

## Public Service Enterprise Group

## Model Update

We are updating our PEG model for recent reports and filings. Please see our changes below.

## Overweight

PEG, PEG US

Price (30 Nov 23):\$62.43

▲ Price Target (Dec-24):\$70.00

Prior (Dec-24):\$68.00

## North American Utilities

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J.P. Morgan Securities LLC

## Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)	2022A	2023E	2024E
Q1	1.33	1.39A	
Q2	0.64	0.70A	
Q3	0.86	0.85A	
Q4	0.64	0.52	
FY	3.47	3.46	3.69

## Style Exposure

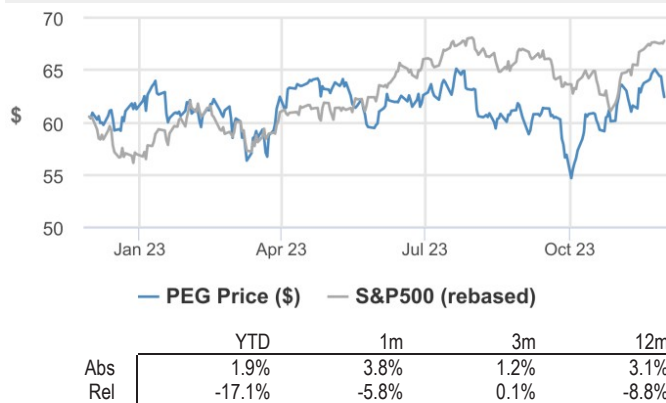
Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	74	62	58	52	38
Growth	31	46	76	21	64
Momentum	17	33	86	28	67
Quality	7	62	56	3	16
Low Vol	27	28	19	11	25
ESGQ	19	3	2	5	18

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

## See page 5 for analyst certification and important disclosures.

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## Price Performance



## Company Data

Shares O/S (mn)	500
52-week range (\$)	65.46-53.71
Market cap (\$ mn)	31,215.00
Exchange rate	1.00
Free float(%)	99.7%
3M - Avg daily vol (mn)	2.71
3M - Avg daily val (\$ mn)	164.6
Volatility (90 Day)	20
Index	S&P 500
BBG BUY HOLD SELL	10 10 1

## Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E	FY25E
<b>Financial Estimates</b>				
Revenue	9,800	11,128	10,720	11,162
Adj. EBITDA	2,730	4,605	4,442	4,868
Adj. EBIT	1,630	3,476	3,259	3,628
Adj. net income	1,739	1,728	1,841	2,069
Adj. EPS	3.47	3.46	3.69	4.15
BBG EPS	3.46	3.46	3.69	4.07
Cashflow from operations	1,503	3,676	3,707	3,945
FCFF	(775)	928	889	1,102
<b>Margins and Growth</b>				
Revenue growth	0.8%	13.5%	(3.7%)	4.1%
EBITDA margin	27.9%	41.4%	41.4%	43.6%
EBITDA growth	291.1%	68.7%	(3.6%)	9.6%
EBIT margin	16.6%	31.2%	30.4%	32.5%
Net margin	17.7%	15.5%	17.2%	18.5%
Adj. EPS growth	(5.0%)	(0.4%)	6.7%	12.4%
<b>Ratios</b>				
Adj. tax rate	2.9%	16.8%	24.4%	24.4%
Interest cover	4.3	6.2	5.4	5.5
Net debt/Equity	1.4	1.3	1.3	1.3
Net debt/EBITDA	7.2	4.4	4.8	4.5
ROCE	4.7%	8.3%	6.7%	7.1%
ROE	12.3%	12.0%	11.9%	12.8%
<b>Valuation</b>				
FCFF yield	(2.5%)	3.0%	2.9%	3.5%
Dividend yield	3.5%	3.7%	3.9%	4.1%
EV/EBITDA	14.4	8.7	9.2	8.6
EV/Revenue	4.0	3.6	3.8	3.7
Adj. P/E	18.0	18.1	16.9	15.1

## Summary Investment Thesis and Valuation

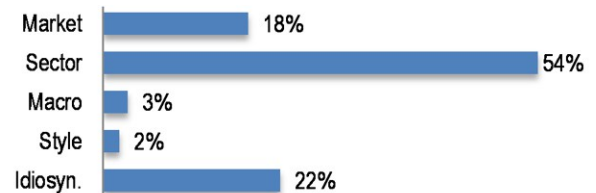
### Investment Thesis

PEG's utility rate base growth remains top-tier over the next five years, and we expect earned state ROEs to be largely resilient over that time period given rate visibility in NJ. Additionally, over the past couple of years, PEG has taken additional steps to de-risk its business, including closing Power's fossil fleet sale and announcing the exit of direct offshore wind investments. With the PSEG fossil transaction closed, PEG's revamped business mix now features a low risk T&D utility, ZEC supported nuclear fleet, and meaningful upside leverage to transmission supporting the approaching offshore wind build-out across the eastern seaboard. Further, the state's energy transition goals appear supportive of increasing system investment, including energy efficiency plus the potential for RNG and hydrogen. While the fossil sale close was a positive first step to unlocking value, in our view, further execution and stabilization of the company's earnings profile under forthcoming nuclear PTCs should help drive multiple expansion.

