



Eversource Energy (ES)

Updated August 18th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	17.7%	Market Cap:	\$22.5 B
Fair Value Price:	\$97	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	09/20/24
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.3%	Dividend Payment Date¹:	09/27/24
Dividend Yield:	4.4%	5 Year Price Target	\$129	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Eversource Energy is a diversified holding company with subsidiaries that provide regulated electric, gas, and water distribution service in the Northeast U.S. The company's utilities serve more than 4 million customers after acquiring NStar's Massachusetts utilities in 2012, Aquarion in 2017, and Columbia Gas in 2020. The company was formerly known as Northeast Utilities and changed its name to Eversource Energy in April 2015. Eversource Energy is a \$22.5 billion company and has about 10,200 employees.

On July 31st, 2024, Eversource Energy released its second-quarter 2024 results for the period ending June 30th, 2024. For the quarter, the company reported earnings of \$335.3 million, a substantial increase from \$15.4 million in the same quarter of last year, which had been impacted by an impairment charge. The company reported earnings-per-share of \$0.95 compared with earnings-per-share of \$0.04 in the prior year.

Earnings from the Electric Transmission segment increased to \$189.0 million, up from \$161.0 million in the prior year, primarily due to a higher level of investment in Eversource's electric transmission system, which is necessary to address system capacity growth and deliver clean energy resources for the region. Earnings from the Electric Distribution segment totaled \$149.7 million, down from \$165.5 million in the prior-year quarter. This decline was attributed to higher storm restoration costs and increased operational expenses, despite higher revenues from a base distribution rate increase for Eversource's Massachusetts electric business and from infrastructure investments in the distribution system. Earnings from the Natural Gas Distribution segment improved significantly to \$27.1 million, up from \$11.7 million in the prior year, driven primarily by higher revenues associated with investments in natural gas infrastructure and a base distribution rate increase.

Eversource Energy continues to progress towards its investment goal of \$23.1 billion in various projects, including transmission and electric distribution, during the 2023 to 2027 timeframe. Notably, the company made history earlier in the year when Eversource and Ørsted's South Fork Wind farm became the first operational commercial-scale offshore wind facility in the U.S., contributing towards the company's plan to add 1,758 megawatts of offshore wind capacity through a joint venture by 2025. The company's earnings-per-share growth ambition remains on a pace of 5% to 7% compound annual rate from 2024 through 2027, consistent with its dividend growth expectations. The company continues to expect its 2024 earnings in the band of \$4.50 to \$4.67 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.58	\$2.76	\$2.96	\$3.11	\$3.25	\$3.45	\$3.64	\$3.86	\$4.09	\$4.34	\$4.60	\$6.16
DPS	\$1.57	\$1.67	\$1.78	\$1.90	\$2.02	\$2.14	\$2.27	\$2.41	\$2.55	\$2.70	\$2.86	\$3.83
Shares²	317	317	317	317	317	330	342	344	344	344	347	351

Eversource's long-term earnings growth track record is solid, growing EPS nearly every year since 2012. Over the last 10 years, the average EPS growth rate is almost 6%.

¹ Estimated date.

² In millions.

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We expect the company to grow its earnings-per-share by 6% per year on average over the next five years. The company has a good earnings track record and will benefit from rate hikes, transmission investments, and clean energy initiatives. This should compensate for the effects of higher operating and maintenance costs, and slightly higher average shares outstanding. There is also some lingering uncertainty about transmission rates.

The company has a long history of paying dividends and has increased its payout for 26 consecutive years. In February 2024, the quarterly dividend increased by 5.9% from \$0.6750 to \$0.7150 per share. Over the last five years, the average annual dividend growth rate is 6.0%. Eversource's target for yearly dividend growth is 5% to 7%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.9	18.1	18.7	19.5	18.7	22.1	23.7	22.2	20.9	14.0	14.1	21.0
Avg. Yld.	1.9%	3.3%	3.2%	3.1%	3.3%	2.8%	2.6%	2.8%	3.0%	3.0%	4.4%	3.0%

During the past decade shares of Eversource Energy have traded with an average price-to-earnings ratio of about 20 times earnings and today, it stands at 14.1. We are using 21 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.4% and the dividend raises in past years have contributed to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	61%	60%	61%	62%	62%	62%	62%	62%	62%	62%	62%

