



# Black Hills Corporation (BKH)

Updated May 23<sup>rd</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$78	<b>5 Year CAGR Estimate:</b>	2.9%	<b>Volatility Percentile:</b>	21.2%
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	4.5%	<b>Momentum Percentile:</b>	95.5%
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Growth Percentile:</b>	33.5%
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$79	<b>Valuation Percentile:</b>	19.7%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	11.9%

## 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 \$4.7 billion. The company is headquartered in Rapid City, SD. Black Hills Corporation has increased its dividend for 49 years in a row, which qualifies it as a Dividend Champion.

Black Hills Corporation reported its first quarter earnings results on May 2. The company generated revenues of \$598 million during the first quarter, which was 3.9% more than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. Black Hills Corporation's revenues were higher than what the analyst community had expected, beating the consensus estimate by \$16 million.

Black Hills Corporation generated earnings-per-share of \$1.73 during the first quarter of 2019, which was 6.1% more than the earnings-per-share that it generated during the first quarter of fiscal 2018. Higher profits were primarily based on cold weather, which leads to increased demand for natural gas and thereby impacts Black Hills' profits positively. A lower tax rate also had a positive impact, while higher maintenance spending offset some of that.

Black Hills has raised its earnings-per-share guidance range for 2019 by \$0.05, to \$3.40 - \$3.60.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.32	\$1.66	\$1.01	\$1.97	\$2.61	\$2.89	\$2.83	\$3.13	\$3.36	\$3.54	<b>\$3.50</b>	<b>\$4.36</b>
<b>DPS</b>	\$1.42	\$1.44	\$1.46	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	<b>\$2.02</b>	<b>\$2.70</b>
<b>Shares</b>	39	39	44	44	45	45	51	53	54	56	<b>58</b>	<b>62</b>

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, as utilities 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. This includes 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. Black Hills regularly adds new projects to its growth investment backlog, which currently stands at \$2.8 billion for the 2019-2023 time frame.

The company 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 both positively and negatively depending upon the circumstances.

*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
<b>Avg. P/E</b>	9.9	18.1	31.1	17.1	18.2	19.0	16.1	22.3	19.7	17.8	<b>22.3</b>	<b>18.0</b>
<b>Avg. Yld.</b>	6.2%	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.3%	<b>2.6%</b>	<b>3.4%</b>

Black Hills Corporation trades at more than 22 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, for example. Today, shares trade well above our fair value estimate, which is also why the dividend yield is at the low end of the historical range.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>Payout</b>	61.2%	86.7%	145%	75.1%	58.2%	54.0%	57.2%	53.7%	53.9%	54.5%	<b>57.7%</b>	<b>61.9%</b>

