Public Service Enterprise Group Inc. (PEG)

Updated May 19th, 2024 by Felix Martinez

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	0.7%	**Market Cap:**	$37.1 B
Fair Value Price:	$55	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	06/07/24
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	06/28/24
Dividend Yield:	3.2%	**5 Year Price Target**	$64	**Years of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Sell

Overview & Current Events

The Public Service Enterprise Group (PEG) is a publicly-traded diversified energy company headquartered in Newark, New Jersey, established in 1985. However, The company has a history that dates back to 1903, when it was initially called Public Service Corporation. PEG's principal operating subsidiaries are Public Service Electric and Gas Co. (PSE&G), PSEG Power, and PSEG Long Island. The company is one of the ten largest electric companies in the U.S. PSE&G provides electric and natural gas services and services to 2.3 million electric customers and 1.9 million gas customers. PSE&G accounted for over 66% of PEG revenues in 2022. PEG has approximately 13,000 employees and a market cap of $37.1 billion. The company has been growing dividends for thirteen consecutive years, and PEG has been paying the same or higher dividends for 20 years in a row.

On April 30th, 2024, the company reported first quarter results for Fiscal Year (FY)2024. The company reported a decline in net income for the first quarter of 2024 compared to the same period last year, although non-GAAP operating earnings remained steady. CEO Ralph LaRossa expressed confidence in meeting the company's full-year earnings guidance despite higher investment-related costs and pending rate case resolutions. The implementation of the nuclear production tax credit is expected to provide support for the nuclear fleet's pricing.

PSE&G's results were consistent, with net income remaining stable, driven by investments in transmission infrastructure. However, higher expenses, including depreciation and interest, partially offset these gains. The company remains on track with its capital investment program focused on modernization and decarbonization initiatives.

Meanwhile, PSEG Power & Other segments experienced a significant decrease in net income due to factors such as scheduled plant maintenance and increased taxes. Despite this, the federal nuclear production tax credit provided some relief. The company anticipates most of the increase in gross margin for 2024 will be realized in the second half of the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.76	$2.91	$2.90	$2.93	$3.12	$3.28	$3.43	$3.65	$3.47	$3.48	***$3.66***	***$4.24***
DPS	$1.48	$1.56	$1.64	$1.72	$1.80	$1.88	$1.96	$2.04	$2.16	$2.28	***$2.40***	***$2.92***
Shares[1]	508.0	508.0	508.0	507.0	507.0	507.0	507.0	504.0	504.0	498.0	***498.0***	***498.0***

The company does not have strong growth prospects as it is a utility company and heavily regulated by the government. However, we estimate a 3% annual earnings growth rate for the next five years. This is higher than the 2.2% growth rate that the company has experienced for the past 5-year average. it is also higher than the 2.6% earnings growth over the past decade. The dividend has been growing slightly better than earnings. The dividend has had a CAGR of 5.0% for the past five years. We see this slowing down, and we estimate a dividend growth rate of 4% going forward. The net margin has increased from 14.8% in FY2018 to 16.8% in FY2019. In FY2023, PEG had a net margin of 22.8%.

[1] Share count is 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	13.3	15.1	17.6	16.7	17.9	17.0	18.3	17.7	17.6	***20.4***	***15.0***
Avg. Yld.	3.6%	4.0%	3.7%	3.3%	3.5%	3.2%	3.4%	3.1%	3.5%	3.7%	***3.2%***	***4.6%***

The company looks to be overvalued at today's price. Because of the slow growth prospects, we think that a fair PE is 15.0x earnings. This is in line with the company's 10-year average PE. Thus, we see an annual headwind due to multiple contractions. The current dividend yield of 3.2% is lower than its 5-year average of 3.4% but not as attractive as other utility companies with a higher dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

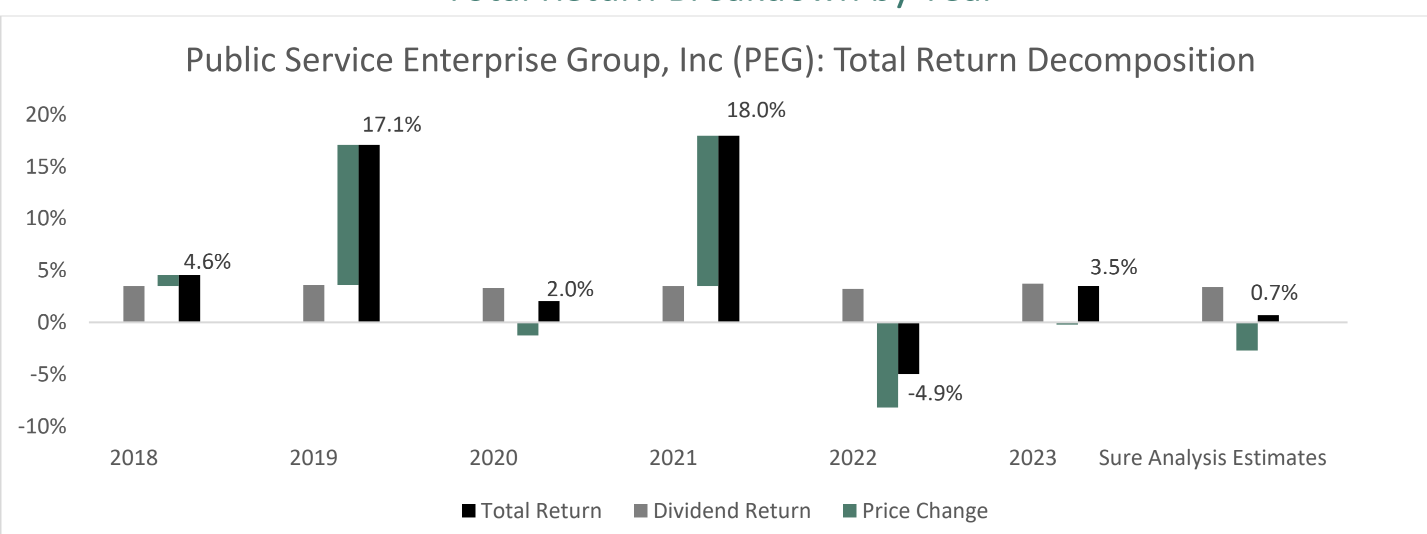
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53.6%	53.6%	56.6%	58.7%	57.7%	57.3%	57.1%	55.9%	62.2%	65.5%	***66%***	***69%***

