



New Jersey Resources (NJR)

Updated May 7th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	10.9%	Market Cap:	\$4.4 B
Fair Value Price:	\$51	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/12/2024
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date:	07/01/2024
Dividend Yield:	3.7%	5 Year Price Target	\$65	Years Of Dividend Growth:	27
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

New Jersey Resources provides natural gas and clean energy services, transportation, distribution, asset management and home services through its five main subsidiaries. The company owns both regulated and nonregulated operations. NJR's principal subsidiary, New Jersey Natural Gas (NJNG), owns and operates over 7,700 miles of natural gas transportation and distribution infrastructure serving over half a million customers. NJR Clean Energy Ventures (CEV) invests in and operates solar projects, to provide customers with low-carbon solutions. NRJ Energy Services manages a portfolio of natural gas transportation and storage assets, as well as provides physical natural gas services to customers in North America. The midstream subsidiary owns and invests in several large midstream gas projects. Finally, the home services business provides heating, central air conditioning, water heaters, standby generators, and solar products to residential homes. New Jersey Resources was founded in 1952 and has paid a quarterly dividend since. The company has increased its annual dividend for 27 consecutive years and has a market capitalization of \$4.4 billion. NJR trades on the NYSE and has more than 1,300 employees.

On January 31, 2024, New Jersey Natural Gas filed a base rate case with the Board of Public Utilities (BPU) requesting a \$222.6 million increase in base rates, based on an overall return of 7.57% and a return on equity of 10.42%.

New Jersey Resources reported second quarter 2024 results on May 7th, 2024, for the period ending March 31st, 2024. Second quarter net income of \$120.8 million compared favorably to the prior year quarter's \$110.2 million. Consolidated net financial earnings (NFE) for the company was \$138.6 million, compared to \$112.3 million in Q2 2023 and NFE per share of \$1.41 compared to \$1.16 per share one year ago. New Jersey Natural Gas (NJNG) added 4,058 new customers in fiscal H1 2024.

Management reaffirmed its guidance for fiscal 2024, seeing NFEPS in the range of \$2.85 to \$3.00. New Jersey Natural Gas (NJNG) is expected to contribute 40 to 45 percent of NFEPS in 2024, while Energy Services will contribute 38 to 43 percent. The remaining 12 to 22 percent will be a combination of Clean Energy Ventures (CEV), Storage and Transportation, and Home Services and Other.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NFEPS	\$2.10	\$1.78	\$1.60	\$1.73	\$2.74	\$1.96	\$2.07	\$2.16	\$2.50	\$2.70	\$2.93	\$3.74
DPS	\$0.86	\$0.90	\$0.96	\$1.02	\$1.09	\$1.17	\$1.27	\$1.32	\$1.48	\$1.56	\$1.68	\$2.14
Shares	85	86	87	87	88	89.6	95.1	96.2	96.2	98.2	99.0	105.0

New Jersey Resources measures its performance and its payout ratio by Net financial earnings (NFE) per share. NFE is implemented to eliminate the impact of volatility to GAAP earnings associated with unrealized gains or losses on derivative instruments. In fiscal 2021, the business adopted an accounting policy change around its solar projects. This set the foundation for further investments in solar. Management continues to project a 7% to 9% annual long-term growth rate off its initial guidance of \$2.25 for fiscal 2022.

We are projecting 5.0% annual earnings growth over the intermediate term, which would result in NFEPS of \$3.74 in 2029. The company is also estimating long-term annual dividend growth per share to be in the 7% to 9% range. NJR has a capital plan which includes \$1.2 billion to \$1.5 billion of investments in the next two years. NJR is investing \$300

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million to \$468 million into its CEV segment over the next two years to pursue capacity growth and geographic diversification.

The company is aiming for a long-term composition of its NFEPS to be made up 60%-70% by its New Jersey Natural Gas segment, 20%-25% CEV, 6%-10% Energy Services, and 5%-10% Storage & Transportation.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.4	16.9	21.9	23.7	15.9	23.8	16.3	18.1	17.5	17.9	15.3	17.5
Avg. Yld.	3.3%	3.0%	2.7%	2.5%	2.5%	2.5%	3.8%	3.3%	3.2%	3.0%	3.7%	3.3%

The current P/E ratio based on forecasted 2024 NFEPS of \$2.93 is 15.3. Over the past ten years and five years, NJR has averaged a P/E ratio of 18.4 and 18.7, respectively. We peg fair value at 15.3 times forecasted NFEPS, implying a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

