



Chesapeake Utilities Corporation (CPK)

Updated November 30th, 2024, by Tiago Dias

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	-1.3%	Market Cap:	\$2 B
Fair Value Price:	\$80	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/16/2024
% Fair Value:	163%	5 Year Valuation Multiple Estimate:	-9.3%	Dividend Payment Date:	01/06/2025
Dividend Yield:	2.0%	5 Year Price Target	\$107	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Sell

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 \$2 billion market cap company has raised its dividend every year since 2004.

Chesapeake reported Q3 2024 earnings on November 7th, 2024. For the quarter, earnings-per-share were \$0.78, an increase over the \$0.53 reported in the same period in 2023. The company declared a new quarterly dividend of \$0.64 per share, an increase over the previous quarterly dividend.

The expenses related to the acquisition of Florida City Gas continue to negatively impact the company's earnings per share, with an impact of \$0.80 per share. Margin growth has also been muted because of that, and a number of pipeline expansion projects, additional customer consumption and regulatory initiatives.

The management team highlights the strong financial performance and sustained operational excellence in the third quarter as they continue to execute on the three pillars that drive long-term earnings growth and shareholder value.

The company reiterated its 2024 EPS guidance of \$5.33 to \$5.45 in adjusted earnings per share, with growth versus 2023 coming thanks to incremental margin opportunities present across the company's businesses, investment opportunities and operating synergies.

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	\$2.56	\$3.43
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 utility industry 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.

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	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	24.5	15.0
Avg. Yld.	2.4%	2.2%	1.9%	1.7%	1.8%	1.7%	1.9%	1.5%	1.7%	2.1%	2.0%	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

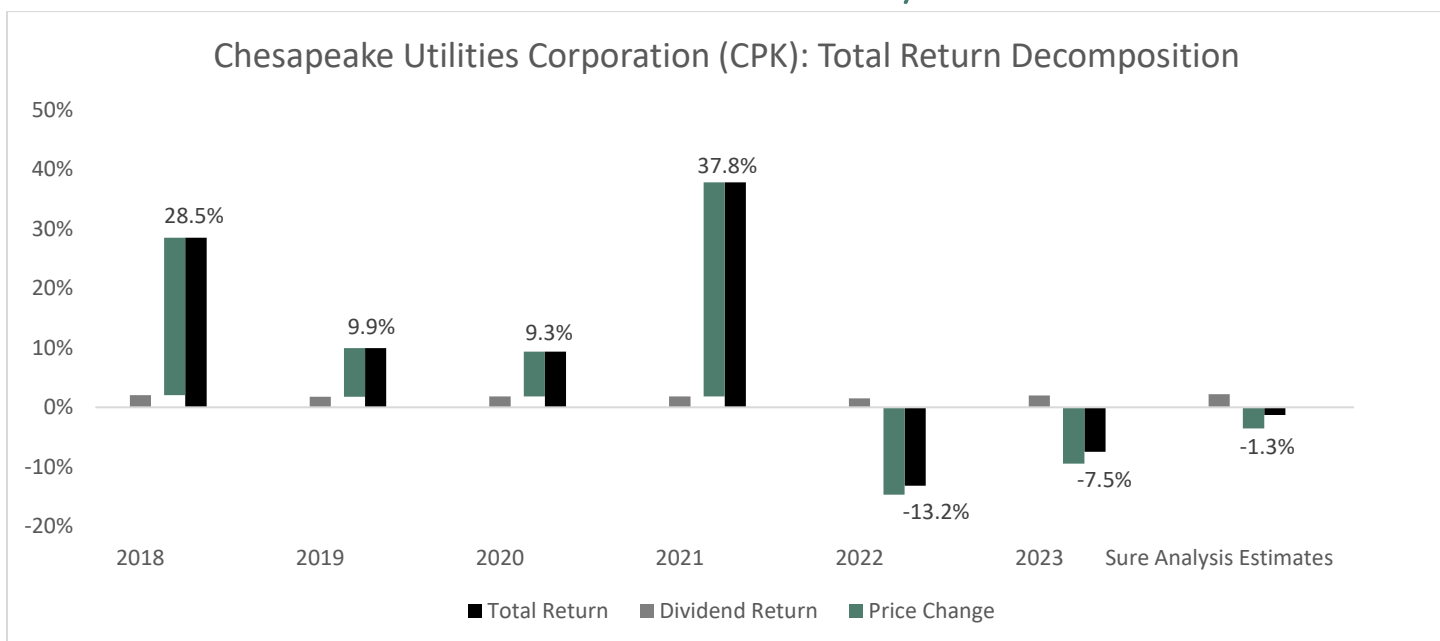
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	43%	42%	42%	47%	40%	42%	40%	39%	41%	49%	48%	48%

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

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	499	459	499	450	490	480	488	570	681	671
Gross Profit	109	120	133	143	153	172	193	218	238	255
Gross Margin	21.8%	26.1%	26.6%	31.8%	31.3%	35.8%	39.5%	38.2%	34.9%	38.0%
D&A Exp.	33	37	39	45	49	55	68	73	80	77
Operating Profit	69	76	86	90	95	106	113	131	143	161
Op. Margin	13.9%	16.6%	17.2%	19.9%	19.3%	22.1%	23.1%	23.0%	21.0%	24.0%
Net Profit	36	41	45	58	57	65	71	83	90	87
Net Margin	7.2%	9.0%	9.0%	12.9%	11.5%	13.6%	14.6%	14.6%	13.2%	13.0%
Free Cash Flow	(18)	(39)	(66)	(65)	(123)	(82)	(7)	(36)	31	15
Income Tax	24	27	28	15	21	21	24	29	34	28

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	904	1,067	1,229	1,415	1,694	1,783	1,932	2,115	2,215	3,305
Cash & Equivalents	5	3	4	6	6	7	3	5	6	5
Acc. Receivable	53	41	63	77	54	50	57	58	63	72
Inventories	11	10	11	20	17	12	11	21	26	29
Goodwill & Int.	7	17	17	24	25	41	47	58	64	525
Total Liabilities	604	709	783	929	1,175	1,222	1,235	1,341	1,382	2,059
Accounts Payable	45	39	57	75	99	54	60	53	61	77
Long-Term Debt	256	332	359	458	622	733	698	789	802	1,385
Total Equity	300	358	446	486	518	562	697	774	833	1,246
D/E Ratio	0.85	0.93	0.80	0.94	1.20	1.31	1.00	1.02	0.96	1.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	4.2%	3.9%	4.4%	3.6%	3.7%	3.8%	4.1%	4.1%	3.2%
Return on Equity	12.5%	12.5%	11.1%	12.5%	11.3%	12.1%	11.4%	11.3%	11.2%	8.4%
ROIC	6.7%	6.6%	6.0%	6.6%	5.4%	5.4%	5.3%	5.6%	5.6%	4.1%
Shares Out.	15	16	16	16	16	17	18	19	18	18
Revenue/Share	34.16	30.33	31.95	27.45	29.86	29.16	29.11	32.32	38.23	36.38
FCF/Share	(1.22)	(2.57)	(4.21)	(3.98)	(7.49)	(4.97)	(0.39)	(2.07)	1.72	0.81

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

Disclaimer

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