Constellation Energy Corporation (CEG)

Updated November 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$119	**5 Year CAGR Estimate:**	-9.2%	**Market Cap:**	$38 Billion
Fair Value Price:	$61	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/16/2023
% Fair Value:	195%	**5 Year Valuation Multiple Estimate:**	-12.5%	**Dividend Payment Date:**	12/08/2023
Dividend Yield:	0.9%	**5 Year Price Target**	$67	**Years Of Dividend Growth:**	1
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Constellation Energy Corporation was spun off from Exelon Corporation on February 1st, 2022. Shareholders received one share of Constellation Energy for three shares of Exelon that they owned. Constellation Energy provides clean and sustainable energy solutions to homes, commercial businesses, and wholesale customers such as municipalities and cooperatives. The company's energy products include electric, natural gas, and renewables and markets such products to companies of all sizes. Constellation Energy operates 13 nuclear plants with a combined 21 gigawatts of capacity. The company operates in the lower 48 U.S. states, Canada, and the United Kingdom.

On February 16th, 2023, Constellation Energy raised its quarterly dividend 100% to $0.282, marking the first dividend increase for the independent company.

On November 6th, 2023, Constellation Energy reported results for the third quarter for the period ending September 30th, 2023. For the quarter, revenue totaled $6.11 billion, an increase of 1% year-over-year, but this was $1.01 billion less than expected. GAAP earnings-per-share equaled $2.26, $1.23 above estimates.

Constellation Energy's nuclear fleet produced 44,125 gigawatt-hours in the first quarter, up from 43,794 gigawatt-hours in the prior year. Nuclear plants achieved a 97.2% capacity factor, down slightly from 96.4% last year. The dispatch match rate for natural gas, oil, and renewable operations was 98.5% versus 98.7% in the prior year. Renewable energy capture was 96.6% compared to 96.4% last year. Constellation Energy is expected to earn $5.09 in 2023, up from $4.96, $3.97, and $4.20 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.31	$2.10	$2.54	$1.80	$2.78	$2.07	$3.22	$3.22	$2.82	$4.17	***$5.09***	***$5.62***
DPS	$1.46	$1.24	$1.24	$1.26	$1.31	$1.38	$1.45	$1.53	$1.53	$0.56	***$1.13***	***$1.25***
Shares[1]	857	860	920	924	963	968	972	976	980	328	***323***	***323***

Note that we have elected to show Exelon Corporation's history in the table above to illustrate the type of operating company from which Constellation Energy was spun off. This is an imperfect measure, but does offer some clues to the consistency of the new business. We project 2% annual earnings growth through 2028, though we may raise this expected growth rate following the passing of legislation providing tax credits to support carbon-free nuclear energy resources.

We believe Exelon Corporation's dividend history could serve as a good indicator for Constellation Energy's future safety and growth. The parent company cut its dividend in both 2013 and 2014 in an effort to pay off debt associated with mergers and acquisitions. Exelon Corporation slowly began raising its dividend once again in 2016. The company cut its dividend by 11.8% for the March 10th, 2022 payment following the spinoff. However, shareholders that continue to hold the Constellation Energy shares following the spinoff will see a combined dividend for 2022 that was at least equal to the distribution prior to the spinoff. The most recent increase was very aggressive and shows that the company could provide higher dividend growth moving forward. For now, we maintain our 2% expected growth rate.

[1] In millions of shares

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.4	16.0	12.6	18.7	13.4	20.1	14.2	13.1	14.6	20.7	***23.4***	***12.0***
Avg. Yld.	4.7%	3.7%	3.9%	3.7%	3.5%	3.3%	3.2%	3.6%	3.7%	0.6%	***0.9%***	***1.9%***

Shares of Constellation Energy have increased $11, or 13.3%, since our August 9th, 2023 report. We are again using Exelon Corporation's history to provide contextual clues to show how shares have traded in the past. During the last decade, Exelon Corporation traded with an average price-to-earnings ratio, or P/E, of 15.5. Accounting for years that earnings-per-share suffered a sizeable decline (2012, 2016, 2018), the P/E ratio has averaged 13.6. Due to Constellation Energy only recent independence, along with the reluctance of some to embrace nuclear energy, we have assigned a target P/E of 12. With shares trading at more than 23x estimates for the year, this implies a significant headwind from multiple compression. In fact, multiple contraction could lead to a 12.5% annual headwind to total returns through 2028.

