Sempra (SRE)

Updated August 21st, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$51.2 B
Fair Value Price:	$88	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	9/24/2024
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	10/13/2024
Dividend Yield:	3.1%	**5 Year Price Target**	$112	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Sempra (SRE) was founded 26 years ago and has grown into a $51.2 billion market cap company. It serves one of the largest utility customer bases in the U.S., as it distributes natural gas and electricity in Southern California (over 20 million customers) and owns a majority stake in Texas-based Oncor, a transmission and distribution business (over 10 million customers). The company also owns and operates other utilities and merchant renewable energy projects, liquefied natural gas facilities, and gas pipes and storage in the U.S. and Latin America. On August 22nd, 2023, the stock performed a two-for-one stock split. All figures in this report have been adjusted for this split.

Sempra benefits from two key trends, namely the transition towards cleaner energy resources and the advance of the U.S. as a global energy leader. In 2018, the company sold most of its non-core assets in order to better focus on its large core North American regulated utility, LNG export, and Mexican infrastructure (IEnova) assets as well as deleverage the balance sheet. Given the strong competitive advantages enjoyed by these core assets, we believe that these moves have made Sempra more attractive.

In early August, Sempra reported (8/6/24) financial results for the second quarter of fiscal 2024. Its earnings-per-share dipped -5% over the prior year's quarter, from $0.94 to $0.89, mostly due to higher depreciation and lower operating margins, and missed the analysts' estimates by $0.05. The company has beaten the analysts' estimates in 13 of the last 15 quarters. Management reiterated its positive guidance. It expects earnings-per-share of $4.60-$4.90 this year and $4.90-$5.25 in 2025. As a utility, Sempra is essentially immune to high inflation.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.32	$2.69	$2.73	$2.71	$2.79	$3.39	$4.02	$4.22	$4.61	$4.61	***$4.80***	***$6.13***
DPS	$1.32	$1.40	$1.51	$1.65	$1.79	$1.94	$2.09	$2.20	$2.29	$2.38	***$2.48***	***$3.16***
Shares[2]	502	502	502	504	540	578	580	639	632	634	***636***	***700***

Sempra's enormous economies of scale and regulated monopolies in California and Texas should enable it to capitalize on any economic growth in those regions to drive long term growth. Sempra has a record 5-year capital plan of $48 billion, which will be a major growth driver in the upcoming years. Oncor expects to grow its rate base to nearly $28 billion by 2026, thus implying 8% average annual growth. Additionally, Sempra's assets in Mexico enjoy a first mover advantage, which should enable them to grow rapidly as Mexico begins to invest more seriously in its massively underdeveloped infrastructure. The LNG export portfolio should also see strong demand in the long run, as the U.S. continues its transition into a global energy exporting giant. The U.S. is expected to more than double its LNG export capacity by 2030. As a result, management has several expansion projects, which should contribute significantly to the company's cash flows. Overall, Sempra expects to grow its earnings-per-share by 6%-8% per year on average in the long run. In order to be on the safe side, we have assumed 5% average annual growth over the next five years, roughly in line with the 3-year growth rate of the company.

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[1] Estimated date.

[2] 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	24.1	17.3	18.5	19.8	19.4	19.8	16.1	15.4	16.9	16.0	***16.9***	***18.3***
Avg. Yld.	2.4%	3.0%	3.0%	3.1%	3.3%	2.9%	3.2%	3.4%	2.9%	3.2%	***3.1%***	***2.8%***

Sempra is currently trading at a price-to-earnings ratio of 16.9, which is lower than its 10-year average of 18.3. The cheap valuation has resulted from the impact of 23-year high interest rates on the present value of future earnings. We expect interest rates to moderate and the stock to trade close to its average valuation level in five years. If this occurs, the stock will enjoy a 1.6% annualized expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

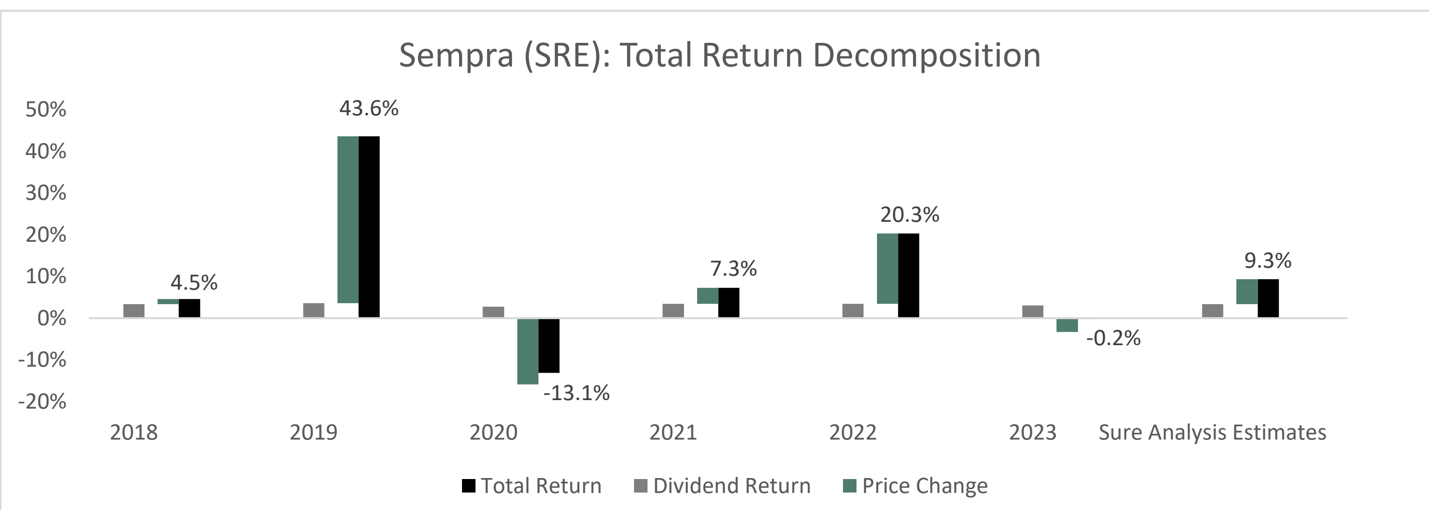
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57.0%	52.1%	55.3%	60.7%	64.3%	57.1%	52.1%	52.2%	49.7%	51.6%	***51.7%***	***51.5%***

