Portland General Electric (POR)

Updated February 17th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	14.6%	**Market Cap:**	$4.1 B
Fair Value Price:	$57	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/21/2024
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.9%	**Dividend Payment Date:**	04/15/2024
Dividend Yield:	4.6%	**5 Year Price Target:**	$69	**Years of Dividend Growth:**	17
Dividend Risk Score:	B	**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 930,000 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 $4.1 billion. POR has 3,000 full-time employees. In 2023, the corporation generated $2.9 billion in revenue. The company is diversified by customer, with 37% of retail deliveries going to residential customers, 34% to commercial clients, and 29% 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 fourth quarter 2023 results on February 16th, 2024. The company reported net income of $228 million for 2023, equal to $2.33 per diluted share on a GAAP basis, compared to $2.60 in 2022. Adjusted EPS for the full year amounted to $2.38, which was a 13% decrease compared to $2.74 in 2022.

Retail energy deliveries in 2023 increased 0.9% compared to the same prior year period, driven by growth in industrial.

Leadership initiated its 2024 full year guidance for adjusted earnings per share of $3.08 at the midpoint based on a series of assumptions, most notably a 2.5% increase in annual energy deliveries.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.18	$2.04	$2.16	$2.29	$2.37	$2.39	$2.75	$2.72	$2.74	$2.38	***$3.08***	***$3.75***
DPS	$1.12	$1.18	$1.26	$1.34	$1.43	$1.52	$1.59	$1.70	$1.79	$1.86	***$1.90***	***$2.54***
Shares[1]	78.2	88.8	89.0	89.1	89.3	89.6	89.6	89.6	89.6	98.0	***100.0***	***120.0***

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 1.0% and 0.1% 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), but from here we expect 4% earnings growth into 2029. As of February 2024, 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 consistent with the trailing 10-year average dividend growth rate of 5.8%.

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 2.5% 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.

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[1] In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.3	17.7	19.1	20.0	18.4	22.3	26.6	24.5	19.1	19.7	***13.3***	***18.5***
Avg. Yld.	3.3%	3.3%	3.1%	2.9%	3.3%	2.8%	3.5%	3.4%	3.4%	4.0%	***4.6%***	***3.7%***

The current PE of 13.3 is discounted compared to POR's average historical PE ratio. In the past nine and five years, POR has traded at an average valuation of 20.3 and 22.4 times earnings. We estimate the company can grow into the valuation of 18.5 times earnings. This PE growth from 13.3 to 18.5 would result in valuation gains of 6.9% annually due to multiple expansion. With a lower-than-average valuation today, the dividend is elevated historically, at 4.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	51%	58%	58%	59%	60%	64%	58%	62%	65%	78%	***62%***	***68%***

