



Consolidated Edison Inc (ED)

Updated August 4th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$102	5 Year CAGR Estimate:	3.5%	Market Cap:	\$35 B
Fair Value Price:	\$85	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	08/14/24
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	09/16/24
Dividend Yield:	3.3%	5 Year Price Target	\$103	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Consolidated Edison is a holding company that delivers electricity, natural gas, and steam to its customers in New York City and Westchester County. The company has annual revenues of nearly \$16 billion.

On January 18th, 2024, Consolidated Edison announced that it was raising its quarterly dividend 2.5% to \$0.83. This is the company's 50th annual increase, qualifying Consolidated Edison as a Dividend King.

On August 1st, 2024, Consolidated Edison announced second quarter results for the period ending June 30th, 2024. For the quarter, revenue grew 9.4% to \$3.22 billion, which was \$92 million more than expected. Adjusted earnings of \$203 million, or \$0.59 per share, compared to adjusted earnings of \$210 million, or \$0.61 per share, in the previous year. Adjusted earnings-per-share were \$0.02 above estimates.

As with prior periods, higher rate bases for gas and electric customers were the primary contributors to results in the CECONY business, which accounts for the vast majority of the company's assets. However, the denial of approval to capitalize costs related to the implementation of the new customer billing and information systems was a headwind to results. Average rate base balances are expected to grow by 6.4% annually for the 2024 to 2028 period, up from 6% previously. Consolidated Edison expects capital investments of nearly \$28 billion for the 2024 to 2028 period.

We continue to forecast that Consolidated Edison will earn \$5.30 in 2024. The company expects 5% to 7% earnings growth from 2024 levels through 2028.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.62	\$4.05	\$3.94	\$4.12	\$4.33	\$4.38	\$4.18	\$4.39	\$4.57	\$5.07	\$5.30	\$6.45
DPS	\$2.52	\$2.60	\$2.68	\$2.76	\$2.86	\$2.96	\$3.06	\$3.10	\$3.16	\$3.24	\$3.32	\$3.76
Shares¹	293	293	305	310	315	334	337	354	356	347	346	345

In 2018, Consolidated Edison received approval to raise its rates by 6% per year in both the electric and gas delivery segments for the next three years. Thanks to rate hikes and population growth, the company has been able to raise its dividend for nearly five decades. Consolidated Edison initiated its biggest investment program in its history last year. It has completed its installation smart meters in its network. This will help customers optimize energy use while the company will be able to realize lower peak demand and thus reduce its operating cost. The company also expects capital investment of ~\$4.8 billion for 2024, and ~\$23 billion for 2025 through 2028.

Consolidated Edison has grown its earnings-per-share at a 3.8% average annual rate during the last decade. The company has grown its dividend at a 2.8% annual rate over this period, but it has also diluted its shareholders at a 1.9% per year.

Due to the company's guidance for 2024, we have raised our projected earnings growth rate to 4% from 3.5%. The dividend growth rate is expected to be 2.5% per year through 2029 as this is close to the long-term average.

¹ Share count in millions

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	15.9	15.6	18.8	20.0	17.4	20.7	17.3	19.4	20.9	17.9	19.2	16.0
Avg. Yld.	4.4%	4.1%	3.6%	3.4%	3.8%	3.3%	4.2%	3.6%	3.3%	3.6%	3.3%	3.6%

Shares of Consolidated Edison have increased \$7, or 7.4%, since our May 6th, 2024 report. Just like most other utilities, Consolidated Edison reached somewhat overvalued levels in recent years thanks to the almost record-low interest rates that prevailed for years and led yield-starved investors to utility stocks. With rates now higher, valuations have come down somewhat for many of the names in the sector. Shares trade with a price-to-earnings ratio of 19.2 based off estimates for 2024. Consolidated Edison has traded at an average multiple of 18.4 over the last decade, but we believe that a multiple of 16 times earnings is appropriate given the company's lack of growth over the past few years.

We expect valuation to act as a 3.6% headwind to annual returns through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

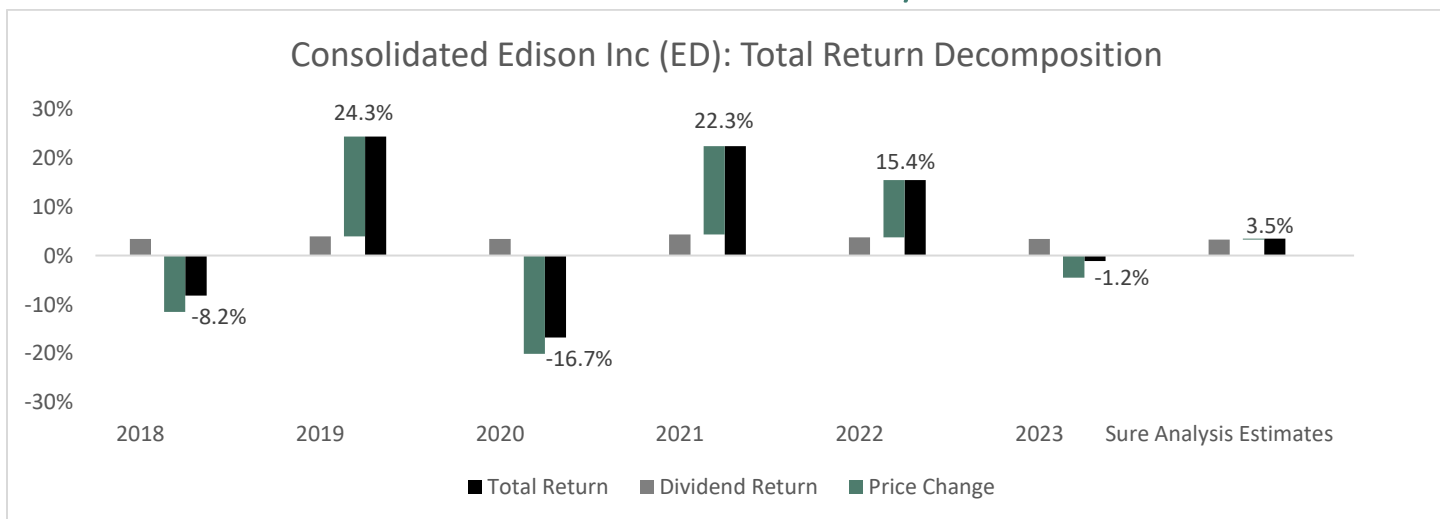
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	70%	64%	68%	68%	66%	68%	73%	71%	69%	64%	63%	58%

