

Public Service(PEG)

\$53.99 (As of 03/05/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

Public Service Enterprise ended fourth-quarter of 2019 on a mixed note. While its quarterly earnings surpassed the Zacks Consensus Estimate, revenues missed the same. 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. It invested \$3.6 billion over the past six years to promote clean energy in 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. Also, commodity price fluctuations affected its profitability.

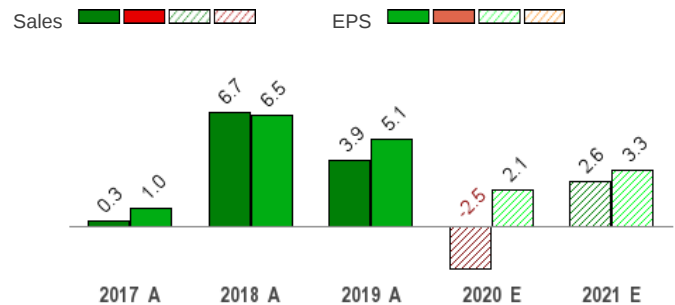
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.88 - \$50.14
20 Day Average Volume (sh)	3,268,127
Market Cap	\$27.3 B
YTD Price Change	-8.6%
Beta	0.43
Dividend / Div Yld	\$1.96 / 3.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-13.2%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	05/07/2020
Earnings ESP	0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,080 E
2020					9,824 E
2019	2,980 A	2,316 A	2,302 A	2,478 A	10,076 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.46 E
2020	\$1.14 E	\$0.55 E	\$0.95 E	\$0.73 E	\$3.35 E
2019	\$1.08 A	\$0.58 A	\$0.98 A	\$0.64 A	\$3.28 A

*Quarterly figures may not add up to annual.

P/E TTM	16.5
P/E F1	16.1
PEG F1	2.7
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

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).

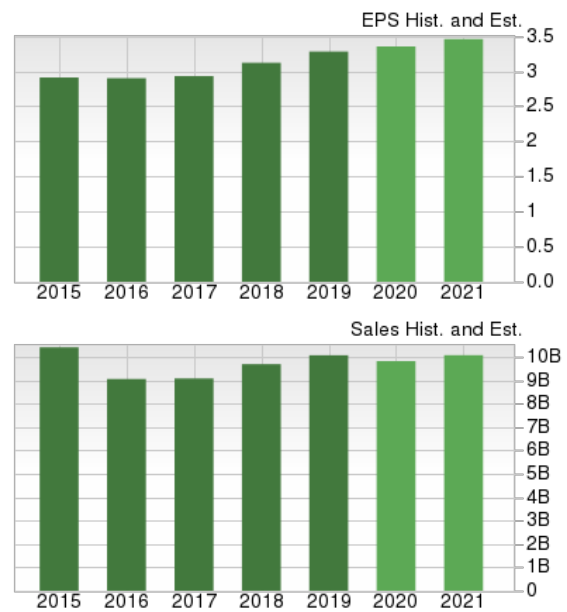
PSEG Power is a major electricity supplier in the Northeastern and Mid-Atlantic regions. The subsidiary integrates its generating operations and gas supply obligations, including wholesale energy, fuel supply and energy trading functions, through its wholly owned subsidiaries. Operating revenues for this segment in 2019 amounted to \$4,385 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 2019 amounted to \$6,625 million.

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, 2019, PSEG's fuel mix comprised 56% gas, 34% nuclear, 3% coal, 5% oil and 2% pumped storage. Its total generating output in 2019 was approximately 56,800 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 cost structure and performance. At PSE&G, the company strongly focuses on enhancing reliability and resiliency of its transmission and distribution system, meeting customer expectations and supporting public policy objectives by investing capital in transmission and distribution infrastructure as well as clean energy programs. For the 2019-2024 period, PSE&G expects to invest \$11.5-\$15 billion, resulting in an expected compound annual rate base growth of 6.5%-8%.

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

The company also continues to significantly invest in transmission infrastructure to maintain and enhance system integrity and grid reliability, grid security and safety. It also plans on leveraging technologies to improve the operation of the system, address the growing demand and meet environmental requirements and standards set by various regulatory bodies. Its planned capital spending for transmission in 2020-2022 is \$2.8 billion.

