



Black Hills Corporation (BKH)

Updated February 14th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	5.0%	Volatility Percentile:	16.9%
Fair Value Price:	\$62	5 Year Growth Estimate:	4.5%	Momentum Percentile:	95.8%
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.4%	Growth Percentile:	31.8%
Dividend Yield:	2.9%	5 Year Price Target	\$77	Valuation Percentile:	27.9%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	19.2%

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 currently trades with a market capitalization of \$4.2 billion. The company is headquartered in Rapid City, SD. Black Hills Corporation has increased its dividend for 49 years in a row, which qualifies Black Hills as a Dividend Champion.

Black Hills Corporation reported its fourth quarter and full year earnings results on February 8. The company generated revenues of \$501 million during the fourth quarter, which was 10.1% more than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. Black Hills Corporation's top line beat the analyst consensus estimate easily, by more than 5%.

Black Hills Corporation generated earnings-per-share of \$1.05 during the fourth quarter of 2018, which was 9.4% more than the earnings-per-share that Black Hills has generated during the fourth quarter of fiscal 2017. Higher profits were primarily based on a strong performance of Black Hills' gas utilities segment, whereas the electric utilities segment as well as Black Hills' power generation segment were less profitable than during the fourth quarter of 2017.

Black Hills guides for earnings-per-share in a range of \$3.35 to \$3.55 for fiscal 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.32	\$1.66	\$1.01	\$1.97	\$2.61	\$2.89	\$2.83	\$3.13	\$3.36	\$3.54	\$3.45	\$4.30
DPS	\$1.42	\$1.44	\$1.46	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	\$2.05	\$2.70
Shares	39	39	44	44	45	45	51	53	54	56	58	62

Black Hills' profitability has been rather volatile over the last decade. Overall, earnings-per-share have grown by 4.8% annually in the 2009 to 2018 time frame. This is not a bad growth rate for a utility, which usually do not grow their profits at a high pace. With that said, Black Hills' earnings-per-share growth rate has not been outstanding, either. The swings in its profits are primarily based on the impact that weather conditions have on the demand for electricity (cooling in summer) and on gas (heating in winter). Black Hills' growth over the coming years depends on several factors. One of these factors are rate reviews, which drive revenues and profits per kWh. Another factor is the expansion of the company's existing assets via new pipelines and utility infrastructure. During the fourth quarter of 2018, for example, Black Hills completed the acquisition of a 50% stake in a 29-megawatt wind farm in Colorado for \$16.3 million.

The company also is planning to build new electric transmission lines as well as natural gas pipelines to service its customers. Rate reviews will allow Black Hills to recover investments into its existing systems, thereby more or less guaranteeing increasing revenues, which should lead to rising profits down the road. In 2018, Black Hills exited its oil and gas business, which means that the company will be less impacted by changes in the price of these commodities going forward. Focusing on its core business will likely be a positive for Black Hills going forward.

We believe that earnings-per-share will continue to grow at a mid-single digits rate over the coming years. On a year-over-year level, profit growth will remain somewhat unpredictable, and subject to weather conditions that can impact Black Hills' profitability positively as well as negatively.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	9.9	18.1	31.1	17.1	18.2	19.0	16.1	22.3	19.7	17.8	20.3	18.0
Avg. Yld.	6.2%	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.3%	2.9%	3.5%

Black Hills Corporation trades at just above 20 times this year's expected net profits, using the midpoint of management's guidance for fiscal 2019. Black Hills' valuation has moved in a very wide range throughout the last decade. The company was valued at less than 10 times profits during the financial crisis. Right now, shares trade above our fair value estimate, which is also why the dividend yield is at the bottom end of the historical range right here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	61.2%	86.7%	145%	75.1%	58.2%	54.0%	57.2%	53.7%	53.9%	54.5%	59.4%	62.8%