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

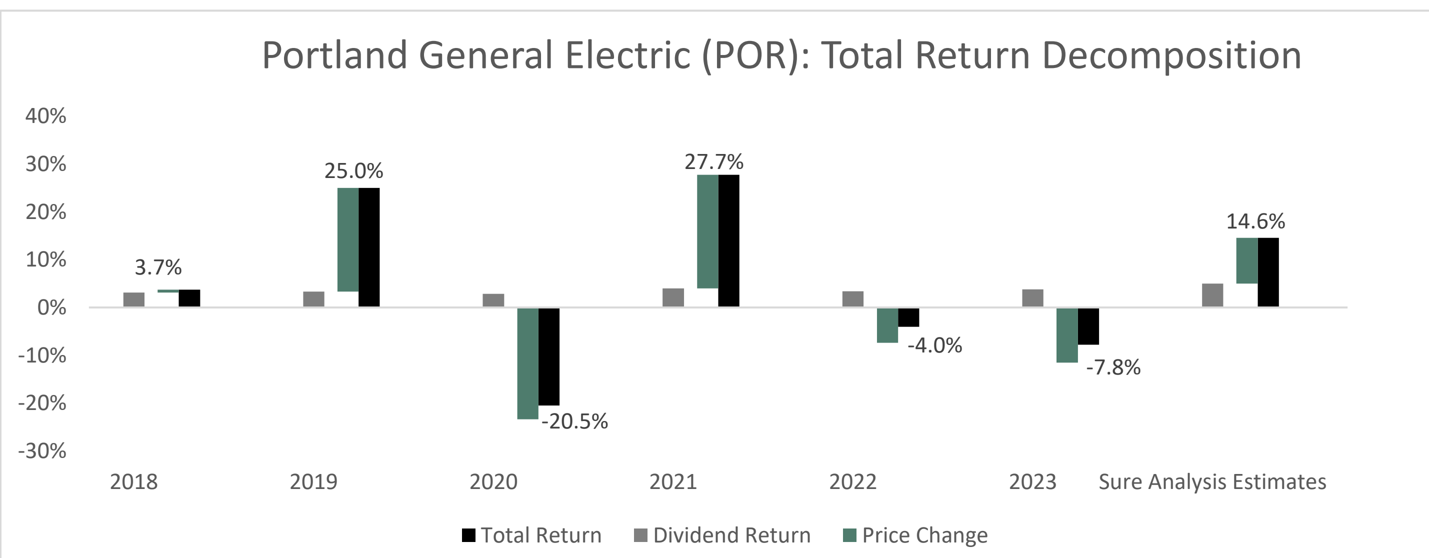
During the great financial crisis, earnings fell roughly 44% from peak to trough, however the dividend was fairly well covered throughout the entire ordeal, and it kept growing year-after-year to result in a 17 year annual dividend raise streak. It's worth noting too that if we ignored the year 2007 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 generally kept within its target payout ratio, which has enabled it to grow its dividend for seventeen consecutive years and counting. We believe POR is trading at 72% fair value, with the potential to generate 14.6% in total annualized returns, thus we are reiterating POR as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,900	1,898	1,923	2,009	1,991	2,123	2,145	2,396	2,647	2,923
Gross Profit	1,187	1,237	1,306	1,417	1,420	1,509	1,437	1,574	1,659	1,733
Gross Margin	62.5%	65.2%	67.9%	70.5%	71.3%	71.1%	67.0%	65.7%	62.7%	59.3%
SG&A Exp.	484	507	526	569	563	613	576	646	688	341
D&A Exp.	301	305	321	345	382	409	454	404	417	458
Operating Profit	293	309	340	380	346	353	269	378	397	396
Op. Margin	15.4%	16.3%	17.7%	18.9%	17.4%	16.6%	12.5%	15.8%	15.0%	13.5%
Net Profit	175	172	193	187	212	214	155	244	233	228
Net Margin	9.2%	9.1%	10.0%	9.3%	10.6%	10.1%	7.2%	10.2%	8.8%	7.8%
Free Cash Flow	-487	-78	-22	83	35	-60	-217	-104	-92	-938
Income Taxes	61	45	50	86	17	27	0	23	39	45

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,042	7,210	7,527	7,838	8,110	8,394	9,069	9,494	10,459	11,210
Cash & Equivalents	127	4	6	39	119	30	257	52	165	5
Acct Receivables	149	158	155	168	193	253	271	329	398	414
Inventories	82	83	82	78	84	96	72	78	95	113
Total Liabilities	5,131	4,952	5,183	5,422	5,604	5,803	6,456	6,787	7,680	7,889
Accounts Payable	156	98	129	132	168	165	153	244	457	347
Long-Term Debt	2,501	2,199	2,350	2,426	2,478	2,597	3,196	3,285	3,646	4,131
Total Equity	1,911	2,258	2,344	2,416	2,506	2,591	2,613	2,707	2,779	3,319
LTD/E Ratio	1.31	0.97	1.00	1.00	0.99	1.00	1.22	1.21	1.31	1.25

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	2.4%	2.6%	2.4%	2.7%	2.6%	1.8%	2.6%	2.3%	2.1%
Return on Equity	9.4%	8.3%	8.4%	7.9%	8.6%	8.4%	6.0%	9.2%	8.5%	7.5%
ROIC	4.3%	3.9%	4.2%	3.9%	4.3%	4.2%	2.8%	4.1%	3.8%	3.3%
Shares Out.	78.2	88.8	89.0	89.1	89.3	89.6	89.6	75.6	89.6	98.0
Revenue/Share	23.60	22.50	21.59	22.53	22.28	23.71	23.93	26.73	29.53	29.84
FCF/Share	-6.05	-0.92	-0.25	0.93	0.39	-0.67	-2.42	-1.16	-1.03	-9.58

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