

Public Service(PEG)

\$54.47 (As of 08/11/20)

Price Target (6-12 Months): **\$58.00**

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: B

Growth: C

Momentum: F

Summary

Public Service Enterprise ended the second quarter of 2020 with earnings surpassing the Zacks Consensus Estimate, while revenues missing the same. It has a solid portfolio of regulated and non-regulated utility assets that offer stable earnings and long-term growth potential. The company has invested \$3.6 billion over the past six years to promote clean energy in New Jersey. It further strives to optimize generation margins by improving cost structure and performance. However, its shares have underperformed the industry in the past year. Moreover, the coronavirus pandemic and the associated economic impacts might have an adverse impact on its operating results. Further, the company's current ratio of 0.65 as of Jun 30, 2020, being less than 1 indicates that this utility may face difficulty in paying off its short-term obligations.

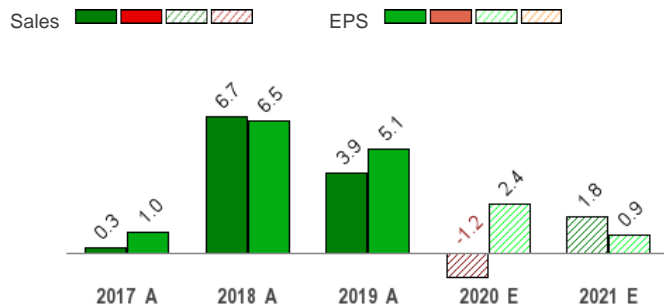
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.88 - \$34.75
20 Day Average Volume (sh)	2,309,631
Market Cap	\$27.5 B
YTD Price Change	-7.8%
Beta	0.60
Dividend / Div Yld	\$1.96 / 3.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.9%
Last Sales Surprise	-10.8%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	10/29/2020
Earnings ESP	-3.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,127 E
2020	2,781 A	2,050 A	2,559 E	2,715 E	9,951 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	\$1.16 E	\$0.58 E	\$1.04 E	\$0.55 E	\$3.39 E
2020	\$1.03 A	\$0.79 A	\$0.85 E	\$0.69 E	\$3.36 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	15.8
P/E F1	16.2
PEG F1	2.7
P/S TTM	2.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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).

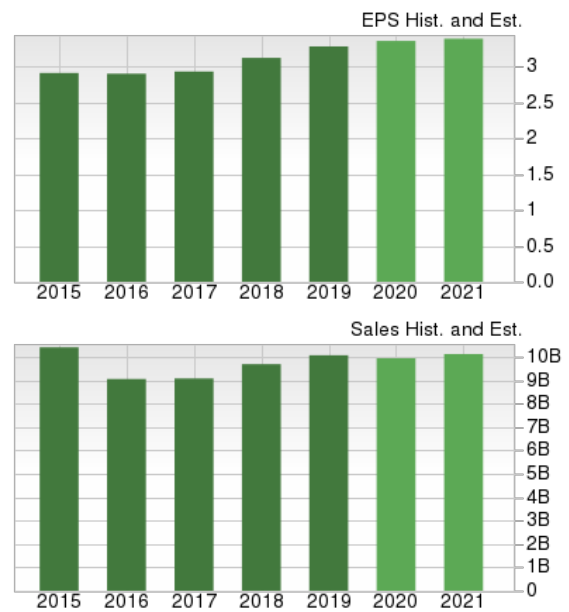
PSEG Power is a major electricity supplier in the Northeastern and Mid-Atlantic regions. The subsidiary integrates its generating operations and gas supply obligations, including wholesale energy, fuel supply and energy trading functions, through its wholly owned subsidiaries. Operating revenues for 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. For the 2020-2024 period, PSE&G expects to invest \$11.5-\$15 billion, resulting in an expected compound annual rate base growth of 6.5%-8%. The company's significant investment in transmission infrastructure aims at maintaining and enhancing system integrity and grid reliability, and grid security and safety. Its planned capital spending for transmission in 2020-2022 is \$2.8 billion.

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

▲ 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 as well as 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. The company's capital programs, including GSMP II and ES II programs, and its transmission infrastructure investments have not been materially impacted to date, irrespective of the prolonged COVID-19 outbreak. Such strategic investment programs are expected to help PSEG offer more reliable, resilient, cleaner and affordable energy to customers along with boosting the company's bottom line 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. Meanwhile, PSEG Power's Combined Cycle fleet produced 4.9 terawatt hours of output, up 3%, reflecting the addition of Bridgeport Harbor 5 which began operating in June 2019. Notably, the company's three combined Cycle units — Key, Cone, and Bridgeport — combined to post a strong average capacity factor of 91.9% for the second quarter, producing 7.8 terawatt hours, up 9% from the second quarter of 2019. This represented 61% of total 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, 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. Such initiatives should boost the company's footprint in the global renewable market.

