



OGE Energy Corp. (OGE)

Updated February 28th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	11.4%	Market Cap:	\$6.6 B
Fair Value Price:	\$37	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	4/5/2024
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	4/26/2024
Dividend Yield:	5.1%	5 Year Price Target	\$47	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

OGE Energy (OGE) was founded in 1995, in Oklahoma. It is the parent company of Oklahoma Gas and Electric Company (OG&E), a regulated electric utility that serves about 890,000 customers in Oklahoma and western Arkansas. OGE Energy has a market cap of \$6.6 billion and makes 80%-85% of its annual utility earnings in the second and third quarter.

OGE Energy also owned 25.5% of Enable Midstream Partners (ENBL), a Master Limited Partnership (MLP) that owns and operates pipeline networks and storage tanks of natural gas and crude oil. On December 7th, 2021, Enable Midstream Partners was acquired by Energy Transfer (ET) in an all-stock deal. As a result, OGE Energy owned approximately 3.0% of Energy Transfer. The latter is an MLP that owns and operates one of the largest midstream portfolios in the U.S., with immense pipeline networks and storage tanks of natural gas, crude oil and natural gas liquids (NGLs). However, OGE Energy sold its shares of Energy Transfer in 2022 and thus it is now a pure regulated utility.

In late February, OGE Energy reported (2/21/24) financial results for the fourth quarter of fiscal 2023. Adjusted earnings-per-share edged up 4%, from \$0.23 in the prior year's quarter to \$0.24, as rate hikes and lower operating costs more than offset higher depreciation as a result of a greater asset base and increased interest expense. The company provided lackluster guidance for 2024, expecting earnings-per-share of \$2.06-\$2.18. At the mid-point, this guidance implies 2.4% growth over the prior year. We expect earnings-per-share of about \$2.13 this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.98	\$1.36	\$1.69	\$3.10	\$2.12	\$2.16	\$2.08	\$2.36	\$2.08	\$2.07	\$2.13	\$2.72
DPS	\$0.93	\$1.03	\$1.13	\$1.24	\$1.36	\$1.48	\$1.57	\$1.62	\$1.64	\$1.66	\$1.67	\$2.16
Shares¹	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5	200.8	200.9	201.0	201.0

As shown in the above table, OGE Energy has exhibited a lackluster performance record. The company has grown its earnings-per-share at a modest 0.5% average annual rate over the last decade. The record earnings in 2017 resulted from a non-recurring tax benefit and hence this is not representative of the current profit capability of OGE Energy.

With that said, the outlook of the company seems brighter than the last decade. OGE Energy has invested \$3.3 billion in growth projects in the last five years. In addition, the strong economy in Oklahoma and Arkansas are likely to drive material organic growth for OGE Energy in the upcoming years. Thanks to the recent completion of some growth projects and the focus of management on growing the utility business, the company could grow its earnings-per-share at a 5.0% average annual rate over the next five years. This is in line with management's long-term guidance of 5%-7% annual growth of earnings-per-share. Management also recently reaffirmed that it will keep growing the dividend while keeping a healthy balance sheet and a flat share count.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.3	22.0	17.7	11.4	16.5	19.7	16.2	14.3	18.9	17.4	15.5	17.2
Avg. Yld.	2.6%	3.4%	3.8%	3.5%	3.9%	3.5%	4.7%	4.8%	4.2%	4.6%	5.1%	4.6%

¹ 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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Investors should be especially careful with the valuation of slow-growth stocks, such as utilities. If they overpay for such stocks, they may need years to breakeven. OGE Energy is currently trading at a price-to-earnings ratio of 15.5, which is lower than the 10-year average of 17.2 of the stock. We expect the stock to trade close to its average valuation level in five years. If this proves correct, the stock will enjoy a 2.1% annualized valuation gain over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47.0%	75.7%	66.9%	40.0%	64.2%	68.5%	75.5%	68.6%	78.8%	80.2%	78.4%	79.5%

