay out a large portion of the corporation's earnings to shareholders as dividends.

¹ In millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.9	15.3	17.7	19.1	20.0	18.4	22.3	26.6	24.5	19.1	17.7	19.0
Avg. Yld.	3.7%	3.3%	3.3%	3.1%	2.9%	3.3%	2.8%	3.5%	3.4%	3.4%	4.0%	3.8%

The current PE of 17.7 is discounted compared to POR's average historical PE ratio. In the past nine and five years, POR has traded at a valuation of 20.0- and 22.2-times earnings on average. We estimate the company can grow into the valuation of 19.0 times earnings. This PE growth from 17.7 to 19.0 would result in valuation gains of 1.4% annually due to multiple expansion. With a generally lower-than-average valuation today, the dividend is elevated historically, at 4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	60%	51%	58%	58%	59%	60%	64%	58%	62%	65%	71%	73%

Portland General's payout ratio has remained within or below their target payout ratio of 60% to 70% for the last decade. Even going forward, we estimate that POR will likely remain around its target payout ratio as the dividend grows in-line with earnings-per-share.

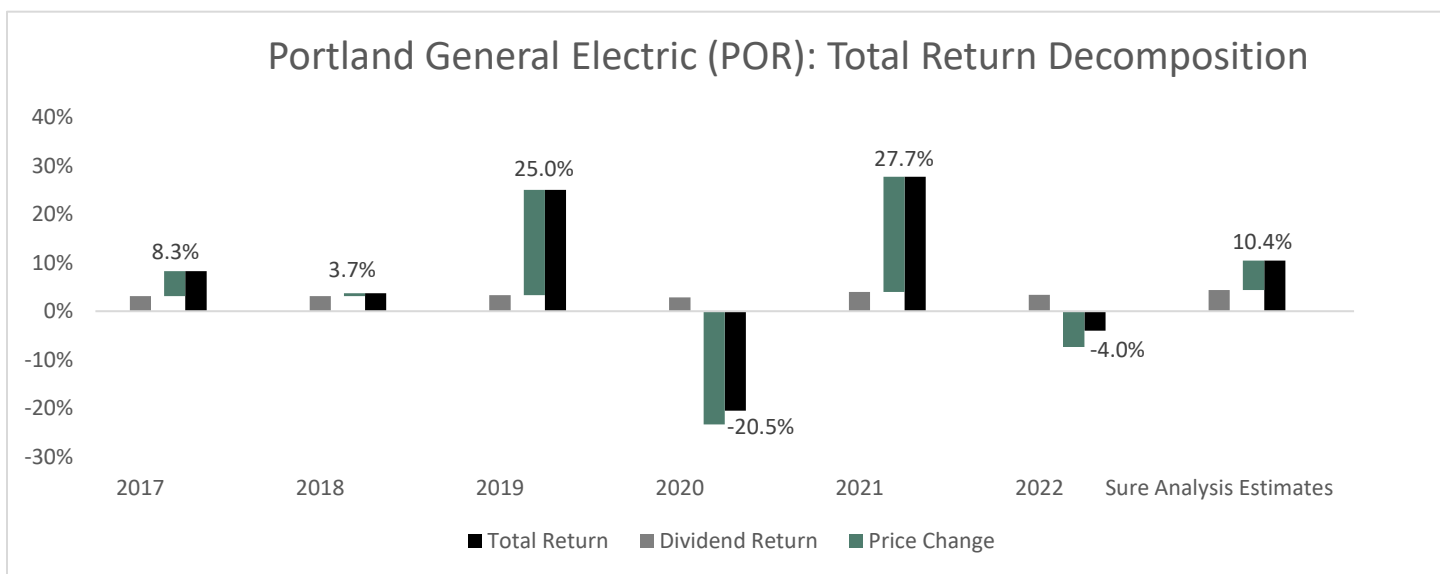
During the great financial crisis, earnings fell roughly 44% from peak to trough, however the dividend was fairly well covered throughout the entire ordeal, and it kept growing year-after-year to result in a 16 year annual dividend raise streak. It's worth noting too that if we ignored the year 2007 where POR generated significantly higher earnings than on average (the peak), the financial crisis barely harmed POR's earnings as they've risen consistently from 2006 onwards.

We don't see POR as having a significant competitive advantage in its business among its peers, though it does dominate in its geographical area of Oregon and serves roughly half of the residential population.

Final Thoughts & Recommendation

Portland General Electric is a consistent earnings grower and dominates in its geographical location. The corporation has kept within their target payout ratio, which has allowed them to grow the dividend for sixteen consecutive years and counting. We believe POR is trading at 93% fair value, with the potential to generate 10.4% in total annualized returns, thus we are upgrading POR from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,810	1,900	1,898	1,923	2,009	1,991	2,123	2,145	2,396	2,647
Gross Profit	1,053	1,187	1,237	1,306	1,417	1,420	1,509	1,437	1,574	1,659
Gross Margin	58.2%	62.5%	65.2%	67.9%	70.5%	71.3%	71.1%	67.0%	65.7%	62.7%
SG&A Exp.	444	484	507	526	569	563	613	576	646	688
D&A Exp.	248	301	305	321	345	382	409	454	404	417
Operating Profit	206	293	309	340	380	346	353	269	378	397
Op. Margin	11.4%	15.4%	16.3%	17.7%	18.9%	17.4%	16.6%	12.5%	15.8%	15.0%
Net Profit	105	175	172	193	187	212	214	155	244	233
Net Margin	5.8%	9.2%	9.1%	10.0%	9.3%	10.6%	10.1%	7.2%	10.2%	8.8%
Free Cash Flow	-112	-487	-78	-22	83	35	-60	-217	-104	-92
Income Taxes	21	61	45	50	86	17	27	0	23	39

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,101	7,042	7,210	7,527	7,838	8,110	8,394	9,069	9,494	10,459
Cash & Equivalents	107	127	4	6	39	119	30	257	52	165
Acct Receivables	146	149	158	155	168	193	253	271	329	398
Inventories	65	82	83	82	78	84	96	72	78	95
Total Liabilities	4,281	5,131	4,952	5,183	5,422	5,604	5,803	6,456	6,787	7,680
Accounts Payable	173	156	98	129	132	168	165	153	244	457
Long-Term Debt	1,916	2,501	2,199	2,350	2,426	2,478	2,597	3,196	3,285	3,646
Total Equity	1,819	1,911	2,258	2,344	2,416	2,506	2,591	2,613	2,707	2,779
LTD/E Ratio	1.05	1.31	0.97	1.00	1.00	0.99	1.00	1.22	1.21	1.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.8%	2.7%	2.4%	2.6%	2.4%	2.7%	2.6%	1.8%	2.6%	2.3%
Return on Equity	5.9%	9.4%	8.3%	8.4%	7.9%	8.6%	8.4%	6.0%	9.2%	8.5%
ROIC	2.9%	4.3%	3.9%	4.2%	3.9%	4.3%	4.2%	2.8%	4.1%	3.8%
Shares Out.	78.1	78.2	88.8	89.0	89.1	89.3	89.6	89.6	75.6	89.6
Revenue/Share	23.39	23.60	22.50	21.59	22.53	22.28	23.71	23.93	26.73	29.53
FCF/Share	-1.45	-6.05	-0.92	-0.25	0.93	0.39	-0.67	-2.42	-1.16	-1.03

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

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