Reasons To Sell:

▼ PSE&G is working with the New Jersey Department of Environmental Protection (NJDEP) to assess, investigate and remediate environmental conditions at its former manufactured gas plant (MGP) sites. As of Jun 30, 2020, 38 sites requiring some level of remedial action have been identified. Based on its current studies, PSE&G has determined that the estimated cost to remediate all MGP sites to completion could range between \$346 million and \$389 million on an undiscounted basis through 2023, including its \$52-million share in the Passaic River. Such expenses may weigh heavily on the company's bottom-line performance.

Unfavorable financial ratios and costs to remediate all MGP sites could deter growth of Public Service Enterprise

▼ The ongoing coronavirus pandemic has not had a material impact on the company's operations, financial condition or cash flows for the six months ended Jun 30, 2020. However, during the second quarter, Public Service Enterprise experienced reduction in demand for electricity. But since this demand reduction was not much material, the company's operational results did not suffer. Nevertheless, a prolonged coronavirus pandemic and the associated economic impacts, which could extend even after the virus spread stops, might have an adverse impact on Public Service Enterprise's cash from operations, accounts receivable and bad debt expenses.

▼ Public Service Enterprise's cash and cash equivalents were \$431 million at the end of second-quarter 2020, down from \$799 million as of Mar 31, 2020. Its long-term debt was \$13.84 billion as of Jun 30, 2020, while current debt stands at \$3.26 billion. Therefore, as both the long-term and current debt values of the company lie much above its cash reserve, this reflects a weak solvency position on the company's part.

Furthermore, the company has a current ratio of 0.65 as of Mar 31, 2020, which declined sequentially from 0.72. The current ratio, being less than 1, indicates that this utility may face difficulty in paying off its short-term obligations.

▼ Public Service Enterprise's share price has lost 4.8% in the past year compared with the industry's 5.1% decline. Moreover, a comparative analysis of its historical P/S ratio reflects a relatively gloomy picture that might be a cause of investors' concern. The stock currently has a trailing 12-month P/S ratio of 2.87. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 1.79.

Last Earnings Report

Public Service Enterprise Q2 Earnings Beat Estimates

Public Service Enterprise Group Inc., or PSEG, reported second-quarter 2020 adjusted operating earnings of 79 cents per share, which exceeded the Zacks Consensus Estimate of 59 cents by 33.9%. Moreover, the bottom line rallied 36.2% on a year-over-year basis.

Excluding one-time adjustments, the company reported quarterly earnings of 89 cents per share compared with 30 cents in second-quarter 2019.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-10.77%
EPS Surprise	33.90%
Quarterly EPS	0.79
Annual EPS (TTM)	3.44

Total Revenues

Revenues of \$2,050 million in the quarter missed the Zacks Consensus Estimate of \$2,297 million by 10.8%. Moreover, the figure declined 11.5% from the year-ago quarter's \$2,316 million.

In the quarter, electric sales volumes were 8,883 million kilowatt-hours, while gas sales volumes were 596 million therms.

Under Electric sales, Residential sales volumes were 3,236 million kilowatt-hours, whereas Commercial and Industrial sales volumes accounted for 5,572 million kilowatt-hours. Other sales accounted for 75 million kilowatt-hours.

Total gas sales volumes witnessed a 23% increase in firm sales volumes and a 24% decline in non-firm sales volumes of gas.

Highlights of the Release

During the second quarter of 2020, the company reported operating income of \$407 million, up from \$160 million in the year-ago quarter. Total operating expenses were \$1,643 million, down 23.8 % from the year-ago quarter.

Interest expenses in the reported quarter were \$151 million compared with \$137 million in the year-ago quarter.

Segment Performance

PSE&G: Segment earnings were \$283 million, up from \$227 million in the prior-year quarter. PSE&G's results in the quarter were driven by revenue growth from ongoing capital investment programs.

PSEG Power: The segment's earnings were \$170 million against losses of \$40 million reported a year ago.

PSEG Enterprise/Other: The segment's losses were \$2 million compared with losses of \$34 million in the second quarter of 2019.

Financial Update

Long-term debt as of Jun 30, 2020, was \$15,673 million, up from the 2019-end level of \$15,108 million.

PSEG generated \$1,664 million in cash from operations at the end of first-half 2020 compared to \$1,824 million generated in the first half of 2019.

2020 Guidance

The company reiterated its 2020 guidance. Adjusted earnings are still projected to be \$3.30-\$3.50 per share. The Zacks Consensus Estimate for earnings is currently pegged at \$3.35 per share, lower than the midpoint of the company's guidance range.