### Valuation

We raise our December 2024 price target to \$70/share from \$68/share. Our sum-of-the-parts valuation utilizes 2024 forecasts and a blended 16.9x P/E multiple to the utility and CFIO segments, with PSE&G a modest premium to regulated peers' on account of the company's track record of favorable regulatory and operational results. Our higher price target primarily stems from an increase in peer multiples.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI US	0.26	0.43
<b>Sect:</b> Utilities	0.88	0.81
<b>Ind:</b> Utilities	0.88	0.81
<b>Macro:</b>		
Non-Energy Commodity	0.26	0.23
US Dollar	-0.19	-0.14
US 10yr Breakeven	0.05	0.12
<b>Quant Styles:</b>		
LowVol	0.48	0.38
Growth	-0.19	-0.29
Size	0.50	0.24

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

## Investment Thesis, Valuation and Risks

### Public Service Enterprise Group *(Overweight; Price Target: \$70.00)*

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#### Risks to Rating and Price Target

- PEG continues to operate a nuclear fleet that is exposed to market power price volatility. Potential changes to forward commodity and capacity prices within the PJM market may have a material negative impact on the company's outer-year earnings potential and could impact our estimates. Moreover, the nuclear plants are dependent upon NJ ZEC payments, currently approved in three-year increments. A change in NJ policy surrounding ZECs could impact the earnings trajectory of the plants. However, IRA PTCs put an important floor to this risk.
- PEG is near the height of its capital spending program exposing its future earnings to project execution- and cost inflation-related risks. At times, inclusion of these investments in rate base could also face the risk of a cost prudence review by the Board of Public Utilities of New Jersey. Difficulty in project execution or cost inflation could add downside risk to our earnings expectations.
- PSE&G's regulated earnings are subject to federal and state regulations. Any meaningful negative change to the regulatory constructs from NJ's BPU and FERC may cause future earnings to differ materially from current expectations. Such changes could result from vagaries in political, consumer, or general regulatory sentiment.

