Exhibit___(AA-3)

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Dividend Aristocrats In Focus: Consolidated Edison

Updated on February 25th, 2022 by Felix Martinez

The Dividend Aristocrats are a group of stocks in the S&P 500 Index, with 25+ years of consecutive dividend increases. These companies have high-quality business models that have stood the test of time and showed a remarkable ability to raise dividends every year regardless of the economy.

We believe the Dividend Aristocrats are some of the highest-quality stocks to buy and hold for the long term. With that in mind, we created a full list of all 66 Dividend Aristocrats.

You can download the full Dividend Aristocrats list, along with important metrics like dividend yields and price-to-earnings ratios, by clicking on the link below:

Click here to download your Dividend Aristocrats Excel Spreadsheet List now.

The list of Dividend Aristocrats is diversified across multiple sectors, including consumer goods, financials, industrials, and healthcare. One group that is surprisingly under-represented, is the utility sector. There are only 3 utility stocks on the list of Dividend Aristocrats, including Consolidated Edison (ED).

The fact that there are just 3 utilities on the Dividend Aristocrats list may come as a surprise, especially since utilities are widely regarded as being steady dividend stocks. Consolidated Edison is about as consistent a dividend stock as they come.

The company has over 100+ years of steady dividends and 48 years of annual dividend increases. This article will discuss what makes Consolidated Edison an appealing stock for income investors.

Business Overview

Consolidated Edison is a large-cap utility. The company generates approximately $12 billion in annual revenue and has a market capitalization of nearly $29.9 billion.

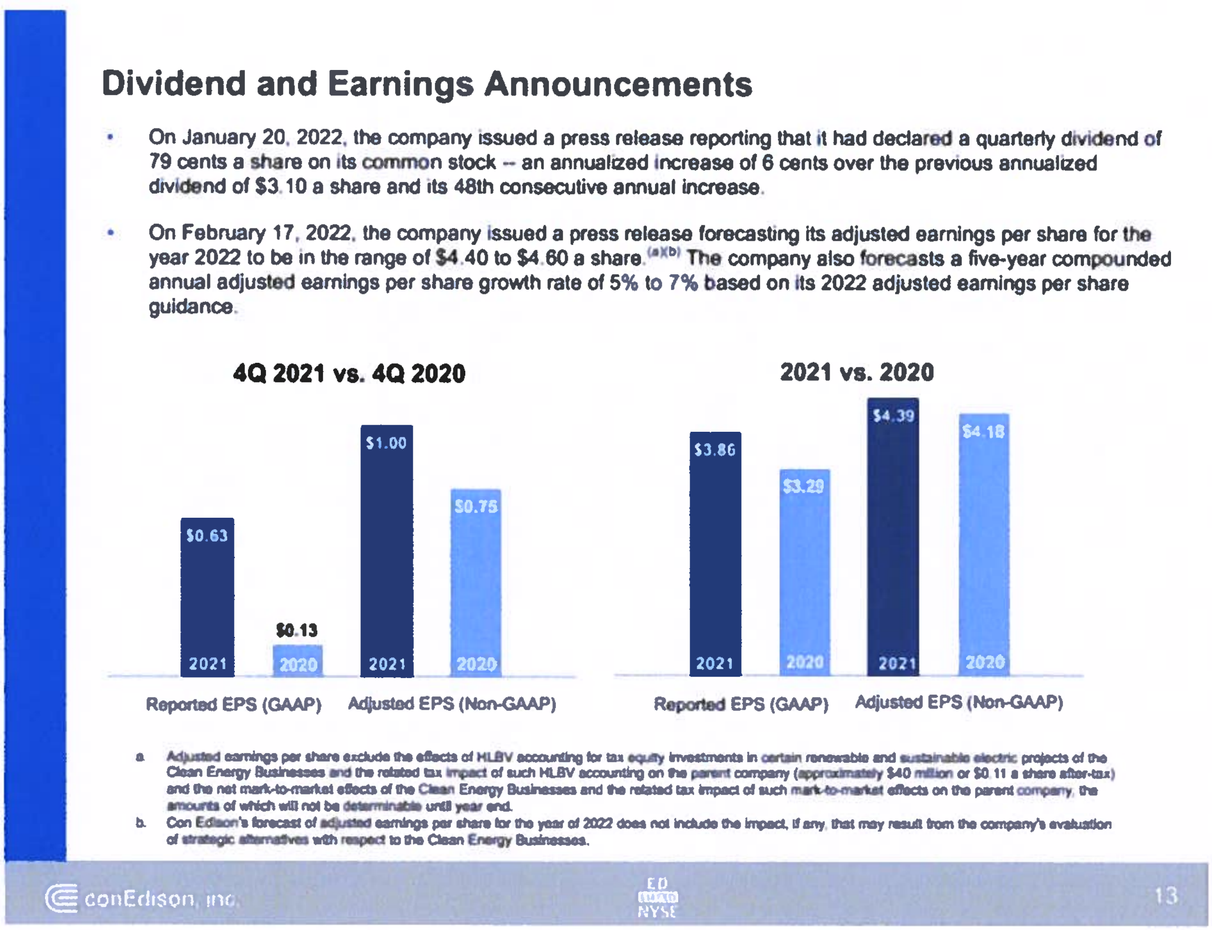
The company serves over 3 million electric customers, and another 1 million gas customers, in New York. It operates electric, gas, steam transmission, and green energy businesses.