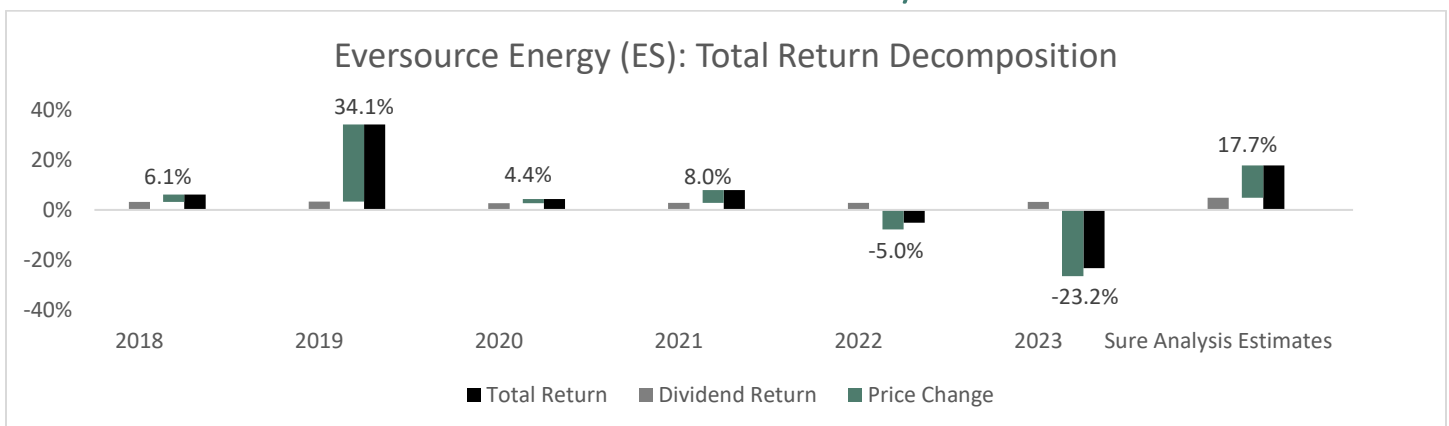
During the past five years, the company's dividend payout ratio has averaged around 64%. The company has a projected 2023 payout ratio of 62%, which indicates a sustainable dividend. Given the expected earnings growth, there is still room for the dividend to continue to grow at the same pace and extend the track record of consecutive dividend increases which is an important factor for dividend growth investors.

In 2022, Eversource Energy completed a \$3.8 billion core business construction program to enhance reliability, resilience of its infrastructure, and improving customer service and is investing heavily in renewable energy and growing its rate base in the years to come. This will help Eversource Energy to maintain a sustainable earnings growth rate and avoid service-related penalties in the future. Furthermore, Eversource Energy has invested \$4.46 billion in 2023.

Final Thoughts & Recommendation

Eversource Energy is a steady company in terms of its earnings growth track record, its earnings growth outlook, dividend growth, and its infrastructure investments related to the net-zero carbon emission target of 2030. The company's dividend yield is generous, and the 26 years of consecutive dividend increases is noteworthy. We estimate a total return of 17.7% based on a 6.0% EPS growth, a 4.4% yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,742	7,955	7,639	7,752	8,448	8,526	8,904	9,863	12,290	11,911
Gross Profit	3,293	3,539	3,796	3,910	3,974	4,123	4,436	4,751	5,410	4,847
Gross Margin	42.5%	44.5%	49.7%	50.4%	47.0%	48.4%	49.8%	48.2%	44.0%	40.7%
D&A Exp.	615	240	787	864	1,072	1,081	1,159	1,335	1,643	816
Operating Profit	1,633	1,764	1,841	1,888	1,700	1,830	1,989	1,993	2,198	2,532
Operating Margin	21.1%	22.2%	24.1%	24.4%	20.1%	21.5%	22.3%	20.2%	17.9%	21.3%
Net Profit	820	878	942	988	1,033	909	1,205	1,221	1,405	(\$442)
Net Margin	10.6%	11.0%	12.3%	12.7%	12.2%	10.7%	13.5%	12.4%	11.4%	(3.7%)
Free Cash Flow	48	96	231	(352)	(739)	(902)	(1,260)	(1,212)	(1,041)	(2,691)
Income Tax	468	540	555	579	289	273	346	344	454	160

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	29,740	30,580	32,053	36,220	38,241	41,124	46,100	48,492	53,230	55,612
Cash & Equivalents	39	24	30	38	108	15	107	67	375	54
Accounts Receivable	856	775	847	925	994	989	1,196	1,226	1,517	1,432
Inventories	350	336	329	223	238	236	266	268	374	507
Goodwill & Int. Ass.	3,519	3,519	3,519	4,427	4,427	4,427	4,446	4,477	4,523	4,532
Total Liabilities	19,764	20,228	21,341	25,134	26,754	28,494	31,880	33,737	37,600	41,283
Accounts Payable	868	814	885	1,085	1,120	1,148	1,371	1,672	2,114	1,869
Long-Term Debt	9,771	10,195	10,752	13,414	14,632	15,571	17,969	20,219	22,940	26,754
Shareholder's Equity	9,977	10,352	10,712	11,086	11,487	12,630	14,064	14,600	15,470	14,174
LTD/E Ratio	0.98	0.98	1.00	1.21	1.27	1.23	1.28	1.38	1.48	1.89

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.8%	2.9%	3.0%	2.9%	2.8%	2.3%	2.8%	2.6%	2.8%	-0.8%
Return on Equity	8.4%	8.6%	8.9%	9.1%	9.2%	7.5%	9.0%	8.5%	9.3%	-3.0%
ROIC	4.2%	4.4%	4.5%	4.3%	4.1%	3.3%	4.0%	3.6%	3.8%	-1.1%
Shares Out.	317	317	317	317	317	330	342	344	347	350
Revenue/Share	24.39	24.98	23.99	24.37	26.57	26.40	26.20	28.62	35.39	34.05
FCF/Share	0.15	0.30	0.73	(1.11)	(2.33)	(2.79)	(3.71)	(3.52)	(3.00)	(7.69)

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

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