

Public Service(PEG)

\$58.70 (As of 01/03/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

Summary

Public Service Enterprise, in a bid to replace cast iron and unprotected steel gas mains, and steel service lines with stronger, more durable plastic piping, is consistently modernizing its gas distribution system. Apart from focusing on transmission and distribution infrastructure, it is expanding its renewable assets. The company has invested \$3.6 billion over the past six years to promote clean energy in the state of New Jersey. However, its shares have underperformed the industry in the past year. Moreover, declining market prices have negatively impacted its margins as the anticipated basis generation service (BGS) pricing is replaced by lower spot market pricing. Moreover, the unfavorable outcomes of filed lawsuits can be a concern. Also, commodity price fluctuations had a considerable effect on its profitability.

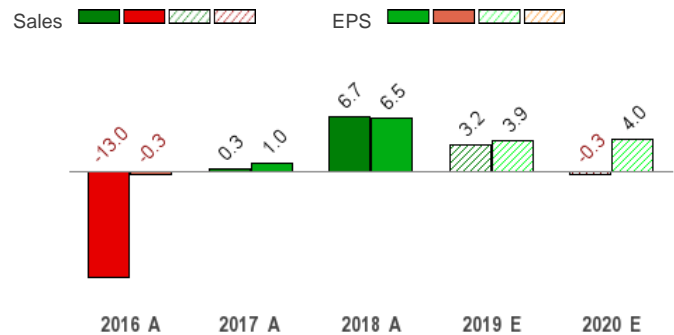
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.88 - \$49.97
20 Day Average Volume (sh)	2,737,992
Market Cap	\$29.7 B
YTD Price Change	-0.6%
Beta	0.24
Dividend / Div Yld	\$1.88 / 3.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 35% (163 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-9.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/26/2020
Earnings ESP	-0.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					9,984 E
2019	2,980 A	2,316 A	2,302 A	2,553 E	10,011 E
2018	2,818 A	2,016 A	2,394 A	2,468 A	9,696 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.07 E	\$0.52 E	\$1.05 E	\$0.78 E	\$3.37 E
2019	\$1.08 A	\$0.58 A	\$0.98 A	\$0.63 E	\$3.24 E
2018	\$0.97 A	\$0.64 A	\$0.95 A	\$0.56 A	\$3.12 A

*Quarterly figures may not add up to annual.

P/E TTM	18.3
P/E F1	17.4
PEG F1	2.9
P/S TTM	3.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Incorporated in 1985, Newark, NJ-based Public Service Enterprise Group Inc. (PEG) or PSEG is a diversified energy company. Its operations are mostly located in the Northeastern and Mid-Atlantic parts of the United States. The company principally operates through two key subsidiaries - PSEG Power LLC (Power) and Public Service Electric and Gas Company (PSE&G).

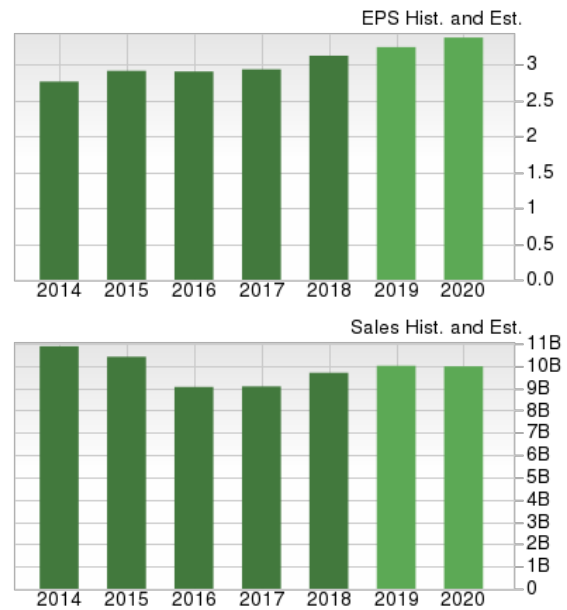
PSEG Power is a major electricity supplier in the Northeastern and Mid-Atlantic regions. The subsidiary integrates its generating operations and gas supply obligations, including wholesale energy, fuel supply and energy trading functions, through its wholly owned subsidiaries. Operating revenues for this segment in 2018 amounted to \$4,146 million.

PSE&G is a regulated public utility company primarily engaged in the transmission and distribution of electricity and natural gas in New Jersey. The unit also offers appliance services and repairs to customers across its service area. Operating revenues for this segment in 2018 amounted to \$6,471million.

