Chesapeake Utilities Corporation (CPK)

Updated February 27th, 2025, by Tiago Dias

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	1.9%	**Market Cap:**	$2 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/14/2025
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	04/05/2025
Dividend Yield:	2.0%	**5 Year Price Target**	$123	**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 Q4 and full year 2024 earnings on February 26th, 2025. For the quarter, earnings-per-share were $1.60, an increase over the $1.26 reported in the same period in 2023. For the full year the company earned $5.26 per share, another increase over the prior year where only $4.73 was earned per share. The company has not yet declared a new quarterly dividend but one is expected to be declared shortly.

The expenses related to the acquisition of Florida City Gas continue to negatively affect the company's earnings per share, causing an impact of $0.13 per share for the full year.

The increase in 2024 earnings was driven by incremental contributions from FCG, additional margin from regulatory initiatives and infrastructure programs, growth in the company's natural gas distribution businesses, continued pipeline expansion project to support distribution growth, and increased virtual pipeline services.

The company reiterated its 2025 EPS guidance of $6.15 to $6.35 in adjusted earnings per share, with growth versus 2024 coming thanks to incremental margin opportunities present across the company's businesses, investment opportunities and operating synergies. These projections are based upon the company's previously introduced capital expenditure guidance.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.68	$2.86	$2.68	$3.45	$3.72	$4.21	$4.73	$5.04	$4.73	$5.26	***$6.15***	***$8.23***
DPS	$1.12	$1.19	$1.26	$1.39	$1.55	$1.69	$1.84	$2.09	$2.31	$2.51	***$2.56***	***$3.43***
Shares	16	16	16	16	17	18	19	18	18	22	***22.0***	***23.0***

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.

A company can only swim against the current for so long, however. 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 2023 of around $8.23. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	19.1	21.8	27.8	22.9	24.7	21.6	25.6	25.0	23.3	20.9	***20.5***	***15.0***
Avg. Yld.	2.2%	1.9%	1.7%	1.8%	1.7%	1.9%	1.5%	1.7%	2.1%	2.3%	***2.0%***	***2.8%***

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 are now assigning the company a more reasonable multiple. While we expect the company to continue to be re-rated down toward a 15 P/E, the current valuation is far more in line with the market than it was just a few months ago.

Safety, Quality, Competitive Advantage, & Recession Resiliency

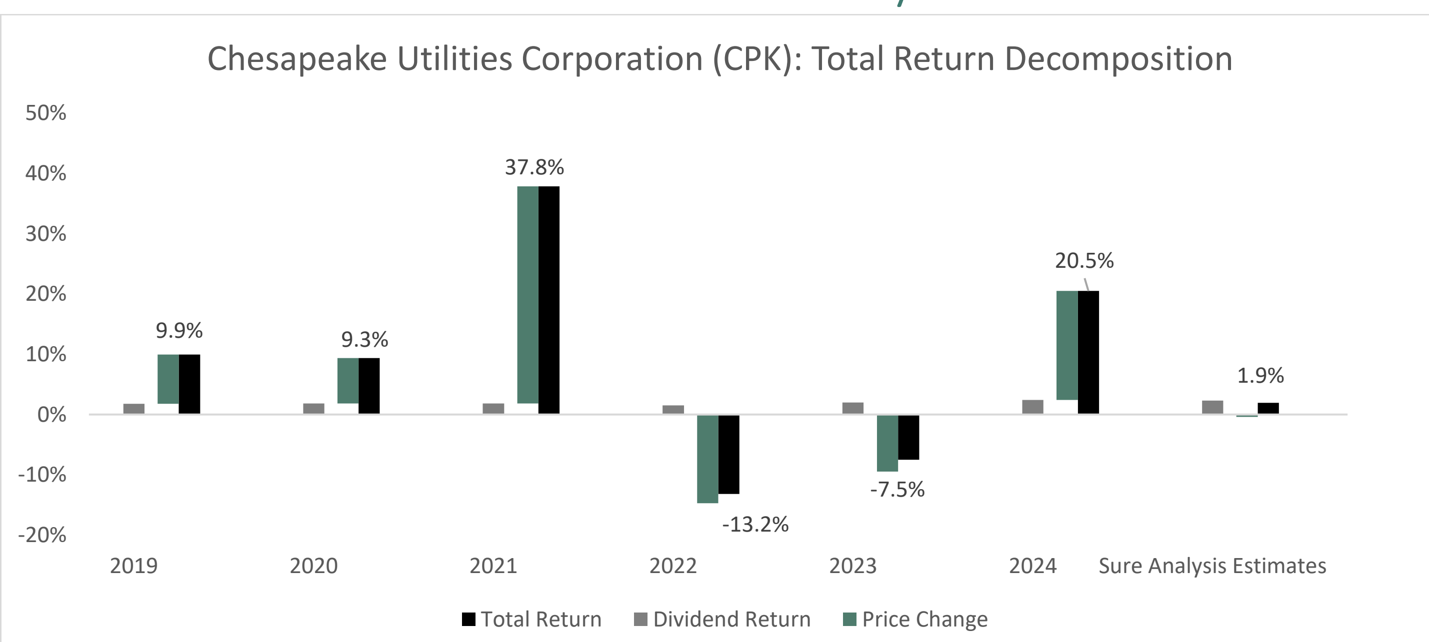
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	42%	42%	47%	40%	42%	40%	39%	41%	49%	48%	***42%***	***42%***

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 shares at this time. Therefore, the company's shares receive a Sell rating.

Total Return Breakdown by Year



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	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.