



SJW Group (SJW)

Updated February 26th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	14.8%	Market Cap:	\$1.8 B
Fair Value Price:	\$71	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/02/24
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	03/01/24
Dividend Yield:	2.8%	5 Year Price Target	\$104	Years Of Dividend Growth:	56
Dividend Risk Score:	A	Retirement Suitability Score:	A	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 \$670 million in annual revenues.

On January 25th, 2024, SJW Group announced that it was raising its quarterly dividend 5.3% to \$0.40, extending the company's dividend growth streak to 56 consecutive years. SJW Group is a member of the Dividend Kings index.

On February 22nd, 2024, SJW Group announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue declined slightly by 0.1% to \$171.3 million, beating estimates by \$10.3 million. Earnings-per-share of \$0.59 compared unfavorably to earnings-per-share of \$1.09 in the prior year, but this was in-line with expectations. For the year, revenue grew 8% to \$670.4 million while earnings-per-share of \$2.68 compared to \$2.43 in 2022.

The decline in earnings-per-share was primarily related to a delayed decision in the company's general rate case in California that caused SJW Group to recognize a full year of revenue in the fourth quarter of 2022. Higher rates added \$12.5 million to results for the quarter while new customers contributed \$0.8 million. Higher customer usage added \$0.7 million. Water production expenses increased \$11.6 million, or 22%, to \$64.7 million. This was lower on a sequential basis. SJW Group expects to invest more than \$1.6 billion in capital over the next five years in its wastewater operations.

SJW Group provided an outlook for 2024 as well, with the company expecting earnings-per-share in a range of \$2.68 to \$2.78 for the year. At the midpoint, this would be a 1.9% increase from the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.54	\$1.85	\$2.57	\$2.86	\$1.82	\$1.35	\$2.14	\$2.03	\$2.43	\$2.68	\$2.73	\$4.01
DPS	\$0.75	\$0.78	\$0.81	\$1.04	\$1.12	\$1.20	\$1.28	\$1.36	\$1.44	\$1.52	\$1.60	\$2.14
Shares¹	20	20	21	21	29	29	29	30	30	32	32	32

SJW Group's earnings-per-share often vary wildly from year to year. Earnings-per-share growth over the past 10 years is just 0.6%, but this accelerates to 15.1% for the past five years, an impressive growth rate for a water utility. Much of this growth is due to the merger with CTWS. We continue to forecast that the SJW Group will grow earnings at the average growth rate of 8.0% through 2029 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 to fund 50% of the proposed transaction, but we do not expect any significant additional dilution on the horizon.

We expect dividends to grow at a rate of 6% annually through 2029.

¹ In millions of shares

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.2	16.6	15.7	18.8	32.7	47.8	30.0	36.1	33.4	24.4	20.9	26.0
Avg. Yld.	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	2.0%	1.9%	1.8%	2.3%	2.8%	2.1%

Shares of SJW Group have decreased \$6, or 10.5%, since our November 2nd, 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 20.9. We are reaffirming our 2029 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 2029, then valuation would be a 4.5% tailwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

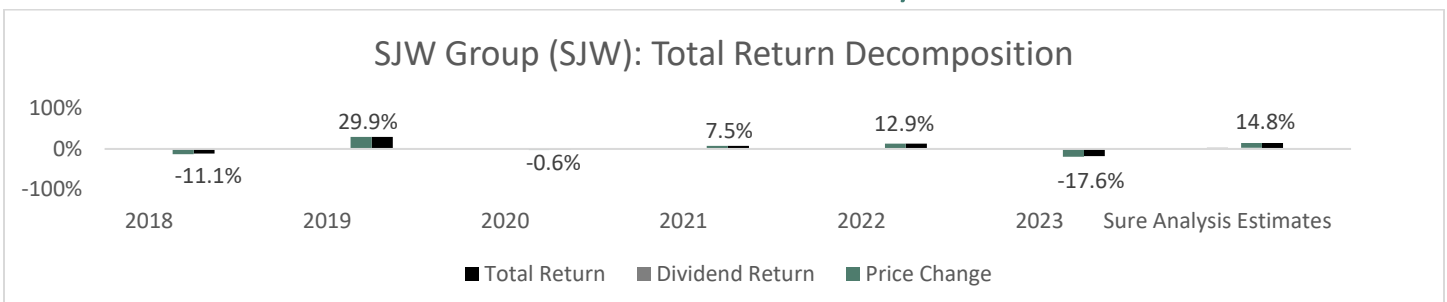
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	42%	32%	36%	62%	89%	60%	67%	59%	57%	59%	53%

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 results in 2023 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

After fourth quarter results, SJW Group is now projected to return 14.8% annually through 2029, which is up from our previous estimate of a 12.1%. Our projected return stems from 8% earnings growth, a starting dividend yield of 2.8%, and a mid-single-digit contribution from multiple expansion. Shares of SJW Group are down ~30% over our last three 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 \$2 to \$104 due to EPS estimates for the year. We continue to 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	320	305	340	389	398	420	565	574	621	670
Gross Profit	182	179	196	213	211	224	317	319	357	388
Gross Margin	57.1%	58.8%	57.6%	54.7%	52.9%	53.3%	56.1%	55.5%	57.5%	57.9%
SG&A Exp.	41	47	42	49	49	66	80	87	95	99
D&A Exp.	39	42	46	51	57	68	92	96	106	108
Operating Profit	93	80	97	102	92	73	118	106	125	149
Operating Margin	29.1%	26.2%	28.7%	26.2%	23.1%	17.4%	20.8%	18.5%	20.1%	22.3%
Net Profit	52	38	53	59	39	23	62	60	74	85
Net Margin	16.2%	12.4%	15.6%	15.2%	9.7%	5.6%	10.9%	10.5%	11.9%	12.7%
Free Cash Flow	(38)	(12)	(31)	(51)	(57)	(53)	(111)	(124)	(78)	(100)
Income Tax	25	23	34	35	10	8	8	8	8	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,269	1,337	1,443	1,458	1,956	3,132	3,311	3,492	3,755	4,345
Cash & Equivalents	2	5	6	8	421	13	5	11	12	10
Accounts Receivable	15	16	16	17	19	36	47	54	59	68
Inventories										
Goodwill & Int. Ass.	14	16	24	14	17	662	663	661	676	705
Total Liabilities	909	954	1,022	995	1,067	2,242	2,394	2,458	2,644	3,112
Accounts Payable	7	16	19	23	25	35	34	30	30	46
Long-Term Debt	398	415	448	456	531	1,423	1,539	1,595	1,656	1,747
Shareholder's Equity	360	384	422	463	889	890	917	1,035	1,111	1,233
LTD/E Ratio	1.11	1.08	1.06	0.98	0.60	1.60	1.68	1.54	1.49	1.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.4%	2.9%	3.8%	4.1%	2.3%	0.9%	1.9%	1.8%	2.0%	2.1%
Return on Equity	15.2%	10.2%	13.1%	13.4%	5.7%	2.6%	6.8%	6.2%	6.9%	7.3%
ROIC	7.2%	4.9%	6.3%	6.6%	3.3%	1.3%	2.6%	2.4%	2.7%	3.0%
Shares Out.	20	20	21	21	29	29	29	30	30	32
Revenue/Share	15.66	14.87	16.50	18.82	18.64	14.72	19.67	19.29	20.40	21.17
FCF/Share	(1.84)	(0.60)	(1.51)	(2.48)	(2.67)	(1.85)	(3.87)	(4.16)	(2.57)	(3.15)

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

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