PSE&G's operating earnings are still anticipated to be \$1,310-\$1,370 million.

The company expects PSEG Power operating earnings to be in the range of \$345-\$435 million.

Valuation

Public Service Enterprise's shares are down 7.8% in the year-to-date period and 4.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 11.4% and 11.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 5.1%, while the sector declined 6.7%.

The S&P 500 index is up 4.1% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 16.1X of forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 13X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.9X and as low as 10.9X, with a 5-year median of 15.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$58 price target reflects 17.2X 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	16.14	14.01	12.96	22.8
	5-Year High	18.89	15.4	15.29	22.8
	5-Year Low	10.92	11.1	11.32	15.25
	5-Year Median	15.88	13.19	13.73	17.58
P/S F12M	Current	2.74	2.34	2.74	3.67
	5-Year High	3.16	2.45	3.29	3.67
	5-Year Low	1.77	1.54	1.75	2.53
	5-Year Median	2.51	1.9	2.07	3.05
EV/EBITDA TTM	Current	11.69	12.73	17.84	12.66
	5-Year High	13.96	13.62	20.4	12.84
	5-Year Low	6.38	7.81	10.61	8.24
	5-Year Median	10.15	10.45	13.9	10.9

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	4
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
PPL Corporation (PPL)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PEG	X Industry	S&P 500	DTE	ED	XEL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	C	B	D
Market Cap	27.55 B	9.09 B	23.61 B	22.62 B	24.51 B	37.05 B
# of Analysts	5	3	14	6	4	5
Dividend Yield	3.60%	3.41%	1.69%	3.45%	4.18%	2.44%
Value Score	B	-	-	B	B	C
Cash/Price	0.02	0.08	0.07	0.03	0.05	0.04
EV/EBITDA	10.11	9.82	13.32	12.00	9.78	13.14
PEG Ratio	2.77	3.57	2.95	3.11	8.63	4.30
Price/Book (P/B)	1.78	1.61	3.22	1.90	1.33	2.77
Price/Cash Flow (P/CF)	8.61	7.79	12.79	9.07	7.80	11.29
P/E (F1)	16.44	17.55	22.02	17.63	17.27	25.48
Price/Sales (P/S)	2.87	1.90	2.57	1.90	2.00	3.31
Earnings Yield	6.17%	5.67%	4.29%	5.67%	5.79%	3.93%
Debt/Equity	0.89	1.05	0.77	1.47	1.08	1.45
Cash Flow (\$/share)	6.33	4.27	6.94	12.95	9.39	6.25
Growth Score	C	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	3.77%	5.32%	10.41%	6.30%	1.88%	5.49%
Proj. EPS Growth (F1/F0)	2.32%	0.87%	-6.51%	5.69%	-2.92%	4.85%
Curr. Cash Flow Growth	5.82%	6.78%	5.22%	7.70%	12.02%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	2.02%	6.02%	8.55%	4.88%	7.14%	8.62%
Current Ratio	0.65	0.86	1.34	0.83	0.68	0.80
Debt/Capital	47.19%	51.07%	44.59%	59.49%	51.98%	59.25%
Net Margin	18.09%	10.28%	10.13%	10.13%	10.86%	12.50%
Return on Equity	11.52%	9.06%	14.59%	10.50%	7.92%	10.56%
Sales/Assets	0.20	0.22	0.51	0.28	0.21	0.22
Proj. Sales Growth (F1/F0)	-1.24%	0.00%	-1.45%	-1.32%	-0.51%	0.85%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	-1.59%	-0.99%	-0.17%	-2.36%	-2.81%	-2.66%
1 Week Price Chg	-0.52%	0.53%	2.30%	2.79%	-2.24%	4.78%
4 Week Price Chg	5.73%	2.35%	6.41%	7.92%	1.51%	9.10%
12 Week Price Chg	12.31%	9.14%	15.42%	14.13%	3.36%	18.12%
52 Week Price Chg	-5.48%	-10.63%	2.88%	-8.45%	-15.55%	14.89%
20 Day Average Volume	2,309,631	319,457	2,007,486	1,148,283	1,871,786	2,449,196
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.18%	0.00%
(F1) EPS Est 4 week change	-0.27%	0.00%	1.84%	1.81%	-0.76%	0.07%
(F1) EPS Est 12 week change	0.68%	0.00%	2.40%	3.31%	-0.18%	0.00%
(Q1) EPS Est Mthly Chg	-12.17%	-0.49%	0.72%	0.43%	-2.02%	-0.15%

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	B
Growth Score	C
Momentum Score	F
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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