# Chesapeake Utilities Corporation (CPK)

*Updated March 16th, 2024, by Tiago Dias*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $103 | **5 Year CAGR Estimate:** | 3.4% | **Market Cap:** | $1.8 B |
| **Fair Value Price:** | $80 | **5 Year Growth Estimate:** | 6.0% | **Ex-Dividend Date:** | 03/14/2024 |
| **% Fair Value:** | 128% | **5 Year Valuation Multiple Estimate:** | -4.9% | **Dividend Payment Date:** | 04/05/2024 |
| **Dividend Yield:** | 2.3% | **5 Year Price Target** | $107 | **Years Of Dividend Growth:** | 20 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## Overview & Current Events

Chesapeake Utilities Corporation (CPK) is a diversified energy delivery company operating primarily in the Mid-Atlantic region and engaged in distribution of natural gas, propane gas and electricity. Founded in 1947, this $1.8 billion market cap company has raised its dividend every year since 2004.

Chesapeake reported Q4 and full year 2023 earnings on February 21st, 2024. For the quarter, earnings-per-share were $1.26, a decrease from the $1.47 reported in the same period in 2022. For the full year the company reported $4.73 in earnings per share, below the $5.04 reported in the prior year. The company declared a new quarterly dividend of $0.59 per share, matching the previous quarterly dividend.

The full year earnings were negatively affected by the purchase of Florida City Gas, which caused a drag of $0.58 per share. Significantly warmer than normal temperatures impacted customer consumption throughout 2023, also caused a significant drag on EPS.

For 2024, the company is providing annual guidance between $5.33 and $5.45 of earnings per share. It also reaffirmed its previously announced 2024 capital expenditure guidance of $300 to $360 million. The company also reaffirmed its long-term EPS growth guidance of around 8% per year.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.47 | $2.68 | $2.86 | $2.68 | $3.45 | $3.72 | $4.21 | $4.73 | $5.04 | $4.73 | ***$5.35*** | ***$7.16*** |
| **DPS** | $1.07 | $1.12 | $1.19 | $1.26 | $1.39 | $1.55 | $1.69 | $1.84 | $2.09 | $2.31 | ***$2.36*** | ***$3.16*** |
| **Shares** | 15 | 16 | 16 | 16 | 16 | 17 | 18 | 19 | 18 | 18 | ***18.0*** | ***22.0*** |

Utility companies are often seen as stable businesses with low volatility in their dividends, at the expense of limited growth opportunities. Chesapeake Utilities certainly has the earnings and dividend stability, and over the past decade it seems to have successfully dodged the low growth drawback that characterizes many of its competitors.

There's only so long that a company can swim against the current, however, and its most recent organic customer growth guidance of around 5%, well below its 10% average over the past decade, indicates that the business is maturing in a way that is bringing its fundamentals closer to those of its peers. However, we believe that Chesapeake Utilities is still an above average company within the utility sector. It's for this reason that we estimate a 6% earnings growth over the next 5 years, with earnings in 2029 of around $7.16. This estimate is in line with the company's own guidance and represents a significant slowing down of the business compared to its performance in the past decade.

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## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 17.7 | 19.1 | 21.8 | 27.8 | 22.9 | 24.7 | 21.6 | 25.6 | 25.0 | 23.3 | ***19.3*** | ***15.0*** |
| Avg. Yld. | 2.4% | 2.2% | 1.9% | 1.7% | 1.8% | 1.7% | 1.9% | 1.5% | 1.7% | 2.1% | ***2.3%*** | ***2.9%*** |

Over the past decade, Chesapeake has consistently traded at a premium and this premium has only increased over time, with it reaching 20 times earnings recently. While the company's fundamentals are certainly impressive, it's clear that the valuation that investors have given the company has been lofty for some time, and over the past quarter it appears that investors have wised up to that as well and have brought down the multiple they have been willing to pay. While we expect the company to continue to be re-rated downwards over the coming years to around a 15 P/E, it is clear that its current valuation is far more in line with the market than it was just a few months ago.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

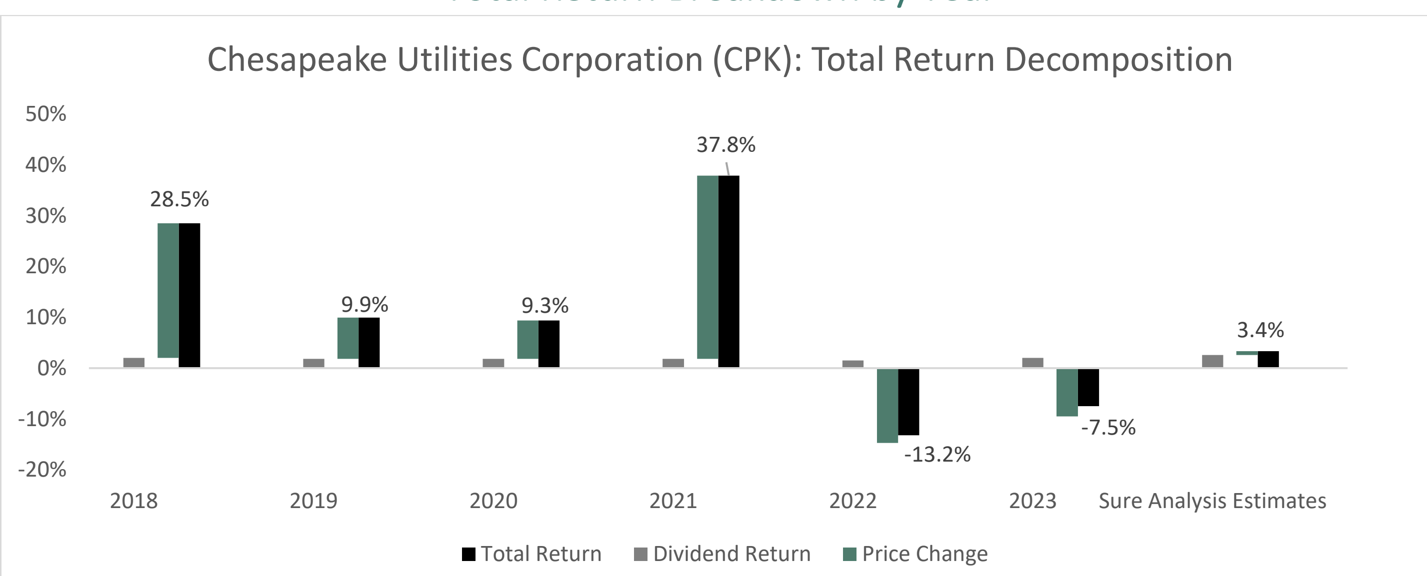
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 43% | 42% | 42% | 47% | 40% | 42% | 40% | 39% | 41% | 49% | ***44%*** | ***44%*** |