- ▲ 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.

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 PSEG Power's fossil fleet and boost its free cash flow generation. Such additions to the company's fleet to expand its geographic diversity and adjust the fuel mix alongside enhancing the environmental profile and overall efficiency of PSEG Power's generation fleet. 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, 2019, PSEG Power owned and operated 467 MW dc of photovoltaic solar generation facilities across various states. The company is currently pursuing two solar initiatives — the Solar Loan program and the Solar 4 All 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.
- ▼ In June 2019, the New Jersey Board of Public Utilities (BPU) selected Orsted US Offshore Wind's Ocean Wind project as the winning bid in New Jersey's initial solicitation for 1,100 MW of offshore wind generation. In October 2019, PSEG exercised its option on Orsted's Ocean Wind project to potentially acquire a 25% equity interest in the project, subject to negotiations toward a joint venture agreement, advanced due diligence and any required regulatory approvals. If PSEG elects to acquire an equity interest, it would incur additional capital expenditures, going forward. While such measures are expected to benefit the company over the long run, in the near term these will push its operating expenditure, which in turn may weigh on its bottom-line performance.
- ▼ 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 declined 8.5% in the past year against the industry's growth of 15.8%.
- ▼ A comparative analysis of its historical P/S ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/S ratio of 2.72. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 1.84.

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

Last Earnings Report

Public Service Enterprise Q4 Earnings Beat Estimates

Public Service Enterprise Group Inc., or PSEG, reported fourth-quarter 2019 adjusted operating earnings of 64 cents per share, which surpassed the Zacks Consensus Estimate of 62 cents by 3.2%. The bottom line also improved 14.3% on a year-over-year basis.

Including one-time adjustments, the company reported quarterly earnings of 86 cents per share compared with 39 cents in fourth-quarter 2018.

For 2019, the company reported adjusted operating earnings of \$3.28 per share, which surpassed the Zacks Consensus Estimate of \$3.26 by 0.6%. The full-year bottom line also improved 5.1% from a year ago and exceeded the mid-point of the company's projected range of \$3.20-\$3.30 per share.

The upside can be attributed to Public Service Enterprise's continued focus on operating excellence and cost discipline.

Total Revenues

Revenues of \$2,478 million in the quarter missed the Zacks Consensus Estimate of \$2,854 million by 13.2%. However, the figure inched up 0.4% from the year-ago quarter's \$2,468 million.

Highlights of the Release

During the fourth quarter of 2019, the company reported operating income of \$507 million, up from \$501 million in the year-ago quarter. Total operating expenses were \$1,971 million, up 0.2% from the year- ago quarter.

Interest expenses in the reported quarter were \$152 million.

Segment Performance

PSE&G: Segment earnings were \$276 million, up from \$239 million in the prior-year quarter. PSE&G's results in the quarter were driven by enhanced investments in transmission..

PSEG Power: Segment adjusted earnings were \$52 million compared with \$57 million in the prior-year quarter. The downside was due to scheduled decline in capacity prices in PJM and ISO-New England in the second half of 2019.

PSEG Enterprise/Other: Segment adjusted earnings were \$2 million against loss of \$12 million in the prior-year quarter. The year-over-year upside can be attributed to lower taxes.

2020 Guidance

The company issued its 2020 guidance. Adjusted earnings are projected to be \$3.30-\$3.50 per share. The Zacks Consensus Estimate for earnings is currently pegged at \$3.36, lower than the mid-point of the company's guided range.

PSE&G's operating earnings are anticipated to be \$1,310-\$1,370 million. The company expects PSEG Power operating earnings to be \$345-\$435 million.

Quarter Ending 12/2019

Report Date	Feb 26, 2020
Sales Surprise	-13.18%
EPS Surprise	3.23%
Quarterly EPS	0.64
Annual EPS (TTM)	3.28

Valuation

Public Service Enterprise's shares are down 10.6% in last six months and down 8.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 7.8% and 4.2% in the last six months, respectively. Over the past year, the Zacks sub-industry is up 15.8% whereas the sector is down 2.6%.

The S&P 500 index is up 1.7% in the last six months period and is up 8.7% in the past year.