In addition, Public Service Enterprise has other subsidiaries – PSEG Energy Holdings L.L.C. (Energy Holdings), PSEG Long Island LLC (PSEG LI) and PSEG Services Corporation (Services), which are together known as **PSEG Enterprise/Other**. Earnings during the quarter came in at 7 cents per share.

Energy Holdings owns domestic generation facilities outside the Mid-Atlantic region and also manages passive energy-related investments. The unit also manages a diversified portfolio of passive investments, primarily energy-related leveraged leases. PSEG LI, formed on Jan 1, 2014, operates the Long Island Power Authority's (LIPA) transmission and distribution (T&D) systems under a 12-year Amended and Restated Operations Services Agreement (OSA).

As of Dec 31, 2018, PSEG's fuel mix comprised 51% gas, 32% nuclear, 10% coal, 5% oil and 2% pumped storage. Its total generating output in 2018 was approximately 55,800 gigawatt hours (GWh).



Reasons To Buy:

- ▲ Public Service Enterprise has a solid portfolio of regulated and non-regulated utility assets that offer stable earnings and significant long-term growth potential. The company strives to optimize generation margins by improving its cost structure and performance. As the utility continues to improve the reliability and resiliency of its transmission and distribution system besides modernizing an aging infrastructure, its commitment to reduce customer bills remains impressive. PSE&G has been proactive in returning tax reform benefits to transmission and distribution customers, which in total have lowered rates by more than \$300 million in 2019. For the full year, PSE&G aims to return an additional \$380 million of tax reforms savings to its customers, primarily related to excess accumulated deferred income taxes in transmission and distribution rates. This is over and above the \$262 million of annual rate reductions from the latest change in the corporate income tax rate.
- ▲ PSE&G continues modernizing its gas distribution system as part of its Gas System Modernization Program (GSMP). PSE&G continues to modernize its gas distribution system as part of its Gas System Modernization Program (GSMP). During the second quarter of 2019, PSE&G commenced its BPU-approved Gas System Modernization Program II (GSMP II), an expanded five-year program, to invest \$1.9 billion for replacing approximately 875 miles of cast iron and unprotected steel mains in addition to other improvements to the gas system. It will also replace 40,000 unprotected steel service lines to homes and businesses.

Consistent investments in infrastructure projects and focus on expanding renewable assets, will likely boost Public Service Enterprise's future performance

In September 2019, the New Jersey, Board of Public Utilities approved PSE&G's Energy Strong II program worth \$2.5 billion, thereby authorizing continued investment in electric and gas system reliability and resiliency improvements over the next four years. Such strategic investment programs are expected to help PSEG in offering more reliable, resilient, cleaner and affordable energy to customers along with contributing more earnings to the company's results; over the long term.

- ▲ The growing popularity of Combined-Cycle Gas Turbine (CCGT) technology among utilities is well-known as it is both clean burning as well as energy efficient. In this context, the company's Keys and Sewaren combined cycle stations are worth mentioning and operating successfully. In June 2019, electricity generation from these two stations and the addition of Bridgeport Harbor Station 5 led to a 36% increase in combined cycle output. Going forward, the Bridgeport Harbor Station 5, an 1,800-megawatt combined cycle gas turbine program, will transform Power's fossil fleet and boost its free cash flow generation. Such developments indicate the company's steady progress in the clean energy space.
- ▲ Apart from focusing on transmission and distribution infrastructure, Public Service Enterprise is expanding its renewable assets. As of Dec 31, 2018, PSEG Power owned and operated 414 MW dc of photovoltaic solar generation facilities across various states. PSEG Power also has an additional 52-MW dc of PV solar generation in construction. The company is currently pursuing two solar initiatives — the Solar Loan Program, and the Solar 4 All and Solar 4 All Extension programs — to support New Jersey's Energy Master Plan and the state's renewable energy goals.

To take advantage of the expanding renewable space in the state of New Jersey, PSE&G also filed the Clean Energy Future (CEF) program, bringing the total investment amount over the past six years to \$3.6 billion. This program is focused on achieving New Jersey's energy efficiency targets as well as supporting electric vehicle infrastructure and battery storage initiatives. Such initiatives should boost the company's footprint in the renewables place.

Reasons To Sell:

▼ Commodity price fluctuations have a considerable effect on Public Service Enterprise's profitability. Over the past several years, lower wholesale natural gas prices have resulted in lower electric energy prices. One of the reasons behind the lower natural gas prices is greater supply from more recently-developed sources such as shale gas, much of which is produced in states adjacent to New Jersey (e.g. Pennsylvania). This trend has reduced margin on forward sales as the company re-contract its expected generation output. Steady continuance of this trend can effectively hurt Public Service Enterprise's operating results.