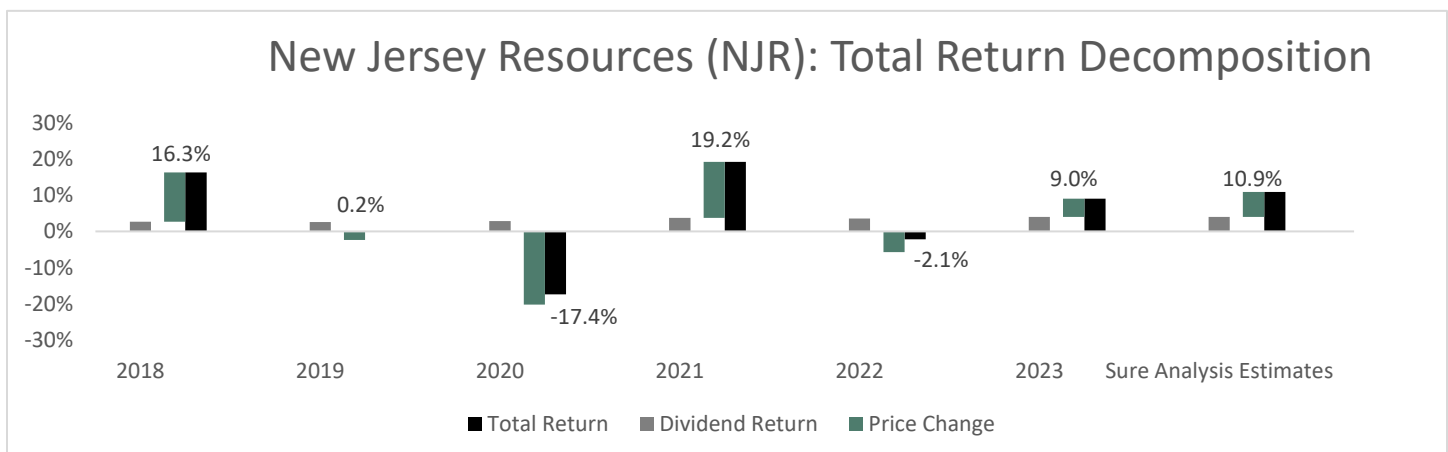
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41%	51%	60%	59%	40%	60%	61%	61%	59%	58%	57%	57%

The dividend payout ratio for the company on a net financial earnings basis appears to be very safe historically, especially for a utility company which can often safely pay out a large portion of earnings. We expect the company will continue to increase the dividend without a hitch. The company was not horribly affected by the Great Recession given the nature of its business as both earnings and the share price recuperated quickly. Through the COVID-19 pandemic, the company also remained solid. The company does not have a significant competitive advantage; however, its growing solar portfolio can set it apart from other natural gas players. Though the practice of integrating renewable assets in older energy companies has become common practice, NJR was at least ahead of the pack.

Final Thoughts & Recommendation

New Jersey Resources has paid a dividend since 1952 and has raised this dividend consecutively in the last 27 years. NJR has many growth initiatives in motion and a clear vision of its future, particularly for its natural gas and clean energy ventures. We are forecasting total annual returns of 10.9%, composed of a 3.7% yield, 5.0% NFEPS growth, and a moderate valuation tailwind. New Jersey Resources is trading at 87% of fair value, and with estimated total annualized returns of 10.9%, we are reiterating NJR as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3738	2734	1881	2269	2915	2592	1954	2157	2906	1963
Gross Profit	383	439	320	343	325	280	371	438	595	610
Gross Margin	10.3%	16.1%	17.0%	15.1%	11.1%	10.8%	19.0%	20.3%	20.5%	31.1%
D&A Exp.	72	76	39	40	39	34	35	38	59	153
Operating Profit	53	61	73	82	86	81	107	111	129	407
Operating Margin	5.4%	9.1%	8.9%	7.5%	6.9%	6.3%	11.7%	13.4%	14.0%	20.7%
Net Profit	142	181	132	132	233	124	163	118	275	265
Net Margin	3.8%	6.6%	7.0%	5.8%	8.0%	4.8%	8.3%	5.5%	9.5%	13.5%
Free Cash Flow	70	71	-212	-78	20	-332	-257	-234	-275	-61.9
Income Tax										49.3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3159	3284	3719	3929	4144	4373	5316	5722	6261	6537
Cash & Equivalents	2	5	38	2	1	3	117	5	1	1
Accounts Receivable	190	155	143	196	205	139	134	213	222	98
Inventories	286	171	217	214	199	184	188	213	294	227
Goodwill & Int. Ass.			0	41	23	16	15	11	8	8
Total Liabilities	2193	2177	2552	2692	2725	2821	3673	4091	4444	4547
Accounts Payable	311	253	248	258	348	268	238	395	392	204
Long-Term Debt	934	921	1238	1428	1456	1584	2412	2612	2984	3136
Shareholder's Equity	966	1107	1167	1237	1419	1552	1644	1631	1817	1991
D/E Ratio	2.27	1.97	2.19	2.18	1.92	1.82	2.23	2.51	1.64	1.58

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.6%	5.6%	3.8%	3.5%	5.8%	2.9%	3.4%	2.1%	4.6%	4.1%
Return on Equity	15.3%	17.5%	11.6%	11.0%	17.6%	8.3%	10.2%	7.2%	15.9%	13.9%
ROIC	7.6%	9.2%	5.9%	5.2%	8.4%	4.1%	4.5%	2.8%	6.1%	5.3%
Shares Out.	85	86	87	87	88	89.6	95.1	96.2	96.5	97.6
Revenue/Share	44.02	31.69	21.69	26.03	33.01	28.93	20.54	22.33	30.12	20.11
FCF/Share	0.82	0.82	-2.44	-0.89	0.23	-3.70	-2.70	-2.42	-2.85	-0.63

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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