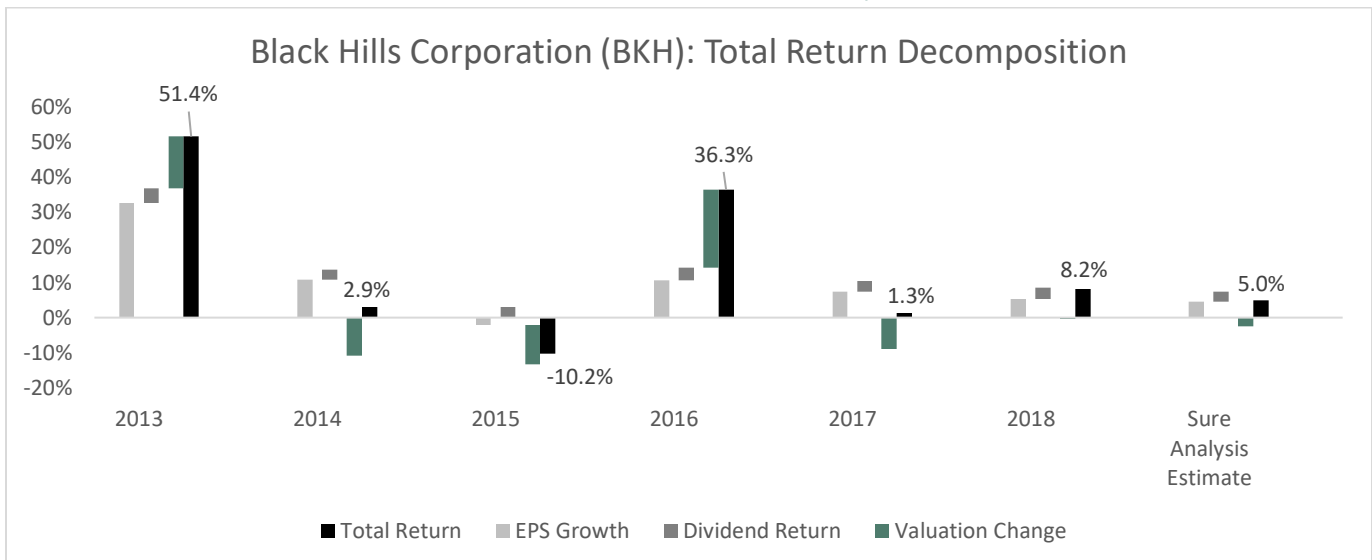
Black Hills Corporation's dividend yield has declined over the last decade. Right now the company pays out slightly more than half of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit. The company has nevertheless continued to raise its dividend during that year, and its 49-year dividend growth track record gives investors assurance that a dividend cut is unlikely from this utility company.

Demand for electricity and gas is not overly cyclical (although dependent on weather conditions to some degree), thus Black Hills should remain profitable under most circumstances. The fact that customers tend to stick with their provider means that Black Hills operates a relatively fool-proof business model. The company should also be able to weather future recessions, which creates appeal for the more conservative members of the investment community.

Final Thoughts & Recommendation

Black Hills is not a large utility company, but one with a highly compelling dividend growth track record. It is likely that the company will continue to grow its earnings at a mid-single-digits pace going forward. Shares trade above our fair value estimate today, which causes Black Hills to earn a sell recommendation from Sure Dividend the current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1006	1270	1220	1272	1174	1276	1394	1261	1539	1680
Gross Profit	556	617	653	356	439	438	453	481	613	662
Gross Margin	55.3%	48.6%	53.5%	28.0%	37.4%	34.3%	32.5%	38.1%	39.8%	39.4%
Operating Profit	148	170	183	186	250	259	264	300	336	417
Operating Margin	14.7%	13.4%	15.0%	14.6%	21.3%	20.3%	18.9%	23.8%	21.8%	24.8%
Net Profit	105	82	69	50	102	117	131	-32	73	177
Net Margin	10.4%	6.4%	5.6%	3.9%	8.7%	9.2%	9.4%	-2.5%	4.7%	10.5%
Free Cash Flow	-183	-76	-325	-217	-32	-30	-83	158	-134	102
Income Tax	-29	33	22	18	60	63	67	79	59	73

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3380	3318	3712	4127	3729	3838	4246	4627	6542	6659
Cash & Equivalents	168	113	16	22	15	8	21	441	14	15
Accounts Receivable	357	274	172	97	100	113	118	79	135	123
Inventories	118	123	63	84	78	88	91	87	104	113
Goodwill & Int. Ass.	364	358	357	357	357	357	357	363	1308	1307
Total Liabilities	2329	2233	2611	2918	2497	2554	2892	3161	4812	4839
Accounts Payable	289	229	147	105	84	130	124	90	152	161
Long-Term Debt	1207	1216	1440	1628	1320	1479	1618	1930	3314	3326
Shareholder's Equity	1051	1085	1100	1209	1233	1284	1354	1466	1615	1709
D/E Ratio	1.15	1.12	1.31	1.35	1.07	1.15	1.19	1.32	2.05	1.95

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.6%	2.4%	2.0%	1.3%	2.6%	3.1%	3.2%	-0.7%	1.3%	2.7%
Return on Equity	10.4%	7.6%	6.3%	4.3%	8.4%	9.3%	9.9%	-2.3%	4.7%	10.7%
ROIC	5.4%	3.6%	2.8%	1.8%	3.8%	4.4%	4.6%	-1.0%	1.7%	3.5%
Shares Out.	39	39	39	44	44	45	45	51	53	54
Revenue/Share	26.33	32.82	31.20	31.74	26.64	28.72	31.25	27.85	28.89	30.48
FCF/Share	-4.80	-1.97	-8.30	-5.41	-0.73	-0.68	-1.87	3.49	-2.52	1.86

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

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