Lower power prices and fluctuations in commodity prices could deter growth of Public Service Enterprise

▼ Last year, a petition was filed with the U.S. Department of Commerce by two uranium mining companies seeking relief from imports of uranium products, under Section 232 of the Trade Expansion Act of 1962, as amended, alleging that these imports threaten national security. In July 2018, the Secretary of Commerce announced the initiation of an investigation in response to the petition. The relief sought by the petitioners would require U.S. nuclear reactors to purchase at least 25% of their uranium needs from domestic mines over the next ten years, although the Department of Commerce and ultimately the President will make an independent determination regarding an appropriate remedy regarding uranium imports and national security.

This review is expected to be completed in the fourth quarter of 2019. The outcome of this petition might increase nuclear fuel costs in future, which can have an adverse impact on Public Service Enterprise's operations, cash flows and financial positions of its nuclear facilities.

▼ In recent years, as market prices declined from previous levels, there was an incentive for an increasing number of the smaller commercial and industrial electric customers for switching to third-party suppliers. This has negatively impacted Public Service Enterprises' margins as the anticipated basis generation service (BGS) pricing is replaced by lower spot market pricing. Such market price fluctuations may hurt the company's profitability in the days ahead, which in turn might have impacted investors' confidence in this stock. Notably, Public Service Enterprise's share price has gained 17.7% in the past year compared with the industry's growth of 25.2%.

▼ A comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 18.34. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 18.15.

Last Earnings Report

Public Service Enterprise's Q3 Earnings Beat Estimates

Public Service Enterprise Group Inc., or PSEG, reported third-quarter 2019 adjusted operating earnings of 98 cents per share, which surpassed the Zacks Consensus Estimate of 95 cents by 3.2%. The bottom line also improved 3.2% on a year-over-year basis.

Excluding one-time adjustments, the company reported quarterly earnings of 79 cents per share compared with 81 cents in third-quarter 2018.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-9.76%
EPS Surprise	3.16%
Quarterly EPS	0.98
Annual EPS (TTM)	3.20

Total Revenues

Revenue of \$2,302 million in the quarter missed the Zacks Consensus Estimate of \$2,551 million by 9.8%. Moreover, the figure declined 3.8% from the year-ago quarter's \$2,394 million.

Electric sales volumes rose 3% year over year to 12,124 million kilowatt-hours, while gas sales volumes grew 6% year over year to 609 million therms.

Under Electric sales, Residential sales volumes were 4,590 million kilowatt-hours, whereas Commercial and Industrial sales volumes accounted for 7,461 million kilowatt-hours. Other sales accounted for 73 million kilowatt-hours.

Total gas sales volumes witnessed 10% growth in non-firm sales volumes of gas and 6% a decline in firm sales volumes of gas.

Highlights of the Release

During the third quarter of 2019, the company reported operating income of \$490 million, down from \$554 million in the year-ago quarter. Total operating expenses were \$1,812 million, down 1.5% from the year-ago quarter.

Interest expenses in the reported quarter were \$147 million compared with \$127 million in the year-ago quarter.

Segment Performance

PSE&G: Segment earnings were \$344 million, up from \$278 million in the prior-year quarter. PSE&G's results in the quarter were driven by enhanced investments in transmission and distribution programs, rate relief, and changes to pension plans.

PSEG Power: Segment earnings were \$53 million, down from \$125 million in the prior-year quarter. The downside was led by lower realized energy prices and reduced capacity revenues.

PSEG Enterprise/Other: Segment earnings were \$6 million, down from \$9 million in the prior-year quarter. The year-over-year decrease in net income reflects higher interest expenses at the parent company.

Financial Update

Long-term debt as of Sep 30, 2019, was \$15,504 million, up from the 2018-end level of \$14,462 million.

PSEG generated \$2,709 million in cash from operations at the end of the first nine months of 2019 compared to \$2,492 million in the same period last year.

2019 Guidance

The company narrowed its 2019 guidance. Adjusted earnings are projected to be \$3.20-\$3.30 per share. The Zacks Consensus Estimate for earnings is currently pegged at \$3.24, slightly lower than the mid-point of the company's guided range.

PSE&G's operating earnings are anticipated to be \$1,225-\$1,250 million. The company expects PSEG Power operating earnings to be \$395-\$420 million.

Valuation

Public Service Enterprise's shares slipped 0.1% in last six months and up 17.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 6.5% and 4.1% in the last six months, respectively. Over the past year, the Zacks sub-industry is up 25.2% whereas the sector is up 6.7%.

