



SJW Group (SJW)

Updated November 2nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	12.1%	Market Cap:	\$2.0 B
Fair Value Price:	\$70	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/03/23
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	12/01/23
Dividend Yield:	2.4%	5 Year Price Target	\$102	Years Of Dividend Growth:	55
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

SJW Group is a water utility company that produces, purchases, stores, purifies and distributes water to consumers and businesses in the Silicon Valley area of California, the area north of San Antonio, Texas, Connecticut, and Maine. SJW Group has a small real estate division that owns and develops properties for residential and warehouse customers in California and Tennessee. The company generates about \$630 million in annual revenues.

On October 30th, 2023, SJW Group reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue increased 16.4% to \$204.8 million, which was \$17.8 million better than expected. Earnings-per-share of \$1.13 compared favorably to earnings-per-share of \$0.82 in the prior year and was \$0.18 above estimates.

As has been the case in prior quarters, growth for the period was largely due to water rate increases and new customers. Higher rates added \$22.6 million to results while new customers contributed \$1.1 million. Higher customer usage added \$8.3 million. Customer usage had been down over the past few quarters. Water production expenses increased \$9 million, or 12%, to \$82.6 million.

SJW Group provided an updated outlook for 2023 as well, with the company now expecting earnings-per-share in a range of \$2.65 to \$2.70 for the year, up from \$2.40 to \$2.50 previously. At the midpoint, this would be a 10.3% increase from the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.12	\$2.54	\$1.85	\$2.57	\$2.86	\$1.82	\$1.35	\$2.14	\$2.03	\$2.43	\$2.68	\$3.94
DPS	\$0.73	\$0.75	\$0.78	\$0.81	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	\$1.52	\$2.03
Shares¹	20	20	20	21	21	29	29	29	30	30	32	32

SJW Group's earnings-per-share often vary wildly from year to year, but earnings-per-share growth over the past 10 years is 6.2%, an impressive growth rate for a water utility. Following the CTWS merger, we estimate that the SJW Group will grow earnings at the average growth rate slightly ahead of the combined companies (8.0%) due to revenue growth and rate increases. In connection with the CTWS merger, SJW Group issued nearly 8 million new shares on December 5th, 2018 in order to fund 50% of the proposed transaction, but we do not expect any significant additional dilution on the horizon.

SJW Group raised its dividend 5.6% for the March 1st, 2023 payment, marking 55 consecutive years of growth for this Dividend King. SJW has a 10-year average growth rate of 4.8%. We expect dividends to grow at a rate of 6% annually through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.3	11.2	16.6	15.7	18.8	32.7	47.8	30.0	36.1	33.4	23.5	26.0
Avg. Yld.	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	2.0%	1.9%	1.8%	2.4%	2.0%

¹ In millions of shares

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Shares of SJW Group have decreased \$7, or 10%, since our August 1st, 2023 update. Price-to-earnings multiples for water utilities tend to be high, but SJW Group’s multiple was extremely high in the 2018-2021 time period. Using EPS estimates for the year, the stock trades with a forward P/E of 23.5. We are reaffirming our 2028 target P/E of 26 from 22 as this is more in-line with the long-term average valuation and considers the quality of earnings over the past few years. If shares were to revert to this target P/E by 2028, then valuation would be a 2.0% tailwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

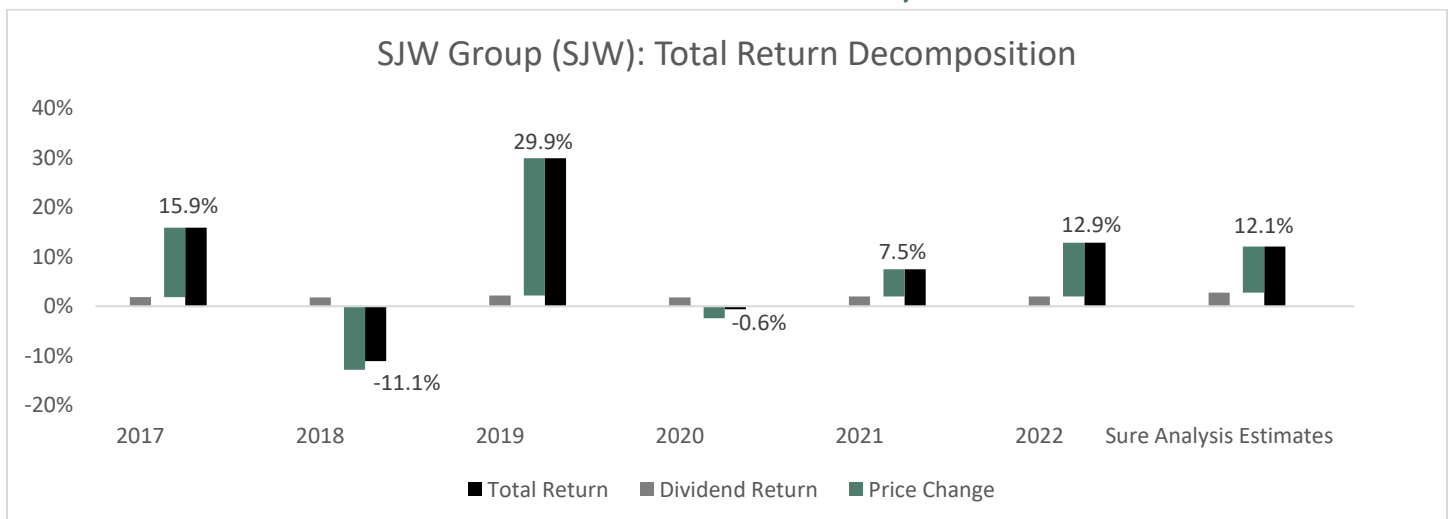
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65%	30%	42%	32%	36%	62%	89%	60%	67%	59%	57%	52%