## Public Service Enterprise Group: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY21A	FY22A	FY23E	FY24E	FY25E		1Q23A	2Q23A	3Q23A	4Q23E	
Revenue	9,722	9,800	11,128	10,720	11,162	Revenue	3,755A	2,421A	2,456A	2,496	
COGS	(3,499)	(4,018)	(3,507)	(3,501)	(3,507)	COGS	(1,082)A	(604)A	(831)A	(990)	
Gross profit	6,223	5,782	7,620	7,219	7,655	Gross profit	2,673A	1,817A	1,625A	1,505	
SG&A	(3,226)	(3,178)	(3,012)	(3,022)	(3,031)	SG&A	(743)A	(744)A	(792)A	(733)	
Adj. EBITDA	698	2,730	4,605	4,442	4,868	Adj. EBITDA	2,047A	1,208A	532A	818	
D&A	(1,216)	(1,100)	(1,130)	(1,182)	(1,240)	D&A	(282)A	(279)A	(282)A	(287)	
Adj. EBIT	(518)	1,630	3,476	3,259	3,628	Adj. EBIT	1,765A	929A	250A	532	
Net Interest	(571)	(628)	(741)	(823)	(889)	Net Interest	(180)A	(185)A	(185)A	(191)	
Adj. PBT	(1,089)	1,002	2,735	2,437	2,738	Adj. PBT	1,585A	744A	65A	341	
Tax	441	29	(461)	(596)	(669)	Tax	(298)A	(153)A	74A	(84)	
Minority Interest	0	0	0	0	0	Minority Interest	0A	0A	0A	0	
Adj. Net Income	1,853	1,739	1,728	1,841	2,069	Adj. Net Income	695A	351A	425A	257	
Reported EPS	3.65	3.47	3.46	3.69	4.15	Reported EPS	1.39A	0.70A	0.85A	0.52	
Adj. EPS	3.65	3.47	3.46	3.69	4.15	Adj. EPS	1.39A	0.70A	0.85A	0.52	
DPS	2.04	2.16	2.28	2.41	2.54	DPS	0.57A	0.57A	0.57A	0.57	
Payout ratio	55.8%	62.2%	65.9%	65.2%	61.2%	Payout ratio	41.0%A	81.2%A	67.1%A	110.6%	
Shares outstanding	507	501	500	499	499	Shares outstanding	500A	500A	500A	499	
Balance Sheet & Cash Flow Statement						Ratio Analysis					
	FY21A	FY22A	FY23E	FY24E	FY25E		FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	863	511	500	500	500	Gross margin	64.0%	59.0%	68.5%	67.3%	68.6%
Accounts receivable	1,859	1,944	1,417	1,417	1,417	EBITDA margin	7.2%	27.9%	41.4%	41.4%	43.6%
Other current assets	3,528	1,848	1,799	1,971	2,147	EBIT margin	(5.3%)	16.6%	31.2%	30.4%	32.5%
Current assets	6,250	4,303	3,716	3,888	4,064	Net profit margin	19.1%	17.7%	15.5%	17.2%	18.5%
PP&E	34,366	35,942	38,118	40,187	42,274	ROE	12.2%	12.3%	12.0%	11.9%	12.8%
Other non current assets	8,383	8,473	8,865	8,794	8,840	ROA	3.7%	3.6%	3.5%	3.6%	3.8%
Total assets	48,999	48,718	50,700	52,870	55,178	ROCE	(2.2%)	4.7%	8.3%	6.7%	7.1%
Short term borrowings	4,219	3,775	3,522	4,445	5,130	SG&A/Sales	33.2%	32.4%	27.1%	28.2%	27.2%
Payables	1,315	1,271	1,050	1,050	1,050	Net debt/equity	1.3	1.4	1.3	1.3	1.3
Other short term liabilities	1,538	1,634	1,428	1,428	1,428	P/E (x)	17.1	18.0	18.1	16.9	15.1
Current liabilities	7,072	6,680	6,000	6,923	7,608	P/BV (x)	2.2	2.3	2.1	2.0	1.9
Long-term debt	15,219	16,495	17,320	17,331	17,482	EV/EBITDA (x)	55.0	14.4	8.7	9.2	8.6
Other long term liabilities	12,270	11,814	12,241	12,836	13,506	Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.1%
Total liabilities	34,561	34,989	35,561	37,090	38,596	Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Shareholders' equity	14,438	13,729	15,139	15,780	16,582	Interest cover (x)	1.2	4.3	6.2	5.4	5.5
Minority interests	-	-	-	-	-	Operating leverage	(9510.7%)(51685.1%)	835.8%	169.8%	274.3%	
Total liabilities & equity	48,999	48,718	50,700	52,870	55,178	Revenue y/y Growth	1.2%	0.8%	13.5%	(3.7%)	4.1%
BVPS	28.48	27.40	30.29	31.62	33.23	EBITDA y/y Growth	(83.3%)	291.1%	68.7%	(3.6%)	9.6%
y/y Growth	(9.7%)	(3.8%)	10.5%	4.4%	5.1%	Tax rate	(40.5%)	2.9%	16.8%	24.4%	24.4%
Net debt/(cash)	18,575	19,759	20,342	21,276	22,112	Adj. Net Income y/y Growth	6.4%	(6.2%)	(0.6%)	6.5%	12.4%
Cash flow from operating activities	1,736	1,503	3,676	3,707	3,945	EPS y/y Growth	6.4%	(5.0%)	(0.4%)	6.7%	12.4%
o/w Depreciation & amortization	1,403	1,283	1,327	1,370	1,428	DPS y/y Growth	-	-	-	-	-
o/w Changes in working capital	(1,099)	(847)	932	(172)	(176)						
Cash flow from investing activities	(2,244)	(1,101)	(3,034)	(3,440)	(3,515)						
o/w Capital expenditure	(2,719)	(2,888)	(3,364)	(3,440)	(3,515)						
as % of sales	28.0%	29.5%	30.2%	32.1%	31.5%						
Cash flow from financing activities	799	(754)	(1,480)	(975)	(841)						
o/w Dividends paid	(1,031)	(1,079)	(1,137)	(1,200)	(1,266)						
o/w Net debt issued/(repaid)	2,199	831	(249)	225	425						
Net change in cash	291	(352)	(838)	(708)	(411)						
Adj. Free cash flow to firm	(181)	(775)	928	889	1,102						
y/y Growth	(126.8%)	328.8%	(219.7%)	(4.3%)	24.0%						

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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Public Service Enterprise Group (PEG, PEG US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Feb 12, 2004. All share prices are as of market close on the previous business day.

Date	Rating	Price (\$)	Price Target (\$)
22-Mar-21	N	58.91	62
20-Apr-21	N	63.48	66
17-Jun-21	N	61.23	65
19-Jul-21	N	61.74	64
01-Sep-21	N	63.94	70
18-Oct-21	N	62.11	69
13-Dec-21	N	63.80	71
07-Jan-22	OW	65.89	73
27-Jan-22	OW	64.69	76
13-Mar-22	OW	65.72	78
14-Apr-22	OW	71.55	85
16-May-22	OW	68.58	86
13-Jul-22	OW	61.74	80
19-Oct-22	OW	55.69	67
12-Dec-22	OW	59.77	68
17-Mar-23	OW	59.18	66
21-Apr-23	OW	63.96	70
06-Jun-23	OW	61.36	67
24-Jul-23	OW	65.13	68
17-Aug-23	OW	60.34	70
23-Oct-23	OW	59.30	68

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