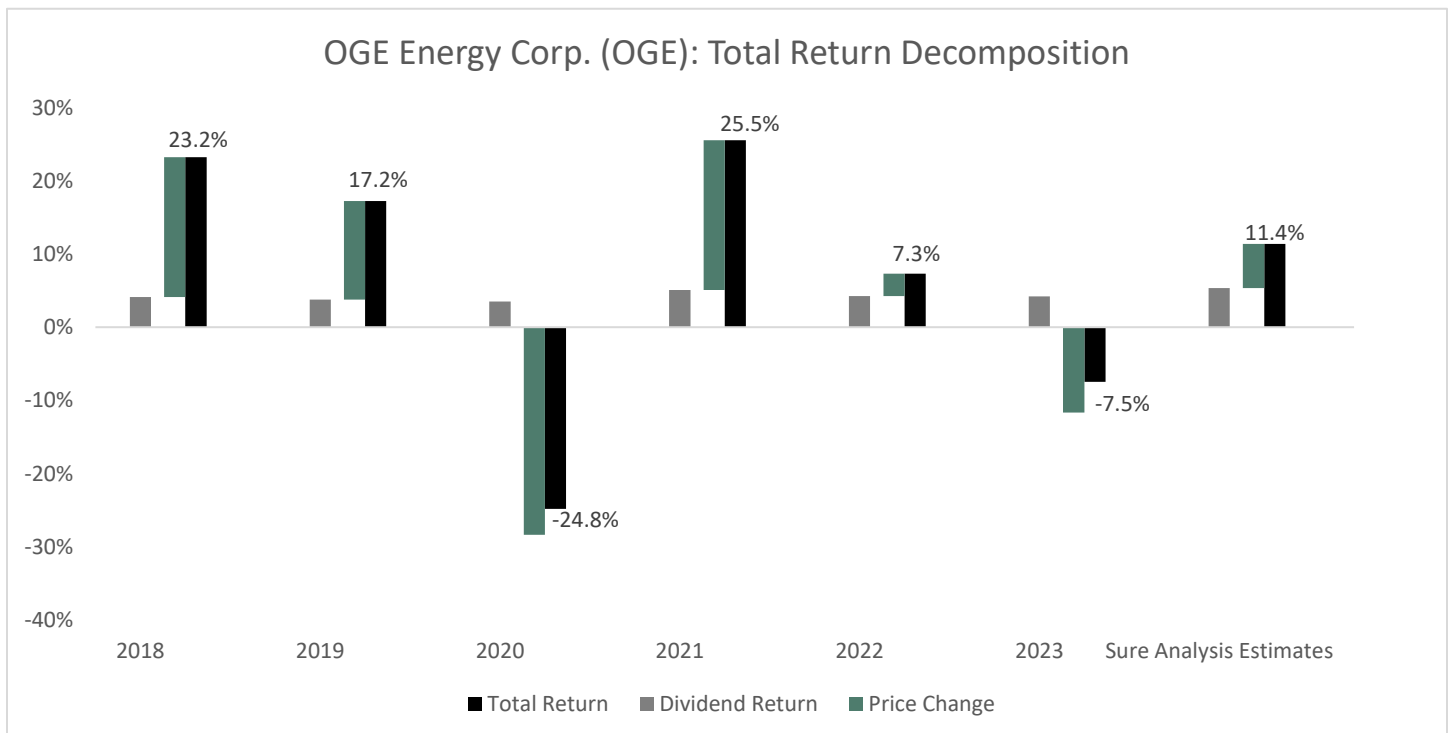
OGE Energy does its best to maintain its electricity rates as low as possible. Its rates are currently lower than the national average and thus they result in high customer satisfaction rates, which enable the company to grow its customer base. This is a major competitive advantage. The other competitive advantage of OGE Energy is the immense investment required from potential new entrants to build the infrastructure of the regulated business. This poses high barriers to entry and thus protects OGE Energy from potential new competitors.

OGE Energy became a pure regulated utility in late 2022. However, it has failed to grow its earnings-per-share meaningfully over the last decade, unlike many utilities, which have enjoyed significant rate hikes year after year. On the bright side, OGE Energy is now offering a 5.1% dividend yield. Thanks to its decent payout ratio (for a utility) of 78% and its strong balance sheet, which has a BBB+ credit rating, OGE Energy can continue raising its dividend in the upcoming years. It raised its dividend by 1% last year. The stock is suitable for income-oriented investors.

Final Thoughts & Recommendation

OGE Energy passes under the radar of most investors due to its lackluster performance record, but we expect the company to improve its performance in the upcoming years. The stock could offer an 11.4% average annual return over the next five years thanks to its 5.1% dividend yield, 5.0% earnings growth and a 2.1% valuation tailwind. It thus receives a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,453	2,197	2,259	2,261	2,270	2,232	2,122	3,654	3,376	2,674
Gross Profit	907	880	941	905	903	953	1,015	1,063	1,212	1,260
Gross Margin	37.0%	40.1%	41.7%	40.0%	39.8%	42.7%	47.8%	29.1%	35.9%	47.1%
D&A Exp.	281	308	323	284	322	355	391	416	461	507
Operating Profit	537	481	531	532	490	504	522	544	650	657
Operating Margin	21.9%	21.9%	23.5%	23.5%	21.6%	22.6%	24.6%	14.9%	19.3%	24.6%
Net Profit	396	271	338	619	426	434	(174)	737	666	417
Net Margin	16.1%	12.3%	15.0%	27.4%	18.7%	19.4%	-8.2%	20.2%	19.7%	15.6%
Free Cash Flow	152	319	(15)	(40)	378	46	62	(1,092)	(99)	54
Income Tax	173	97	148	(49)	72	30	(127)	141	124	56

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9,528	9,581	9,940	10,413	10,749	11,024	10,719	12,606	12,545	12,791
Cash & Equivalents	6	75	0	14	94	---	1	0	88	0
Acc. Receivable	194	175	176	191	175	154	158	162	250	209
Inventories	137	194	162	165	184	137	153	159	289	413
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	6,283	6,255	6,496	6,562	6,744	6,885	7,087	8,550	8,131	8,279
Accounts Payable	179	263	205	230	239	195	252	274	449	276
Long-Term Debt	2,853	2,739	2,867	3,168	3,147	3,307	3,589	4,983	4,549	4,840
Total Equity	3,244	3,326	3,444	3,851	4,005	4,140	3,632	4,056	4,413	4,512
LTD/E Ratio	0.88	0.82	0.83	0.82	0.79	0.80	0.99	1.23	1.03	1.07

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.2%	2.8%	3.5%	6.1%	4.0%	4.0%	-1.6%	6.3%	5.3%	3.3%
Return on Equity	12.6%	8.3%	10.0%	17.0%	10.8%	10.6%	-4.5%	19.2%	15.7%	9.3%
ROIC	6.6%	4.5%	5.5%	9.3%	6.0%	5.9%	-2.4%	9.1%	7.4%	4.6%
Shares Out.	199.9	199.6	199.9	200.0	200.5	200.7	200.1	200.5	200.8	200.9
Revenue/Share	12.27	11.01	11.30	11.31	11.32	11.12	10.61	18.24	16.81	13.31
FCF/Share	0.76	1.60	(0.08)	(0.20)	1.88	0.23	0.31	(5.45)	(0.49)	0.27

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

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