PEG's competitive advantage is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high entry barriers to potential competitors. During the Great Recession of 2008-2009, The Company grew earnings from $2.71 in 2007 to $2.92 in 2008 and $3.12 in 2009. The dividend was well covered, and the company increased its dividend by 10.3% in 2008. This shows the dividend safety and the resilience of this company. However, in 2011, the company froze its dividend, losing its dividend increase streak, but it has grown since then. The company has a stable balance sheet with a debt-to-equity ratio of 1.3. Interest coverage ratio of 5.5x. However, the company does have more debt than assets, as the current ratio is 0.7. PEG's dividend payout ratio has been in the uptrend but is still safe for the foreseeable future.

Final Thoughts & Recommendation

The company is safe to invest in, as most utility companies are. However, at the current price, PEG is overvalued relative to our fair price estimate of $55. There are not many growth prospects available to the company currently. Thus, we see a 5-year projected annual return of 0.7%. Most of this return will come from the 3.2% dividend yield. We rate PEG as a sell at the current price.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	8,966	9,094	9,696	10,076	9,696	10,076	9,603	9,722	9800	11240
Gross Profit	$3,074	$3,415	$3,402	$3,593	$3,402	$3,593	$3,432	$2,997	2604	4827
Gross Margin	34.3%	37.6%	35.1%	35.7%	35.1%	35.7%	35.7%	30.8%	26.6%	42.9%
D&A Exp.	$1,679	$2,185	$1,345	$1,426	$1,345	$1,426	$1,469	$1,403	1283	1324
Operating Profit	$1,598	$1,429	$2,244	$2,345	$2,244	$2,345	$2,147	$1,762	1477	3474
Operating Margin	17.8%	15.7%	23.1%	23.3%	23.1%	23.3%	22.4%	18.1%	15.1%	30.9%
Net Profit	$887	$1,574	$1,438	$1,693	$1,438	$1,693	$1,905	$-648	1031	2563
Net Margin	9.9%	17.3%	14.8%	16.8%	14.8%	16.8%	19.8%	-6.7%	10.5%	22.8%
Free Cash Flow	-985	-1,047	-1,145	115	-1145	115	68	-1,081	-1385	481
Income Tax	$411	-$306	$417	$257	$417	$257	$396	$-441	-29	518

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	40,070	42,716	45,326	47,730	45,326	47,730	50,050	48,999	48718	50740
Cash & Equivalents	$423	$313	$177	$147	$177	$147	$543	$818	465	54
Accounts Receivable	$1,161	$1,348	$1,435	$1,313	$1,435	$1,313	$1,410	$18,59	1944	1482
Inventories	$887	$866	$902	$897	$902	$897	$878	$744	960	1023
Goodwill & Int. Ass.	$114	$130	$159	$149	159	149	158	20	14	
Total Liabilities	26,940	28,869	30,949	32,641	30,949	32,641	34,066	34,561	34989	35260
Accounts Payable	$1,459	$1,694	$1,451	$1,358	$1,451	$1,358	$1,332	$1,315	1271	1214
Long-Term Debt	11,783	13,610	15,478	16,223	15,478	16,223	17,243	19,438	20270	20230
Shareholder's Equity	13,130	13,847	14,377	15,089	14,377	15,089	15,984	14,438	13729	15480
LTD/E Ratio	0.90	0.98	1.08	1.08	1.08	1.08	1.08	1.35	1.48	1.31

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	3.8%	3.3%	3.6%	3.3%	3.6%	3.9%	-1.3%	2.1%	5.2%
Return on Equity	6.8%	11.7%	10.2%	11.5%	10.2%	11.5%	12.3%	-4.3%	7.3%	17.6%
ROIC	3.7%	6.0%	5.0%	5.5%	5.0%	5.5%	5.9%	-1.9%	3.0%	7.4%
Shares Out.	508	507	507	507	507	507	507	504	501.0	500.0
Revenue/Share	$17.65	$17.94	$19.12	$19.87	$19.12	$19.87	$18.94	19.29	19.6	22.5
FCF/Share	-$1.94	-$2.07	-$2.26	$0.23	$-2.26	$0.23	$0.13	-2.14	-2.8	0.96

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