



Black Hills Corporation (BKH)

Updated April 19th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$54	5 Year CAGR Estimate: 10.6%	Quality Percentile: N/A
Fair Value Price: \$61	5 Year Growth Estimate: 4.6%	Momentum Percentile: N/A
% Fair Value: 88%	5 Year Valuation Multiple Estimate: 2.5%	Total Return Percentile: N/A
Dividend Yield: 3.5%	5 Year Price Target: \$77	Valuation Percentile:

Overview & Current Events

Black Hills Corporation is an electric utility that provides electricity and natural gas to customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota, and Wyoming. Black Hills was founded in 1941 and is currently valued at \$2.9 billion. Black Hills obtains roughly 20% of its electricity from renewable sources, the rest is generated from natural gas. Black Hills seeks to further increase the amount of electricity it obtains from renewable sources, partially due to state requirements (e.g. Colorado has set a 30% renewables requirement for 2020).

Black Hill's Q4 results were reported in February. The company earned \$0.98 per share, down from \$1.06 in the prior year's quarter. Revenues were flat year over year, but the company managed to increase its full year profits from \$3.13 to \$3.36.

Guidance for 2018 sees earnings per share in a range of \$3.30 to \$3.50, which would mean a one percent increase at the midpoint of the guidance range.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.18	\$2.32	\$1.66	\$1.01	\$1.97	\$2.61	\$2.89	\$2.83	\$3.13	\$3.36	\$3.40	\$4.25
DPS	\$1.40	\$1.42	\$1.44	\$1.46	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.90	\$2.20

Black Hills' profitability has been moving widely, the company has seen big year-on-year increases as well as big year-over-year declines during the last decade. Overall EPS has grown by 4.7% annually since 2009, which is not an especially bad growth rate for a utility. At the same time growth isn't overly impressive here either.

Black Hills has grown its dividend relatively in line with its earnings, since 2008 the dividend growth rate averaged 5.5% annually. In contrary to earnings growth, dividend growth has been very reliable and without any meaningful swings.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	-	9.9	18.1	31.1	17.1	18.2	19.0	16.1	22.3	19.7	15.9	18.0
Avg. Yld.	4.2%	6.2%	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.5%	3.1%

Black Hills' earnings fluctuated widely over the last decade, and so did its valuation. From a PE ratio as low as 10 up to an earnings multiple of more than thirty, shares were valued at drastically differing valuations throughout the last couple of years

Right now shares are being valued at a small discount compared to the long term average, which means that there could be some additional share price upside on top of the share price gains that will come from the company's earnings per share growth. It is, however, not guaranteed that Black Hills' PE ratio will expand to 18, this is just what shares have been valued at in the past decade, on average.

Like most utilities Black Hills offers a compelling dividend yield. Shares trade at a 3.5% yield right now, which is almost twice the broad market's dividend yield of 1.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	16.4%	18.6%	17.6%	16.9%	20.6%	20.4%	19.1%	17.4%	15.9%	16.8%	17.0%	18.0%
Debt/A	68.9%	67.3%	70.4%	70.7%	67.0%	66.5%	68.1%	68.3%	75.3%	74.3%	73.0%	71.0%
Int. Cov.	-	2.4	1.8	1.6	2.5	2.6	3.8	3.6	2.5	3.0	3.0	3.0
Payout	-	61.2%	86.7%	145%	75.1%	58.2%	54.0%	57.2%	53.7%	53.9%	55.9%	51.8%
Std. Dev.	49.2%	33.3%	24.3%	27.3%	18.4%	19.0%	18.9%	26.3%	22.9%	14.5%	17.0%	18.0%

In the above table we see typical numbers and ratios for an asset-heavy company such as a utility: Due to the high amount of assets, the gross profit to assets ratio is relatively low. Utilities tend to use leverage to boost lower returns on average, and Black Hills is no exception. The company has a reasonable debt to assets ratio for a utility.

Black Hills' interest coverage ratio has ranged from 2 to 4 since 2012. Demand for electricity is not cyclical, thus Black Hills will remain profitable under almost all circumstances, which means that the relatively low interest coverage ratio is not problematic. It is also on par with that of many of Black Hills' peers.

The fact that demand for electricity is not cyclical, and that customers tend to stick with their provider means that Black Hills operates a relatively fool-proof business model, and the company will also be able to weather recessions and economic downturns.

Final Thoughts & Recommendation

Black Hills' fundamentals don't stand out, but they are in line with what other utilities offer: Low returns on capital, relatively high debt levels, etc. Utilities aren't typically high-growth companies, but Black Hills nevertheless should be able to provide compelling returns going forward thanks to some multiple expansion potential and a high dividend yield.

For investors that are looking for safe dividends from a non-cyclical company that provides some share price gain potential on top of that, Black Hills could be worthy of a closer look.

Total Return Breakdown by Year

