WEC Energy Group, Inc. (WEC)

Updated April 25th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	3.2%	**Volatility Percentile:**	6.5%
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.2%	**Momentum Percentile:**	83.1%
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.1%	**Growth Percentile:**	48.9%
Dividend Yield:	3.1%	**5 Year Price Target**	$78	**Valuation Percentile:**	17.0%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	14.4%

Formerly known as Wisconsin Energy, WEC Energy Group, Inc. provides electric, gas & steam service to customers in Wisconsin and gas service to customers in Illinois, Minnesota and Michigan. In total, WEC Energy Group provides services to 1.6 million customers. The company has also made nearly $600 million in investments into nonutility wind projects over the past two years. As a nonutility, WEC Energy Group's return on investment can exceed that of a regulated utility. The company has a market capitalization of $24 billion, with annual revenues of $7.7 billion.

During the quarter, WEC Energy Group received approval from the Wisconsin Public Service Commission for two solar farms that will be among the largest solar facilities in the Midwest once completed. The company also received approval to purchase 300 megawatts of solar generation at two locations. This venture will be split with Madison Gas & Electric. WEC Energy will own 100 megawatts at each site. The expected investment will cost $260 million and should be ready for commercial service by the end of 2020.

WEC Energy Group reported first quarter financial results on 4/25/2019. The company earned $1.33 per share, which was $0.08 above estimates, and an 8% increase from the previous year. Revenue grew 4% to $2.4 billion, though this was $30 million below estimates.

The company's quarterly result reflected effective business operations, improving economic conditions and colder than normal weather. Unemployment remains low in WEC Energy Group's service areas, with the measurement hitting 3% in Wisconsin. Natural gas demand hit an all-time high in January due to a polar vortex that hit WEC Energy Group's service areas in Wisconsin, Michigan and Minnesota. Natural gas deliveries, except for gas used for power generation, increased 7% in Wisconsin during the quarter. Accounting for the cold weather, natural gas deliveries were still up 2.6% from the previous year. Electricity deliveries to retail customers improved 0.5%. Residential electricity usage grew 3.4%. WEC Energy Group grew its electric customer base by 11,000 and its natural gas customer base by 22,000 in the quarter. The company expects to earnings-per-share to fall in a range of $3.48 to $3.52 in 2019. Achieving the midpoint of this guidance would represent a 4.8% increase from 2018's results.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.60	$1.92	$2.18	$2.35	$2.51	$2.59	$2.34	$2.96	$3.14	$3.34	***$3.50***	***$4.51***
DPS	$0.68	$0.80	$1.04	$1.20	$1.45	$1.56	$1.74	$1.98	$2.08	$2.21	***$2.36***	***$3.04***
Shares	234	234	230	229	226	226	316	316	316	316	***316***	***316***

WEC Energy Group compounded earnings-per-share at a rate of 7.6% per year from 2009 to 2018. Profitability has increased even as the share count has increased by 35% over that time frame. Growth has slowed slightly over the last five years to 5.2% due in part to the increase in share count. Taking a cautious approach, we estimate that WEC Energy Group will be able to increase earnings-per-share by 5.2% annually through 2024 due to increases in revenue and returns from nonutility investments.

WEC Energy Group has raised its dividend for 16 consecutive years. The dividend has grown at a CAGR of 7.2% and 12.5% over the last five and 10-years, respectively. We forecast that the company will continue to grow dividends-per-share at the same rate as earnings-per-share.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.3	14	14.2	15.8	16.5	17.7	21.3	19.9	20	19.6	***22.3***	***17.2***
Avg. Yld.	3.2%	3.0%	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	***3.1%***	***3.9%***

Based off of the current share price and the company's expected earnings-per-share for 2019, WEC Energy Group trades with a price-to-earnings ratio of 22.3. This compares unfavorably to the stock's 10-year average valuation of 17.2x earnings. If the stock reverted to this valuation by 2024, shareholders would see annual returns reduced by 5.1% over this time period.

WEC Energy Group has a dividend yield of 3.1% currently. This is slightly below the 10-year average yield of 3.3% for the stock. The company increased its dividend by 6.8% for the 3/1/2019 payment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43%	42%	48%	51%	58%	60%	74%	67%	66%	66%	***67%***	***67%***