The stock is currently trading at 16X of forward 12-month earnings, which compares to 14.9X for the Zacks sub-industry, 13.8X for the Zacks sector and 17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.9X and as low as 12.8X, with a 5-year median of 15.80X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$57 price target reflects 16.9X 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	16.02	14.93	13.76	17.3
	5-Year High	18.89	15.58	15.36	19.34
	5-Year Low	12.79	11.14	12.58	15.18
	5-Year Median	15.84	13.27	13.8	17.44
P/S F12M	Current	2.76	2.4	2.93	3.19
	5-Year High	3.16	2.45	3.31	3.43
	5-Year Low	1.77	1.54	1.76	2.54
	5-Year Median	2.29	1.87	2.01	3.01
P/B TTM	Current	1.81	1.91	4.09	4.04
	5-Year High	2.15	2.01	4.35	4.54
	5-Year Low	1.48	1.32	2.02	2.85
	5-Year Median	1.78	1.56	2.59	3.63

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



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	-	-	B	D	C
Market Cap	27.27 B	8.88 B	21.47 B	22.35 B	29.23 B	36.33 B
# of Analysts	4	2	13	5	4	5
Dividend Yield	3.48%	2.84%	2.04%	3.48%	3.49%	2.34%
Value Score	D	-	-	C	C	D
Cash/Price	0.01	0.05	0.05	0.00	0.05	0.01
EV/EBITDA	10.15	10.60	12.81	11.65	10.73	12.81
PEG Ratio	2.66	4.11	1.88	2.92	9.75	4.11
Price/Book (P/B)	1.81	1.71	2.95	1.89	1.60	2.74
Price/Cash Flow (P/CF)	8.53	8.96	11.75	8.98	9.33	11.09
P/E (F1)	15.80	20.27	17.19	17.52	19.50	24.75
Price/Sales (P/S)	2.71	2.32	2.32	1.76	2.32	3.15
Earnings Yield	6.20%	4.88%	5.81%	5.70%	5.13%	4.04%
Debt/Equity	0.93	1.06	0.70	1.36	1.06	1.31
Cash Flow (\$/share)	6.33	4.09	7.01	12.95	9.39	6.25
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	3.18%	4.91%	10.85%	7.49%	1.89%	5.90%
Proj. EPS Growth (F1/F0)	2.21%	4.45%	6.27%	5.30%	2.80%	5.98%
Curr. Cash Flow Growth	5.82%	3.38%	6.07%	7.70%	12.02%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	2.02%	5.47%	8.52%	4.88%	7.14%	8.62%
Current Ratio	0.64	0.85	1.23	0.77	0.68	0.68
Debt/Capital	48.16%	51.32%	42.57%	57.57%	51.49%	56.80%
Net Margin	16.80%	10.09%	11.69%	9.23%	10.69%	11.90%
Return on Equity	11.19%	9.72%	16.66%	10.52%	8.02%	10.74%
Sales/Assets	0.22	0.23	0.54	0.33	0.22	0.23
Proj. Sales Growth (F1/F0)	-2.50%	1.88%	3.90%	4.88%	3.85%	8.38%
Momentum Score	C	-	-	B	C	B
Daily Price Chg	-2.88%	-1.47%	-3.79%	-2.56%	-0.49%	0.07%
1 Week Price Chg	-14.43%	-10.97%	-12.06%	-17.26%	-12.60%	-12.00%
4 Week Price Chg	-7.44%	-3.24%	-10.92%	-13.38%	-6.30%	-0.07%
12 Week Price Chg	-7.71%	3.33%	-8.10%	-6.94%	0.07%	12.86%
52 Week Price Chg	-8.49%	9.15%	4.09%	-5.09%	5.09%	24.73%
20 Day Average Volume	3,268,127	384,858	2,483,920	1,566,196	2,127,289	3,344,794
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.59%	0.00%	-0.06%	0.71%	-0.37%	0.23%
(F1) EPS Est 12 week change	-0.37%	0.00%	-0.42%	0.72%	-1.14%	0.41%
(Q1) EPS Est Mthly Chg	2.54%	0.00%	-0.29%	-11.50%	0.00%	-2.70%

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	D
Growth Score	B
Momentum Score	C
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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