



Public Service Enterprise Group Inc. (PEG)

Updated November 18th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	2.7%	Market Cap:	\$31.6 B
Fair Value Price:	\$52	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/08/23
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date:	12/30/23
Dividend Yield:	3.6%	5 Year Price Target	\$60	Years of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Sell

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 \$31.6 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 October 31st, 2023, the company reported third quarter results for Fiscal Year (FY)2023. For the quarter, reporting a net income of \$139 million, or \$0.27 per share, compared to \$114 million, or \$0.22 per share, in Q3 2022. Non-GAAP operating earnings for Q3 2023 were \$425 million, or \$0.85 per share, slightly down from \$429 million, or \$0.86 per share, in the same period last year. Notably, both the 2023 and 2022 non-GAAP results exclude specific items.

PSEG emphasized solid operating and financial results for Q3, expressing confidence in achieving full-year 2023 non-GAAP operating earnings guidance of \$3.40 to \$3.50 per share. The company disclosed a Q3 capital spending of \$1 billion, bringing the year-to-date total to \$2.7 billion. Anticipated capital spending for 2023 is \$3.7 billion, exceeding the initial plan of \$3.5 billion. Investments focus on Clean Energy Future initiatives, including energy efficiency programs and infrastructure advancement projects to support a 6% to 7.5% rate base growth through 2027.

Ralph LaRossa, PSEG's Chair, President, and CEO, highlighted successful execution of the company's business strategy. Recent milestones include the extension of PSE&G's Gas System Modernization Program II through 2025 and strategic streamlining efforts, such as a pension 'lift-out' in August and the sale of Kalaeloa in July. Attachments 8 and 9 provide detailed financial reconciliation, outlining items excluded from net income in determining non-GAAP operating earnings for Q3.

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	\$3.46	\$4.01
DPS	\$1.44	\$1.48	\$1.56	\$1.64	\$1.72	\$1.80	\$1.88	\$1.96	\$2.04	\$2.16	\$2.28	\$2.77
Shares¹	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 4.8% 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.

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	12.4	15	13.3	15.1	17.6	16.7	17.9	17.0	18.3	17.7	18.4	15.0
Avg. Yld.	4.5%	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.1%	3.5%	3.6%	4.6%

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 3.6% 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

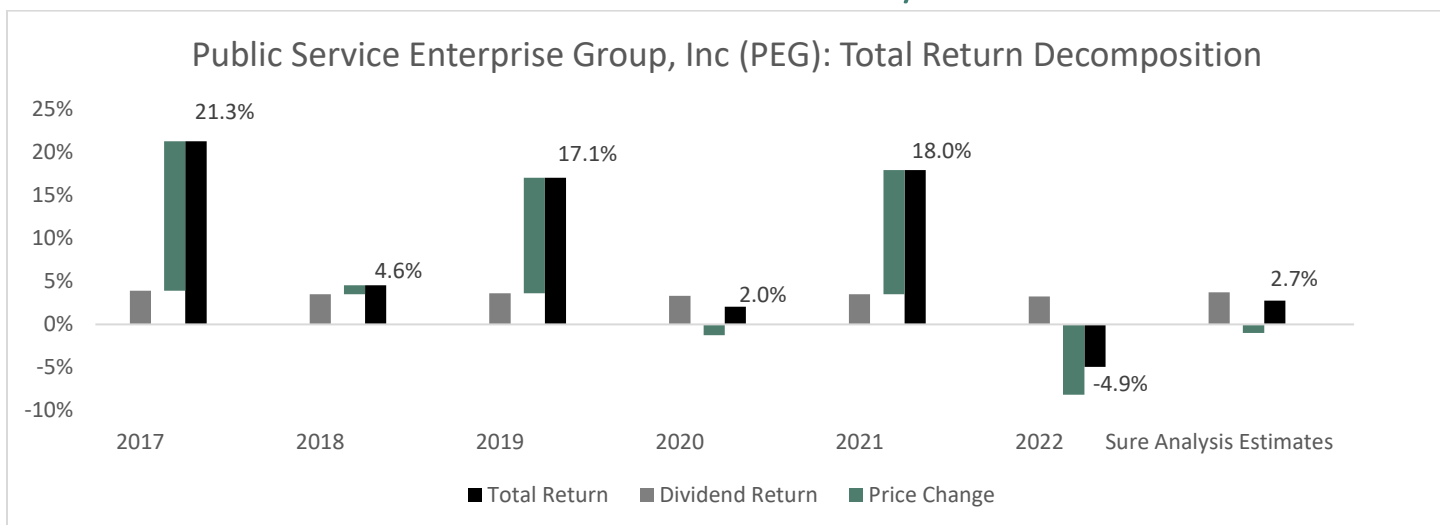
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	55.8%	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	55.9%	62.2%	66%	69%

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 6.1x. However, the company does have more debt than assets, as the current ratio is 0.6. 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 2.7%. Most of this return will come from the 3.6% dividend yield. We rate PEG as a sell 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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