Just like most other utilities, thanks to its heavy investments in infrastructure, Consolidated Edison is typically allowed by the regulatory authorities to raise its rates. As a result, it enjoys reliable cash flows and can thus service its debt. One key competitive advantage for Consolidated Edison is that consumers do not curtail their electricity consumption even during the roughest economic periods, so the stock is resilient during recessions. This resiliency should be attractive to investors. In the Great Recession, when most companies saw their earnings collapse, earnings for Consolidated Edison fell just 3% in 2008 and 7% in 2009, and it took only one year to return to the pre-crisis level.

Final Thoughts & Recommendation

After second quarter results, Consolidated Edison is expected to return 3.5% annually through 2029, down from our prior estimate of 5.0%. Projected returns stem from a 4.0% earnings growth rate and a starting yield of 3.3% that are partially offset by a low single-digit headwind from multiple compression. For income investors, there is much to like about Consolidated Edison, including the company's dividend growth track record and the stock's solid yield. We reaffirm our five-year price target of \$103 due to EPS estimates for the year, but now rate Consolidated Edison as a sell 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	12,919	12,554	12,075	12,033	12,337	12,574	12,246	13,676	15,670	14,663
Gross Profit	5,112	5,494	5,923	6,269	6,237	6,766	7,149	7,668	7,685	7,405
Gross Margin	39.6%	43.8%	49.1%	52.1%	50.6%	53.8%	58.4%	56.1%	49.0%	50.5%
D&A Exp.	1,071	1,130	1,216	1,341	1,438	1,684	1,920	2,032	2,056	2,031
Operating Profit	2,164	2,427	2,676	2,773	2,533	2,676	2,654	2,826	2,624	2,331
Op. Margin	16.8%	19.3%	22.2%	23.0%	20.5%	21.3%	21.7%	20.7%	16.7%	15.9%
Net Profit	1,092	1,193	1,245	1,525	1,382	1,343	1,101	1,346	1,660	2,519
Net Margin	8.5%	9.5%	10.3%	12.7%	11.2%	10.7%	9.0%	9.8%	10.6%	17.2%
Free Cash Flow	412	223	(221)	(76)	(802)	(352)	(1,711)	(1,220)	(233)	(2,338)
Income Tax	568	605	698	472	401	296	90	190	498	487

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	44,071	45,642	48,255	48,111	53,920	58,079	62,895	63,116	69,065	66,331
Cash & Equivalents	699	944	776	797	895	981	1,272	992	1,282	1,189
Acc. Receivable	1,201	1,052	1,106	1,103	1,267	1,236	1,701	1,943	2,192	2,418
Inventories	372	350	339	334	358	352	356	437	492	469
Goodwill & Int.	432	431	552	559	2,094	2,003	1,906	1,732	408	408
Total Liabilities	31,486	32,581	33,949	32,686	37,081	39,866	43,830	42,780	48,176	45,173
Accounts Payable	1,035	1,008	1,147	1,286	1,187	1,164	1,475	1,497	1,955	1,775
Long-Term Debt	12,906	14,274	15,828	16,606	20,711	21,665	24,219	24,532	23,836	24,465
Total Equity	12,576	13,052	14,298	15,418	16,726	18,022	18,847	20,037	20,687	21,158
LTD/E Ratio	1.03	1.09	1.11	1.08	1.24	1.20	1.29	1.22	1.15	1.16

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.6%	2.7%	2.7%	3.2%	2.7%	2.4%	1.8%	2.1%	2.5%	3.7%
Return on Equity	8.8%	9.3%	9.1%	10.3%	8.6%	7.7%	5.9%	6.8%	8.1%	12.0%
ROIC	4.4%	4.5%	4.3%	4.9%	4.0%	3.5%	2.6%	3.1%	3.7%	5.6%
Shares Out.	293	293	305	310	315	334	337	354	356	347
Revenue/Share	43.94	42.64	40.00	38.97	39.43	38.16	36.48	39.14	44.04	41.98
FCF/Share	1.40	0.76	(0.73)	(0.25)	(2.56)	(1.07)	(5.10)	(3.49)	(0.65)	(6.69)

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

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