As a regulated utility in possession of dominant businesses in their respective regions, Sempra possesses a clear moat around a significant portion of its earnings. At the same time, however, the regulated nature of its pricing prevents it from earning surplus profits. These businesses, as well as the stable, mission-critical nature of its infrastructure business in Mexico make it quite recession resistant. As proof of this, Sempra's earnings-per-share increased during the Great Recession (2008 and 2009) and throughout the coronavirus crisis as well. However, its LNG export business and international exposure make it somewhat susceptible to commodity price, geopolitical, and currency exchange risks. Nevertheless, its high-quality assets, low payout ratio, stable cash flows and strong growth prospects make it a fairly low-risk investment. Moreover, while the company has a somewhat weak balance sheet, it has improved its interest coverage ratio to 2.5 thanks to the sale of non-core assets.

Final Thoughts & Recommendation

Sempra owns quality assets, many of which are in recession-resistant businesses. Its utility businesses are dominant players in their fields and its LNG export and infrastructure businesses have strong growth potential. Combined, they create a business that has both stable and defensive characteristics. Sempra has rallied 14% in 12 months but it can still offer a 9.3% average annual return over the next five years thanks to 5.0% growth, its 3.1% dividend and a 1.6% valuation tailwind. It thus maintains its buy rating. Sempra is very attractive for those who are confident in lower interest rates in the years ahead.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11035	10231	10183	11207	11687	10829	11370	12857	14439	16,720
Gross Profit	3346	3592	3353	4277	4414	4692	5042	5301	5211	6,619
Gross Margin	30.3%	35.1%	32.9%	38.2%	37.8%	43.3%	44.3%	41.2%	36.1%	39.6%
D&A Exp.	1156	1250	1312	1490	1549	1569	1,666	1,855	2,019	2,227
Operating Profit	1888	2026	1731	2519	2491	2627	2,833	2,850	2,557	3,715
Operating Margin	17.1%	19.8%	17.0%	22.5%	21.3%	24.3%	24.9%	22.2%	17.7%	22.2%
Net Profit	1162	1350	1371	257	1050	2198	3,933	1,318	2,139	3,075
Net Margin	10.5%	13.2%	13.5%	2.3%	9.0%	20.3%	34.6%	10.3%	14.8%	18.4%
Free Cash Flow	-962	-258	-1903	-324	-337	-620	-2,085	-1,173	-4,215	-2,179
Income Tax	300	341	389	1276	96	315	249	99	556	490

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	39651	41150	47786	50454	60638	65665	66,623	72,045	78,574	87,181
Cash & Equivalents	570	403	349	288	190	108	960	559	370	236
Acc. Receivable	1242	1283	1390	1307	1488	1261	1,578	2,469	3,320	2,151
Inventories	396	298	258	307	296	277	308	389	403	482
Goodwill & Int.	1346	1223	2912	2993	2645	1815	1,804	1,972	1,946	1,920
Total Liabilities	27551	28571	32545	35314	41390	43860	41,689	44,626	49,318	53,527
Accounts Payable	1198	1133	1346	1350	1324	1234	1,359	1,849	2,269	2,211
Long-Term Debt	14288	14663	17121	19412	25363	25816	24,206	24,645	28,919	31,076
Total Equity	11346	11829	12971	12690	14900	17691	20,246	26,001	26,226	27,786
LTD/E Ratio	1.26	1.24	1.32	1.53	1.48	1.29	1.03	0.95	1.07	1.08

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	3.3%	3.1%	0.5%	1.9%	3.5%	5.9%	1.9%	2.8%	3.7%
Return on Equity	10.4%	11.7%	11.1%	2.0%	7.6%	13.5%	20.7%	5.7%	7.5%	9.8%
ROIC	4.5%	5.0%	4.6%	0.8%	2.7%	4.8%	8.1%	2.6%	3.9%	5.0%
Shares Out.	251	251	251	252	270	289	290	320	633	633
Revenue/Share	44.02	40.77	40.54	44.42	43.31	38.40	38.90	41.07	22.82	26.43
FCF/Share	-3.84	-1.03	-7.58	-1.28	-1.25	-2.20	-7.13	-3.75	-6.66	-3.44

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