

Public Service(PEG)

\$55.08 (As of 07/17/20)

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:B

Value: B

Growth: C

Momentum: B

Summary

Public Service Enterprise 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. Furthermore, Public Service Enterprise 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 0.72, as of Mar 31, 2020, being less than 1 indicates that this utility may face difficulty in paying off its short-term obligations.

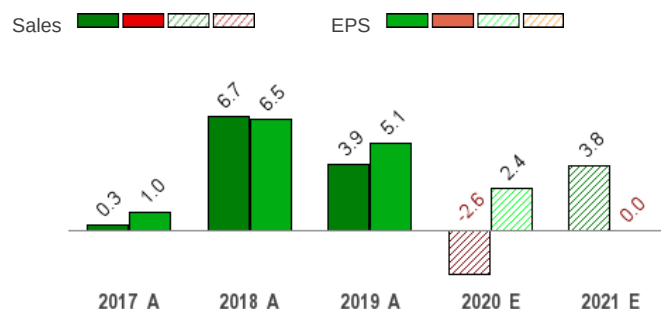
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.88 - \$34.75
20 Day Average Volume (sh)	2,579,337
Market Cap	\$27.8 B
YTD Price Change	-6.7%
Beta	0.56
Dividend / Div Yld	\$1.96 / 3.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 43% (108 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-14.1%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	07/31/2020
Earnings ESP	-0.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,188 E
2020	2,781 A	2,343 E	2,534 E	2,691 E	9,812 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	\$0.54 E	\$3.36 E
2020	\$1.03 A	\$0.59 E	\$0.98 E	\$0.71 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/17/2020. The reports text is as of 07/20/2020.

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).

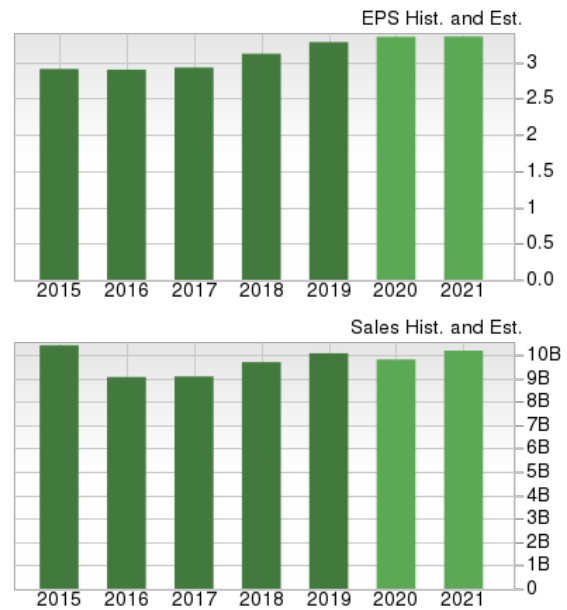
PSEG Power is a major electricity supplier in the Northeastern and Mid-Atlantic regions. The subsidiary integrates its generating operations and gas supply obligations, including wholesale energy, fuel supply and energy trading functions, through its wholly owned subsidiaries. Operating revenues for 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. Such strategic investment programs are expected to help PSEG in offering 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 5.1 terawatt-hours of output in the first quarter, reflecting the addition of Bridgeport Harbor 5, which was placed into operation in June 2019. Notably, the company's three newest combined Cycle units: Key, Cone, and Bridgeport combined to post a strong average capacity factor of 81% in the quarter. 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 Mar 31, 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 \$352 million and \$395 million on an undiscounted basis through 2023, including its \$52 million share for the Passaic River. Such expenses may weigh heavy 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 coronavirus pandemic did not significantly impact the company's operational results in the first quarter. However, in the latter part of the quarter, it 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 expense.

▼ Public Service Enterprise's cash and cash equivalents were \$799 million at the end of first quarter 2020, compared with \$147 million as of Dec 31, 2019. On the other hand, its long-term debt was \$14.04 billion as of Mar 31, 2020, while current debt stands at \$1.67 billion. Therefore, both the long-term and current debt values of the company lie much above the company's cash reserve, the current debt is much below its cash balance. This reflects a weak solvency position on the company's part.

The company has a current ratio of 0.72, as of Mar 31, 2020, which 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 slumped 7.8% in the past year compared to the industry's 6.1% 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 2.83. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 1.94.

Last Earnings Report

Public Service Enterprise Posts In-Line Q1 Earnings

Public Service Enterprise or PSEG reported first-quarter 2020 adjusted operating earnings of \$1.03 per share, which came in line with the Zacks Consensus Estimate. However, the bottom line declined 4.6% on a year-over-year basis.

Including one-time adjustments, the company reported quarterly earnings of 88 cents per share compared with \$1.38 in first-quarter 2019.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	-14.09%
EPS Surprise	0.00%
Quarterly EPS	1.03
Annual EPS (TTM)	3.23

Total Revenues

Revenues of \$2,781 million missed the Zacks Consensus Estimate of \$3,237 million by 14.1%. The top-line figure also declined 6.7% from the year-ago quarter's \$2,980 million.

