Constellation Energy Corporation (CEG)

Updated February 28th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$156	**5 Year CAGR Estimate:**	2.8%	**Market Cap:**	$50 Billion
Fair Value Price:	$105	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	03/07/2024
% Fair Value:	148%	**5 Year Valuation Multiple Estimate:**	-7.6%	**Dividend Payment Date:**	03/19/2024
Dividend Yield:	0.9%	**5 Year Price Target**	$170	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Constellation Energy Corporation was spun off from Exelon Corporation on February 1st, 2022. Shareholders received one share of Constellation Energy for three shares of Exelon that they owned. Constellation Energy provides clean and sustainable energy solutions to homes, commercial businesses, and wholesale customers such as municipalities and cooperatives. The company's energy products include electric, natural gas, and renewables and markets such products to companies of all sizes. Constellation Energy operates 13 nuclear plants with a combined 21 gigawatts of capacity. The company operates in the lower 48 U.S. states, Canada, and the United Kingdom.

On February 27th, 2024, Constellation Energy raised its quarterly dividend 25% to $0.3525 per share. This follows last year's increase of 100% and marks the second dividend increase for the independent company.

Also on February 27th, 2024, Constellation Energy announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue totaled $5.8 billion, which was a decrease of 20.9% from the prior year, but this was $130 million more than expected. GAAP earnings-per-share equaled -$0.11, which included sizeable charges for decommissioning-related activities. On an adjusted basis, earnings-per-share totaled $1.74. For the year, revenue improved 2.1% to $24.9 billion while GAAP EPS of $5.01 compared to $4.17 in 2022.

Constellation Energy's nuclear fleet produced 45,563 gigawatt-hours in the fourth quarter, up from 44,436 gigawatt-hours in the prior year. Nuclear plants achieved a 95.1% capacity factor, down slightly from 95.4% last year. The dispatch match rate for natural gas, oil, and renewable operations was 97.5% versus 96.1% in the prior year. Renewable energy capture was 96.3% compared to 96.7% last year.

Constellation Energy is expected to earn $7.02 in 2024, which represent a 40% increase from the prior year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.10	$2.54	$1.80	$2.78	$2.07	$3.22	$3.22	$2.82	$4.17	$5.01	***$7.02***	***$11.31***
DPS	$1.24	$1.24	$1.26	$1.31	$1.38	$1.45	$1.53	$1.53	$0.56	$1.13	***$1.41***	***$2.27***
Shares[1]	860	920	924	963	968	972	976	980	328	321	***321***	***315***

Note that we have elected to show Exelon Corporation's history in the table above to illustrate the type of operating company from which Constellation Energy was spun off. This is an imperfect measure, but does offer some clues to the consistency of the new business. We now project 10% annual earnings growth through 2029 as the company had an impressive 2023 and looks to further grow its business in the current year.

We believe Exelon Corporation's dividend history could serve as an indicator for Constellation Energy's future safety and growth. The parent company cut its dividend in both 2013 and 2014 in an effort to pay off debt associated with mergers and acquisitions. The dividend was once again in 2016. The company cut its dividend by 11.8% for the March 10th, 2022 payment following the spinoff. However, shareholders that continue to hold the Constellation Energy shares following

[1] In millions of shares

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the spinoff will see a combined dividend for 2022 that was at least equal to the distribution prior to the spinoff. We now expect 10% dividend growth as the last two increases have been well above this level and the payout ratio is very low.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.0	12.6	18.7	13.4	20.1	14.2	13.1	14.6	20.7	23.3	***22.2***	***15.0***
Avg. Yld.	3.7%	3.9%	3.7%	3.5%	3.3%	3.2%	3.6%	3.7%	0.6%	0.1%	***0.9%***	***1.3%***

Shares of Constellation Energy have increased $37, or 31.1%, since our November 7th, 2023 report. We are again using Exelon Corporation's history to provide contextual clues to show how shares have traded in the past. During the last decade, Exelon Corporation traded with an average price-to-earnings ratio, or P/E, of 16.7. Due to Constellation Energy only recent independence, along with the reluctance of some to embrace nuclear energy, we have assigned a target P/E of 15, which is up from 12 previously. With shares trading at more than 22x estimates for the year, this implies a headwind from multiple compression. Multiple reversion could lead to a 7.6% annual headwind to total returns.