2021 was a solid year for Consolidated Edison. For the fourth quarter, revenue grew 15.4% to $3.42 billion and beat estimates by $510 million. Adjusted net income of $355 million, or $1.00 per share, compared to adjusted net income of $253 million, or $0.75 per share, in the previous year.

For the full year, revenue increased 211.7% to $13.7 billion. Adjusted earnings of $4.39 per share, increased 5% from 2020. Adjusted earnings and adjusted earnings per share in 2021 exclude the impact of impairment losses related to Con Edison's investments in Stagecoach Gas Services LLC and Honeoye Storage Corporation and the loss from the sale of a renewable electric project.

Total electric revenues improved 11.4% and 8.6% for the quarter and year, respectively.

Gas was increased by 22.5% in Q4, and up more than 16.2% for 2021. The company expects adjusted earnings-per-share in a range of $4.40 to $4.60 for 2022, which would be a 2.5% increase at the midpoint from 2021.



Source: [Investor Presentation]()

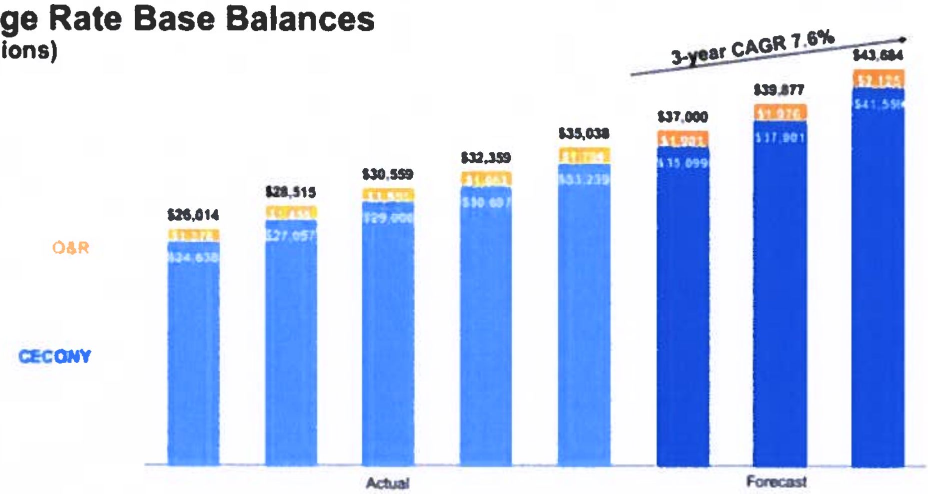
With the gradual improvement of the U.S. economy and a return to normalized weather conditions, we expect ConEd to continue its pattern of modest growth in 2022. ConEd should continue to generate modest earnings growth each year, through a combination of new customer acquisitions and rate increases.

Growth Prospects

Earnings growth across the utility industry typically mimics GDP growth. Over the next five years, we expect Consolidated Edison to increase earnings-per-share by 3.5% per year. This comes in just below the company's own expectations for five-year adjusted EPS growth of 4%-6% per year.

The growth drivers for Consolidated Edison are new customers and rate increases. One benefit of operating in a regulated industry is that utilities are permitted to raise rates on a regular basis, which virtually assures a steady level of growth.

Average Rate Base Balances
($ in millions)



		2017	2018	2019	2020	2021	2022E	2023E	2024E
CECONY	Electric	$18,513	$20,057	$21,149	$22,101	$23,614	$24,684[a]	$26,286[a]	$28,983[a]
	Gas	4,723	5,581	6,408	7,110	8,008	8,841[a]	10,030[a]	10,982[a]
	Steam	1,402	1,419	1,451	1,486	1,617	1,574[a]	1,585[a]	1,594[a]
O&R	Electric	759	806	842	901	965	1,021[b]	1,044[b]	1,144[b]
	Gas	392	426	455	490	527	566[b]	607[b]	649[b]
RECO	Electric	225	226	254	271	307	314	325	332

a. 2022 forecast and 2023-2024 Steam service reflects company's plans; 2023 and 2024 Electric and Gas service reflects rate filing forecast as of January 2022

b. Amounts reflect the O&R October 2021 Joint Proposal that is subject to NYSPSC approval.

conEdison, inc. 32

Source: [Investor Presentation]()

Consolidated Edison expects to increase its rate base by 7.6% each year, through 2024. This is a natural way for a utility to generate steady revenue and earnings growth.