Many investors own utility companies for their reliable earnings and dividends, especially for uncertain economic times. During the last recession, SJW Group experienced a decline in earnings that took several years to recover. A key competitive advantage for SJW Group, aside from the concluded merger, is that it operates in two areas, Silicon Valley and Central Texas, that have seen high levels of population growth in recent years. These areas need improved water infrastructure to serve a growing client base, so local governments often allow the company to raise rates at a relatively high level in order to fund these projects. For example, SJW Group was approved for a 4.2% increase in 2018 for its customers in the Silicon Valley area. The company applied for rate increases of 9.8%, 3.7% and 5.2% over the next three years for this area. SJW Group settled pending rate cases in several states in 2022. This benefit has been reflected in the past few quarters as rate increases have been the primary driver of revenue growth for the company. Investors should be aware of is that SJW Group’s earnings are highly concentrated in California (60% of sales post Connecticut Water Service merger) and Connecticut (30% of sales post-merger).

Final Thoughts & Recommendation

Following third quarter results, SJW Group is now projected to return 12.1% annually through 2028, which is up from our previous estimate of an 8.0% return. Our projected return stems from 8% earnings growth, a starting dividend yield of 2.4%, and a small contribution from multiple expansion. Shares of SJW Group are down almost 20% over our last two reports. The upside is that the stock is now much more attractive, both on a total return and valuation basis. Rate increases have been a tailwind to results and customer usage has improved. We note that the stock has a market beating yield and that SJW Group is a Dividend King. We have raised our five-year price target \$8 to \$102 due to revised EPS estimates for the year. We now view shares of SJW Group as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	277	320	305	340	389	398	420	565	574	621
Gross Profit	142	182	179	196	213	211	224	317	319	357
Gross Margin	51.5%	57.1%	58.8%	57.6%	54.7%	52.9%	53.3%	56.1%	55.5%	57.5%
SG&A Exp.	44	41	47	42	49	49	66	80	87	95
D&A Exp.	37	39	42	46	51	57	68	92	96	106
Operating Profit	53	93	80	97	102	92	73	118	106	125
Operating Margin	19.3%	29.1%	26.2%	28.7%	26.2%	23.1%	17.4%	20.8%	18.5%	20.1%
Net Profit	22	52	38	53	59	39	23	62	60	74
Net Margin	8.1%	16.2%	12.4%	15.6%	15.2%	9.7%	5.6%	10.9%	10.5%	11.9%
Free Cash Flow	(34)	(38)	(12)	(31)	(51)	(57)	(53)	(111)	(124)	(78)
Income Tax	14	25	23	34	35	10	8	8	8	8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,110	1,269	1,337	1,443	1,458	1,956	3,132	3,311	3,492	3,633
Cash & Equivalents	2	2	5	6	8	421	13	5	11	12
Accounts Receivable	14	15	16	16	17	19	36	47	54	59
Inventories	1									
Goodwill & Int. Ass.	18	14	16	24	14	17	662	663	677	657
Total Liabilities	789	909	954	1,022	995	1,067	2,242	2,394	2,458	2,522
Accounts Payable	13	7	16	19	23	25	35	34	30	30
Long-Term Debt	358	398	415	448	456	531	1,423	1,539	1,595	1,656
Shareholder's Equity	321	360	384	422	463	889	890	917	1,035	1,111
LTD/E Ratio	1.11	1.11	1.08	1.06	0.98	0.60	1.60	1.68	1.54	1.49

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.0%	4.4%	2.9%	3.8%	4.1%	2.3%	0.9%	1.9%	1.8%	2.1%
Return on Equity	7.5%	15.2%	10.2%	13.1%	13.4%	5.7%	2.6%	6.8%	6.2%	6.9%
ROIC	3.4%	7.2%	4.9%	6.3%	6.6%	3.3%	1.3%	2.6%	2.4%	2.7%
Shares Out.	20	20	20	21	21	29	29	29	30	30
Revenue/Share	13.86	15.66	14.87	16.50	18.82	18.64	14.72	19.67	19.29	20.40
FCF/Share	(1.68)	(1.84)	(0.60)	(1.51)	(2.48)	(2.67)	(1.85)	(3.87)	(4.16)	(2.57)

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

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