The stock's dividend yield is 0.9%, well below what utility stocks typically offer, even after the aggressive increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

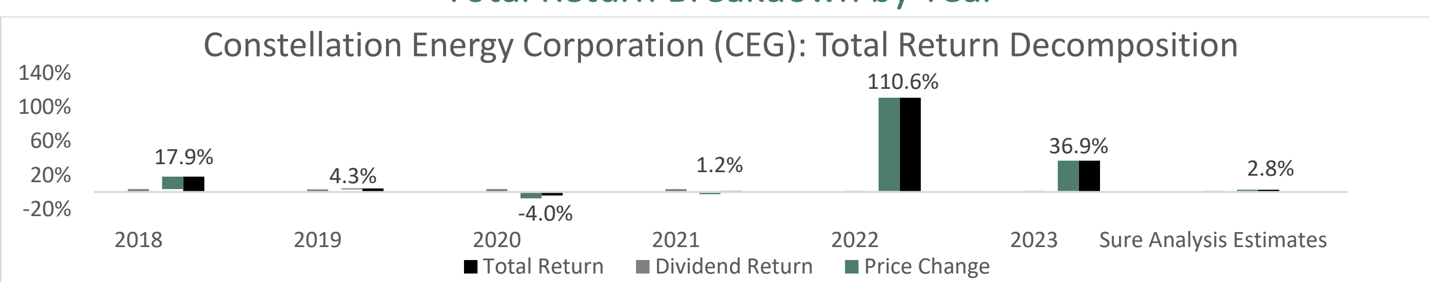
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	59%	49%	70%	47%	67%	45%	48%	*54%*	13%	23%	***20%***	***20%***

Constellation Energy does have some interesting competitive advantages. For one, the company is a major provider of energy in the U.S. The company is also present in nearly every state and has international operations. This gives it a size and scale that is unmatched among utility companies. Constellation Energy is highly focused on renewable forms of energy and has a goal to have its own operations be 100% carbon-free by 2040. The emphasis being placed on such forms of energy positions Constellation Energy ahead of many of its peer groups. Lastly, utility companies are often more recession proof than those in other sectors as customers typically prioritize power even in economic downturns. This usually results in slow, but consistent growth leading to higher dividends over time. Parent company Exelon Corporation did reduce its dividend several times during the last decade, but this was because the company raised a large amount of debt to fund mergers and acquisitions that are performing well today. Constellation Energy has a very healthy projected payout ratio, especially for a utility company.

Final Thoughts & Recommendation

Constellation Energy is expected to return 2.8% through 2029, compared to our prior estimate of an annual loss of 9.2%. Our projection stems from a 10% earnings growth rate and a starting yield of 0.9% that are offset by a high single-digit headwind from valuation compression. Constellation Energy turned in a solid 2023, with estimates that growth is likely to accelerate in 2024. We have raised our expected earnings growth rate and target valuation as a result. That said, the valuation still leaves something to be desired. We continue to view shares as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,429	29,447	31,366	33,558	35,978	34,438	33,039	24,440	24,918
Gross Profit	5,858	8,041	8,772	9,498	9,971	10,326	9,527	2,137	3,232
Gross Margin	21.4%	27.3%	28.0%	28.3%	27.7%	30.0%	28.8%	8.7%	13.0%
Operating Profit	2,390	4,391	3,260	3,939	3,835	4,342	2,799	244	1,883
Operating Margin	8.7%	14.9%	10.4%	11.7%	10.7%	12.6%	8.5%	1.0%	2,405
Net Profit	1,623	2,269	1,121	3,779	2,005	2,936	1,963	(160)	9.7%
Net Margin	5.9%	7.7%	3.6%	11.3%	5.6%	8.5%	5.9%	-0.7%	1,623
Free Cash Flow	(1,620)	(8)	(92)	(104)	1,050	(589)	(3,813)	(4,042)	6.5%
Income Tax	666	1,073	753	(126)	118	774	373	(388)	(7,723)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	86,416	95,384	114,904	116,770	48,995	48,094	48,086	46,909	50,758
Cash & Equivalents	1,878	6,502	635	1,105	303	226	504	422	368
Accounts Receivable	3,482	3,187	4,158	4,445	2,893	1,298	1,669	2,585	1,934
Goodwill & Int. Ass.	2,672	2,672	6,677	6,650	47				425
Total Liabilities	62,283	68,090	87,292	84,583	33,165	33,418	36,472	35,537	39,472
Long-Term Debt	22,115	26,319	35,913	35,582	8,294	7,212	8,196	5,768	
Shareholder's Equity	22,608	25,793	25,837	29,896	13,484	12,399	11,219	11,018	9,261
LTD/E Ratio	0.98	1.02	1.39	1.19	0.62	0.58	0.73	0.52	0.85

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.0%	2.5%	1.1%	3.3%	1.7%	2.4%	1.5%	1.3%	-0.3%	3.3%
Return on Equity	7.2%	9.4%	4.3%	13.6%	6.6%	9.3%	6.1%	5.1%	-1.4%	14.3%
ROIC	3.6%	4.5%	1.9%	5.8%	2.9%	4.1%	2.7%	2.3%	-0.9%	8.6%
Shares Out.	860	920	924	963	968	972	976	980	328	321
Revenue/Share	31.75	32.98	33.84	35.36	37.13	35.36	33.82	37.09	74.29	76.91
FCF/Share	(1.88)	(0.01)	(0.10)	(0.11)	1.08	(0.60)	(3.90)	(5.07)	(12.29)	(23.84)

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

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