One potential threat to future growth is rising interest rates, which could increase the cost of capital for companies that utilize debt, such as utilities. Fortunately, the Federal Reserve has cut rates several times this year, making it unlikely that policy will be reversed and rates will be raised. Lowering rates helps companies that rely heavily on debt financing, such as utilities, so investors do not need to be concerned about Consolidated Edison in a falling-rate cycle.

Even if rates do go up, Consolidated Edison is in strong financial condition. It has an investment-grade credit rating of A-, and a modest capital structure with balanced debt maturities over the next several years. A healthy balance sheet and strong business model help provide security to Consolidated Edison's dividends. Investors can reasonably expect low single-digit dividend increases each year, at a rate similar to the company's annual earnings-per-share growth.

Competitive Advantages & Recession Performance

Consolidated Edison's main competitive advantage is the high regulatory hurdles of the utility industry. Electricity and gas services are necessary and vital to society. As a result, the industry is highly regulated, making it virtually impossible for a new competitor to enter the market. This provides a great deal of certainty to Consolidated Edison.

In addition, the utility business model is highly recession-resistant. While many companies experienced large earnings declines in 2008 and 2009, Consolidated Edison held up relatively well. Earnings-per-share during the Great Recession are shown below:

- 2007 earnings-per-share of $3.48
- 2008 earnings-per-share of $3.36 (3% decline)
- 2009 earnings-per-share of $3.14 (7% decline)
- 2010 earnings-per-share of $3.47 (11% increase)

Consolidated Edison's earnings fell in 2008 and 2009 but recovered in 2010. The company still generated healthy profits, even during the worst of the economic downturn. This resilience allowed Consolidated Edison to continue increasing its dividend each year.

The same pattern held up in 2020 when the U.S. economy entered a recession due to the coronavirus pandemic. Last year, ConEd remained highly profitable, which allowed the company to raise its dividend again.

Valuation & Expected Returns

Using the current share price of ~$83 and the midpoint of 2022 guidance, the stock trades with a price-to-earnings ratio of 18.4. This is above our fair value estimate of 16.0, which is in line with the 10-year average price-to-earnings ratio for the stock.

As a result, Consolidated Edison shares appear to be slightly overvalued. If the stock valuation retraces to the fair value estimate, the corresponding multiple contractions would reduce annual returns by -3.1%. This could be a headwind for future returns.

Fortunately, the stock could still provide positive returns to shareholders, through earnings growth and dividends. We expect the company to grow earnings by 3.5% per year over the next five years. In addition, the stock has a current dividend yield of 3.7%.

Utilities like ConEd are prized for their stable dividends and safe payouts. Two other utilities on the Dividend Aristocrats list include Atmos Energy (ATO) and NextEra Energy (NEE).

Putting it all together, Consolidated Edison's total expected returns could look like the following:

- 3.5% earnings growth
- -3.1% multiple reversion
- 3.7% dividend yield

Added up and Consolidated Edison is expected to return 3.5% annually over the next five years. This is a decent rate of return, but not high enough to warrant a buy recommendation.

Income investors may find the yield attractive, as the current yield is more than double the average yield of the S&P 500 Index. The company has a projected 2022 payout ratio of just 70%, which indicates a sustainable dividend. However, growth investors or those looking for a higher rate of return are likely not attracted to Consolidated Edison stock.

Final Thoughts

Consolidated Edison can be a valuable holding for income investors, such as retirees, due to its 3.7% dividend yield. The stock offers secure dividend income, and is also a Dividend Aristocrat, meaning it should raise its dividend each year. Therefore, risk-averse investors looking primarily for income right now–such as retirees–could see greater value in buying utility stocks like Consolidated Edison. However, we rate the stock as a hold at today's current price of $83.

Additionally, the following Sure Dividend databases contain the most reliable dividend growers in our investment universe:

- The Dividend Contenders List: 10-24 consecutive years of dividend increases.
- The Dividend Challengers List: 5-9 consecutive years of dividend increases.
- The Dividend Champions: Dividend stocks with 25+ years of dividend increases, including those that may not qualify as Dividend Aristocrats.
- The Dividend Achievers: dividend stocks with 10+ years of consecutive dividend increases.
- The Dividend Kings: considered to be the ultimate dividend growth stocks, the Dividend Kings list is comprised of stocks with 50+ years of consecutive dividend increases

If you're looking for stocks with unique dividend characteristics, consider the following Sure Dividend databases:

- The Complete List of Monthly Dividend Stocks: stocks that pay dividends each month, for 12 payments over the year.
- The Blue Chip Stocks List: this database contains stocks that qualify as either Dividend Achievers, Dividend Aristocrats, or Dividend Kings.

The major domestic stock market indices are another solid resource for finding investment ideas. Sure Dividend compiles the following stock market databases and updates them monthly:

- The Complete List of Russell 2000 Stocks
- The Complete List of NASDAQ-100 Stocks

Thanks for reading this article. Please send any feedback, corrections, or questions to support@suredividend.com.