Chesapeake has managed to provide above average returns over the past decade as a result of its unique business model that straddles the line between regulated and non-regulated utilities. By having parts of its business regulated, it has managed to maintain a consistent and stable earnings power that allows it to comfortably pay consistently increasing dividends, at the same time its unregulated business brings in above average organic growth that has only recently begun showing signs of slowing down. This strategy has allowed it to outperform its competitors and become a truly high-quality business that most investors would be happy to own.

## Final Thoughts & Recommendation

With stable earnings, and reliable growth Chesapeake is a reliable dividend stock, though the average valuation and likely multiple compression means that it is difficult to justify buying at this time. Therefore, the company's shares receive a hold rating.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 444 | 499 | 459 | 499 | 450 | 490 | 480 | 488 | 570 | 681 |
| Gross Profit | 101 | 109 | 120 | 133 | 143 | 153 | 172 | 193 | 218 | 238 |
| Gross Margin | 22.6% | 21.8% | 26.1% | 26.6% | 31.8% | 31.3% | 35.8% | 39.5% | 38.2% | 34.9% |
| D&A Exp. | 30 | 33 | 37 | 39 | 45 | 49 | 55 | 68 | 73 | 80 |
| Operating Profit | 63 | 69 | 76 | 86 | 90 | 95 | 106 | 113 | 131 | 143 |
| Op. Margin | 14.1% | 13.9% | 16.6% | 17.2% | 19.9% | 19.3% | 22.1% | 23.1% | 23.0% | 21.0% |
| Net Profit | 33 | 36 | 41 | 45 | 58 | 57 | 65 | 71 | 83 | 90 |
| Net Margin | 7.4% | 7.2% | 9.0% | 9.0% | 12.9% | 11.5% | 13.6% | 14.6% | 14.6% | 13.2% |
| Free Cash Flow | (24) | (18) | (39) | (66) | (65) | (123) | (82) | (7) | (36) | 31 |
| Income Tax | 22 | 24 | 27 | 28 | 15 | 21 | 21 | 24 | 29 | 34 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 838 | 904 | 1,067 | 1,229 | 1,415 | 1,694 | 1,783 | 1,932 | 2,115 | 2,215 |
| Cash & Equivalents | 3 | 5 | 3 | 4 | 6 | 6 | 7 | 3 | 5 | 6 |
| Acc. Receivable | 75 | 53 | 41 | 63 | 77 | 54 | 50 | 57 | 58 | 63 |
| Inventories | 15 | 11 | 10 | 11 | 20 | 17 | 12 | 11 | 21 | 26 |
| Goodwill & Int. | 7 | 7 | 17 | 17 | 24 | 25 | 41 | 47 | 58 | 64 |
| Total Liabilities | 559 | 604 | 709 | 783 | 929 | 1,175 | 1,222 | 1,235 | 1,341 | 1,382 |
| Accounts Payable | 53 | 45 | 39 | 57 | 75 | 99 | 54 | 60 | 53 | 61 |
| Long-Term Debt | 235 | 256 | 332 | 359 | 458 | 622 | 733 | 698 | 789 | 802 |
| Total Equity | 279 | 300 | 358 | 446 | 486 | 518 | 562 | 697 | 774 | 833 |
| D/E Ratio | 0.84 | 0.85 | 0.93 | 0.80 | 0.94 | 1.20 | 1.31 | 1.00 | 1.02 | 0.96 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 4.2% | 4.1% | 4.2% | 3.9% | 4.4% | 3.6% | 3.7% | 3.8% | 4.1% | 4.1% |
| Return on Equity | 12.2% | 12.5% | 12.5% | 11.1% | 12.5% | 11.3% | 12.1% | 11.4% | 11.3% | 11.2% |
| ROIC | 7.0% | 6.7% | 6.6% | 6.0% | 6.6% | 5.4% | 5.4% | 5.3% | 5.6% | 5.6% |
| Shares Out. | 15 | 15 | 16 | 16 | 16 | 16 | 17 | 18 | 19 | 18 |
| Revenue/Share | 30.55 | 34.16 | 30.33 | 31.95 | 27.45 | 29.86 | 29.16 | 29.11 | 32.32 | 38.23 |
| FCF/Share | (1.66) | (1.22) | (2.57) | (4.21) | (3.98) | (7.49) | (4.97) | (0.39) | (2.07) | 1.72 |

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