Shares of the company yield 0.9%, well below what utility stocks typically offer, even after the doubling of the dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

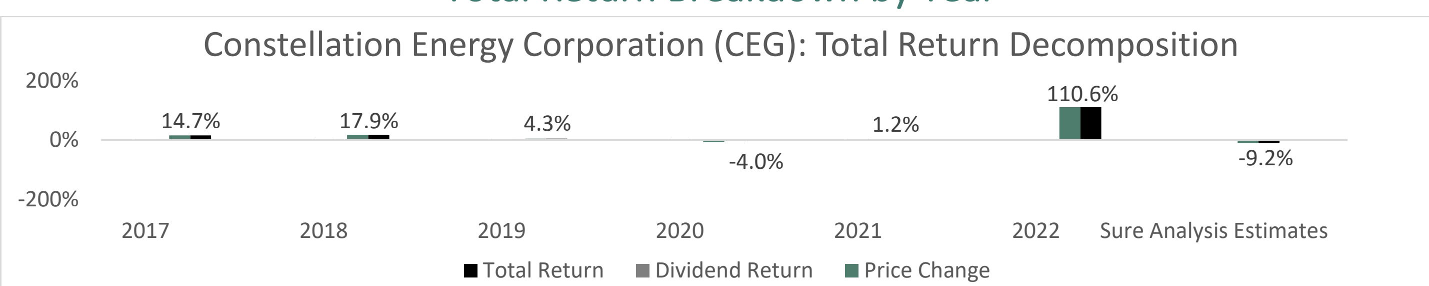
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	63%	59%	49%	70%	47%	67%	45%	48%	*54%*	13%	***22%***	***22%***

Constellation Energy does have some interesting competitive advantages. For one, the company is a major provider of energy in the U.S. The company is also present in nearly every state and has international operations. This gives it a size and scale that is unmatched among utility companies. Constellation Energy is highly focused on renewable forms of energy and has a goal to have its own operations be 100% carbon-free by 2040. The emphasis being placed on such forms of energy positions Constellation Energy ahead of many of its peer groups. Lastly, utility companies are often more recession proof than those in other sectors as customers typically prioritize power even in economic downturns. This usually results in slow, but consistent growth leading to higher dividends over time. Parent company Exelon Corporation did reduce its dividend several times during the last decade, but this was because the company raised a large amount of debt to fund mergers and acquisitions that are performing well today. Constellation Energy has a very healthy projected payout ratio, especially for a utility company.

Final Thoughts & Recommendation

Constellation Energy is expected to have an annual loss of 9.2% through 2028, compared to our prior estimate of an annual loss of 7.3%. Our projection stems from a 2% earnings growth rate and a starting yield of 0.9% that are more than offset by a low double-digit headwind from valuation compression. Once again, Constellation Energy produced a good quarter that led to the stock reaching a new high. That said, the valuation still leaves much to be desired. We have raised our five-year price target $1 to $67, but continue to view shares as a sell due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	24,888	27,429	29,447	31,366	33,558	35,978	34,438	33,039	24,440
Gross Profit	6,894	5,858	8,041	8,772	9,498	9,971	10,326	9,527	2,137
Gross Margin	27.7%	21.4%	27.3%	28.0%	28.3%	27.7%	30.0%	28.8%	8.7%
Operating Profit	3,646	2,390	4,391	3,260	3,939	3,835	4,342	2,799	244
Operating Margin	14.6%	8.7%	14.9%	10.4%	11.7%	10.7%	12.6%	8.5%	1.0%
Net Profit	1,719	1,623	2,269	1,121	3,779	2,005	2,936	1,963	(160)
Net Margin	6.9%	5.9%	7.7%	3.6%	11.3%	5.6%	8.5%	5.9%	-0.7%
Free Cash Flow	948	(1,620)	(8)	(92)	(104)	1,050	(589)	(3,813)	(4,042)
Income Tax	1,044	666	1,073	753	(126)	118	774	373	(388)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	79,924	86,416	95,384	114,904	116,770	48,995	48,094	48,086	46,909
Cash & Equivalents	1,609	1,878	6,502	635	1,105	303	226	504	422
Accounts Receivable	2,981	3,482	3,187	4,158	4,445	2,893	1,298	1,669	2,585
Goodwill & Int. Ass.	2,625	2,672	2,672	6,677	6,650	47			
Total Liabilities	56,984	62,283	68,090	87,292	84,583	33,165	33,418	36,472	35,537
Long-Term Debt	20,121	22,115	26,319	35,913	35,582	8,294	7,212	8,196	5,768
Shareholder's Equity	22,732	22,608	25,793	25,837	29,896	13,484	12,399	11,219	11,018
LTD/E Ratio	0.89	0.98	1.02	1.39	1.19	0.62	0.58	0.73	0.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.2%	2.0%	2.5%	1.1%	3.3%	1.7%	2.4%	1.5%	1.3%	-0.3%
Return on Equity	7.8%	7.2%	9.4%	4.3%	13.6%	6.6%	9.3%	6.1%	5.1%	-1.4%
ROIC	4.1%	3.6%	4.5%	1.9%	5.8%	2.9%	4.1%	2.7%	2.3%	-0.9%
Shares Out.	857	860	920	924	963	968	972	976	980	328
Revenue/Share	28.94	31.75	32.98	33.84	35.36	37.13	35.36	33.82	37.09	74.29
FCF/Share	1.10	(1.88)	(0.01)	(0.10)	(0.11)	1.08	(0.60)	(3.90)	(5.07)	(12.29)

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