The S&P 500 index is up 10.2% in the year-to-date period and is up 28.4% in the past year.

The stock is currently trading at 17.40X of forward 12-month earnings, which compares to 14.46X for the Zacks sub-industry, 13.43X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.89X and as low as 12.79X, with a 5-year median of 15.78X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 18.40X forward 12-month earnings.

The table below shows summary valuation data for PEG

Valuation Multiples - PEG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.4	14.46	13.43	18.71
	5-Year High	18.89	14.66	15.33	19.34
	5-Year Low	12.79	11.9	12.61	15.17
	5-Year Median	15.78	13.09	13.68	17.44
P/S F12M	Current	2.97	2.25	2.89	3.47
	5-Year High	3.07	2.25	3.26	3.47
	5-Year Low	1.77	1.5	1.7	2.54
	5-Year Median	2.26	1.83	1.95	3
P/B TTM	Current	1.99	1.74	3.93	4.41
	5-Year High	2.51	1.86	3.96	4.45
	5-Year Low	1.45	1.32	2.01	2.85
	5-Year Median	1.77	1.54	2.55	3.6

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (163 out of 252)



Top Peers

Ameren Corporation (AEE)	Neutral
DTE Energy Company (DTE)	Neutral
Consolidated Edison Inc (ED)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
FirstEnergy Corporation (FE)	Neutral
PPL Corporation (PPL)	Neutral
Xcel Energy Inc. (XEL)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PEG Neutral	X Industry	S&P 500	DTE Neutral	ED Neutral	XEL Neutral
VGM Score	C	-	-	C	D	C
Market Cap	29.69 B	9.22 B	23.66 B	24.43 B	29.46 B	32.87 B
# of Analysts	4	2	13	4	3	6
Dividend Yield	3.20%	2.81%	1.79%	3.14%	3.34%	2.58%
Value Score	C	-	-	C	D	C
Cash/Price	0.00	0.04	0.04	0.00	0.01	0.03
EV/EBITDA	11.74	11.33	13.88	13.01	11.77	12.45
PEG Ratio	2.92	3.67	1.99	3.29	9.78	4.15
Price/Book (P/B)	1.99	1.96	3.36	2.24	1.62	2.50
Price/Cash Flow (P/CF)	9.81	9.11	13.62	10.16	9.91	10.59
P/E (F1)	17.34	19.55	18.74	19.76	19.55	22.49
Price/Sales (P/S)	2.95	2.21	2.67	1.84	2.34	2.83
Earnings Yield	5.74%	5.08%	5.32%	5.06%	5.11%	4.45%
Debt/Equity	0.99	1.06	0.72	1.28	1.01	1.28
Cash Flow (\$/share)	5.98	4.03	6.94	12.70	8.95	5.92
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	3.00%	4.40%	10.56%	7.64%	1.98%	5.63%
Proj. EPS Growth (F1/F0)	4.09%	5.68%	7.41%	5.28%	5.00%	6.57%
Curr. Cash Flow Growth	-19.92%	7.23%	14.83%	10.89%	6.99%	9.42%
Hist. Cash Flow Growth (3-5 yrs)	2.45%	4.95%	9.00%	4.53%	5.46%	8.08%
Current Ratio	0.75	0.81	1.23	0.77	0.58	0.72
Debt/Capital	49.66%	51.35%	42.92%	56.15%	50.30%	56.14%
Net Margin	14.45%	9.70%	11.08%	8.24%	10.98%	11.15%
Return on Equity	11.01%	9.47%	17.10%	9.93%	7.92%	10.35%
Sales/Assets	0.22	0.24	0.55	0.36	0.23	0.24
Proj. Sales Growth (F1/F0)	-0.27%	3.15%	4.20%	5.16%	3.13%	6.22%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	-0.02%	-0.01%	-0.61%	0.24%	-0.26%	0.48%
1 Week Price Chg	-0.15%	-0.15%	0.13%	-0.75%	-0.76%	-1.61%
4 Week Price Chg	-0.07%	2.00%	2.60%	2.91%	2.24%	0.87%
12 Week Price Chg	-4.57%	0.00%	8.87%	-0.98%	-4.75%	-1.99%
52 Week Price Chg	15.51%	19.45%	29.34%	19.08%	17.66%	30.50%
20 Day Average Volume	2,737,992	262,578	1,603,615	1,044,784	1,443,858	2,518,952
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.22%	0.00%	0.00%	0.00%	0.17%	0.00%
(F1) EPS Est 12 week change	-0.59%	-0.12%	-0.57%	0.48%	-0.82%	-0.12%
(Q1) EPS Est Mthly Chg	2.88%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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