Sempra Energy stock has been the top performer in the electric utility industry so far in 2022. The price has risen more than 25%. We attribute this to investor interest in the company's liquefied natural gas export business, which is part of Sempra Energy Infrastructure Partners. The demand for LNG is increasing due to sanctions in Russia. However, any benefit from increased LNG demand will be seen over the long term as the company increases its capacity. Its current capacity is adequate under long-term contracts.

Earnings will likely rebound this year and advance in 2023 after a depressed result in 2021. The bottom line fell into the red in the September quarter due to a $1.6 billion pretax charge related to litigation that arose from a leak in a gas storage facility several years ago. Besides the absence of this charge, Sempra will benefit from rate relief at its utility subsidiaries in California and growth at its utility in Texas. This factor should help lift profits in 2023, as we are assuming no change in the allowed return on equity at the utilities (see below). Our share-earnings estimates are within the company's targeted ranges of $8.10-$8.70 and $8.60-$9.20 in 2022 and 2023, respectively.

A cost-of-capital case is pending in California. A provision under the state's regulatory mechanism would force a cut in the allowed ROEs for San Diego Gas and Electric from 10.2% to 9.62%. However, the utility is arguing that the mechanism should not take effect due to the extremely low interest rates from the easing that happened two years ago as the economy was under lockdown. In fact, SDG&E is proposing to increase its allowed ROE to 10.55% and its common-equity ratio from 5.0% to 5.5%, which, if approved, would not be retroactive.

An asset sale will probably be completed this summer. Sempra has agreed to sell a 10% interest in its infrastructure unit for $1.8 billion. It plans to use the cash for capital spending and stock buybacks.

We think the stock is overbought. The dividend yield is below the utility average, and the recent quotation is well within our 5- to 5-year Target Price Range for P/E Growth Persistence. As of April 22, 2022.