Highlights of the Release

For the first quarter of 2020, the company reported operating income of \$797 million, higher than \$786 million in the year-ago quarter. Total operating expenses were \$1,984 million, down 9.6% from the year-ago quarter.

Interest expenses in the reported quarter were \$153 million, compared with \$133 million in the first quarter of 2019.

Segment Performance

PSE&G: Segment earnings were \$440 million, up from \$403 million in the prior-year quarter. PSE&G's results in the quarter were driven by revenue growth from ongoing capital investment programs as well as growth in transmission rate base.

PSEG Power: Segment adjusted earnings were \$85 million compared with \$143 million in the prior-year quarter. The downside was due to extremely mild winter weather conditions that caused lower generation output.

PSEG Enterprise/Other: Segment loss was \$5 million against earnings of \$1 million in the prior-year quarter. The year-over-year downside can be attributed to higher interest and tax expenses.

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 \$3.31, lower than the mid-point of the company's guided 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 6.7% in the year-to-date period and 7.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12.4% and 13.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 6.1%, while the sector declined 9.1%.

The S&P 500 index is down 0.3% in the year-to-date period and 8.8% in the past year.

The stock is currently trading at 16.4X of forward 12-month earnings, which compares to 13.7X for the Zacks sub-industry, 12.8X 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 17.3X 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	16.41	13.68	12.76	22.84
	5-Year High	18.89	15.53	15.32	22.84
	5-Year Low	10.92	11.12	11.4	15.25
	5-Year Median	15.86	13.23	13.78	17.52
P/S F12M	Current	2.78	2.32	2.73	3.58
	5-Year High	3.16	2.45	3.29	3.58
	5-Year Low	1.77	1.54	1.75	2.53
	5-Year Median	2.48	1.9	2.06	3.02
EV/EBITDA TTM	Current	11.91	12.86	18.46	11.98
	5-Year High	13.96	13.6	20.87	12.86
	5-Year Low	6.38	7.81	10.59	8.25
	5-Year Median	9.94	10.39	13.79	10.88

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 251)



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	2
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	B	-	-	A	C	C
Market Cap	27.85 B	9.28 B	22.62 B	21.48 B	24.75 B	34.87 B
# of Analysts	4	2	14	5	4	5
Dividend Yield	3.56%	3.36%	1.82%	3.63%	4.13%	2.59%
Value Score	B	-	-	B	D	C
Cash/Price	0.03	0.07	0.07	0.03	0.06	0.01
EV/EBITDA	10.20	9.84	13.05	11.54	9.84	12.36
PEG Ratio	2.69	3.65	2.99	3.09	8.72	3.97
Price/Book (P/B)	1.83	1.66	3.13	1.79	1.34	2.62
Price/Cash Flow (P/CF)	8.70	8.15	12.20	8.61	7.89	10.63
P/E (F1)	15.94	18.15	22.02	17.08	17.44	24.00
Price/Sales (P/S)	2.82	1.91	2.34	1.76	2.01	3.11
Earnings Yield	6.10%	5.49%	4.28%	5.86%	5.74%	4.17%
Debt/Equity	0.94	1.02	0.75	1.43	1.10	1.28
Cash Flow (\$/share)	6.33	4.27	6.94	12.95	9.39	6.25
Growth Score	C	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	3.25%	5.04%	10.85%	6.69%	1.79%	5.69%
Proj. EPS Growth (F1/F0)	2.29%	0.26%	-9.37%	3.65%	-2.80%	4.77%
Curr. Cash Flow Growth	5.82%	5.82%	5.51%	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	0.72	0.90	1.30	0.89	0.80	0.51
Debt/Capital	48.40%	50.53%	44.33%	58.86%	52.27%	56.12%
Net Margin	14.59%	10.41%	10.59%	9.10%	10.53%	12.07%
Return on Equity	10.92%	9.18%	15.74%	9.82%	7.92%	10.39%
Sales/Assets	0.21	0.22	0.54	0.30	0.21	0.22
Proj. Sales Growth (F1/F0)	-2.62%	0.00%	-2.44%	-1.87%	-0.46%	1.96%
Momentum Score	B	-	-	A	C	B
Daily Price Chg	4.10%	1.58%	0.36%	1.65%	3.10%	2.15%
1 Week Price Chg	0.96%	0.00%	-0.41%	-2.24%	-1.80%	-0.51%
4 Week Price Chg	9.35%	3.70%	2.56%	3.51%	-1.07%	2.91%
12 Week Price Chg	9.35%	6.24%	15.49%	10.40%	-9.43%	3.12%
52 Week Price Chg	-9.78%	-13.65%	-3.93%	-15.11%	-16.16%	7.20%
20 Day Average Volume	2,579,337	396,352	2,236,294	1,342,245	1,954,439	2,834,632
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%
(F1) EPS Est 4 week change	0.30%	0.00%	0.01%	0.15%	-0.64%	0.14%
(F1) EPS Est 12 week change	1.05%	-1.11%	-5.24%	0.31%	-3.50%	0.00%
(Q1) EPS Est Mthly Chg	0.34%	0.00%	0.00%	0.00%	1.51%	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	B
Growth Score	C
Momentum Score	B
VGM Score	B

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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