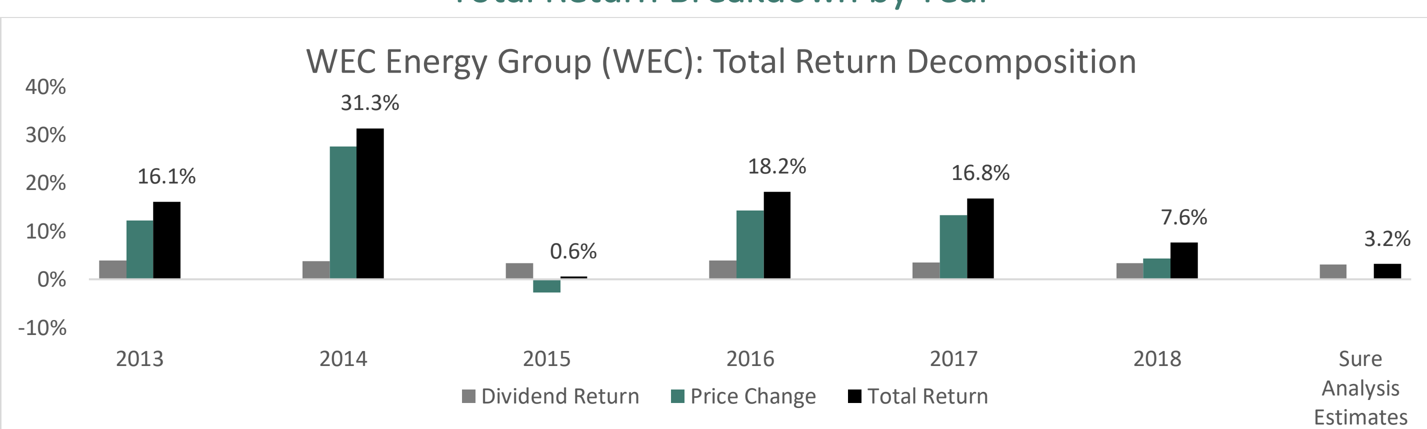
The expected dividend payout ratio for 2019 is 67%, which is relatively low for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%.

Earnings-per-share increased during the last recession, growing nearly 13% from 2007 to 2009. As a utility company, WEC Energy Group is likely to remain profitable during the next recession as customers usually prioritize their gas and electric bills. The company is able to recover spending to update infrastructure through the customers it serves. WEC Energy Group's expansion into renewable energy, like wind farms, could help the company to grow at a higher than expected rate due to the potential of higher return on investments. Low unemployment and colder temperatures in its service areas should also help the company improve its financial metrics.

Final Thoughts & Recommendation

After reviewing the company's first quarter results, WEC Energy Group is expected to offer a total annual return of just 3.2% through 2024. This estimate is based off of earnings growth (5.2%), dividends (3.1%) and multiple reversion (5.1%). WEC Energy Group produced a solid first quarter, growing top and bottom lines at a solid rate. The company benefited from cold weather and low unemployment and also managed to grow its customer base. Still, the total expected return through 2024 is based almost entirely on the stock's dividend yield. Shares trade at our 2024 price target. Due to this, WEC Energy Group receives a sell rating from Sure Dividend at this time.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4101	4203	4486	4246	4519	4997	5926	7472	7649	7680
Gross Profit	2129	1024	1331	1486	1537	1625	1977	2654	2770	2511
Gross Margin	51.9%	24.4%	29.7%	35.0%	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%
D&A Exp.	347	317	336	372	396	417	584	763	799	846
Operating Profit	660	612	887	1000	1080	1112	1251	1696	1776	1468
Operating Margin	16.1%	14.6%	19.8%	23.6%	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%
Net Profit	382	457	526	546	579	590	640	940	1205	1061
Net Margin	9.3%	10.9%	11.7%	12.9%	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%
Free Cash Flow	-186	12	163	467	507	438	27	680	119	330
Income Tax	216	250	264	306	338	362	434	567	384	170

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12698	13060	13862	14285	14769	14905	29355	30123	31591	33476
Cash & Equivalents	20	25	14	36	26	62	50	38	39	85
Acc. Receivable	299	345	349	285	406	643	1029	1242	1351	1281
Inventories	378	379	382	361	329	401	687	588	539	548
Goodwill & Int.	442	442	442	442	442	442	3024	3046	3054	3053
Total Liabilities	9101	9227	9868	10120	10506	10455	20670	21163	22099	23633
Accounts Payable	291	315	326	368	343	363	815	862	860	876
Long-Term Debt	4997	5063	5317	5261	5243	5212	10377	10176	11033	11799
Total Equity	3597	3833	3994	4166	4263	4450	8685	8960	9492	9819
D/E Ratio	1.39	1.32	1.33	1.26	1.23	1.17	1.19	1.14	1.16	1.20

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.0%	3.5%	3.9%	3.9%	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%
Return on Equity	11.0%	12.3%	13.4%	13.4%	13.7%	13.5%	9.7%	10.7%	13.1%	11.0%
ROIC	4.6%	5.2%	5.8%	5.8%	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%
Shares Out.	234	234	230	229	226	226	316	316	316	316
Revenue/Share	17.39	17.75	19.06	18.24	19.67	21.97	21.73	23.58	24.11	24.23
FCF/Share	-0.79	0.05	0.69	2.01	2.21	1.92	0.10	2.15	0.38	1.04

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