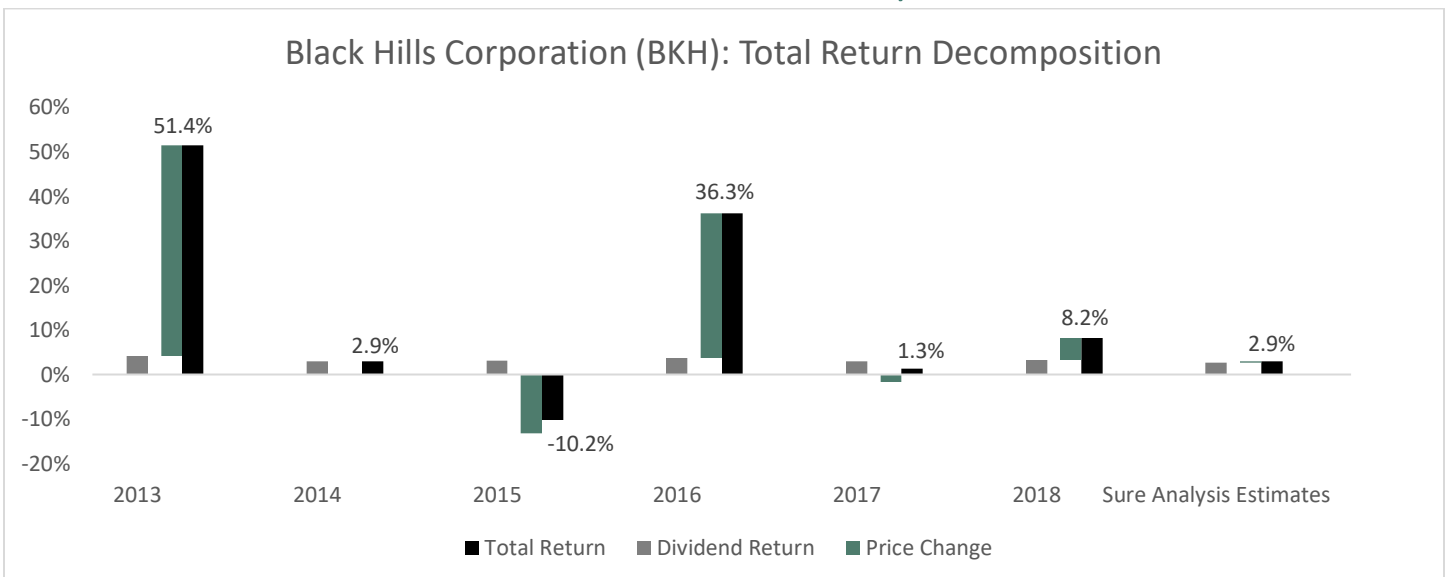
Black Hills Corporation's dividend payout ratio has declined over the last decade. Today, the company pays out slightly more than half of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit. The company nevertheless raised 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 it is 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 stable 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 one of the smaller utility companies, but it has a compelling dividend growth track record. It is likely that the company will continue to grow its earnings and its dividend over the coming years. Shares trade well above our fair value estimate, which is why we rate Black Hills Corporation a sell at the current, inflated price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	1754	1680	1539	1261	1394	1276	1174	1272	1220	1270
<b>Gross Profit</b>	647	662	613	481	453	438	439	356	653	617
<b>Gross Margin</b>	36.9%	39.4%	39.8%	38.1%	32.5%	34.3%	37.4%	28.0%	53.5%	48.6%
<b>Operating Profit</b>	397	417	336	300	264	259	250	186	183	170
<b>Operating Margin</b>	22.6%	24.8%	21.8%	23.8%	18.9%	20.3%	21.3%	14.6%	15.0%	13.4%
<b>Net Profit</b>	258	177	73	-32	131	117	102	50	69	82
<b>Net Margin</b>	14.7%	10.5%	4.7%	-2.5%	9.4%	9.2%	8.7%	3.9%	5.6%	6.4%
<b>Free Cash Flow</b>	31	102	-134	158	-83	-30	-32	-217	-325	-76
<b>Income Tax</b>	-24	73	59	79	67	63	60	18	22	33

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	6963	6659	6542	4627	4246	3838	3729	4127	3712	3318
<b>Cash &amp; Equivalents</b>	21	15	14	441	21	8	15	22	16	113
<b>Accounts Receivable</b>	147	126	137	80	119	114	101	98	172	274
<b>Inventories</b>	117	113	104	87	91	88	78	84	63	123
<b>Goodwill &amp; Int. Ass.</b>	1314	1307	1308	363	357	357	357	357	357	358
<b>Total Liabilities</b>	4676	4839	4812	3161	2892	2554	2497	2918	2611	2233
<b>Accounts Payable</b>	211	161	152	90	124	130	84	105	147	229
<b>Long-Term Debt</b>	3142	3326	3314	1930	1618	1479	1320	1628	1440	1216
<b>Shareholder's Equity</b>	2182	1709	1615	1466	1354	1284	1233	1209	1100	1085
<b>D/E Ratio</b>	1.44	1.95	2.05	1.32	1.19	1.15	1.07	1.35	1.31	1.12

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	3.8%	2.7%	1.3%	-0.7%	3.2%	3.1%	2.6%	1.3%	2.0%	2.4%
<b>Return on Equity</b>	13.3%	10.7%	4.7%	-2.3%	9.9%	9.3%	8.4%	4.3%	6.3%	7.6%
<b>ROIC</b>	4.9%	3.5%	1.7%	-1.0%	4.6%	4.4%	3.8%	1.8%	2.8%	3.6%
<b>Shares Out.</b>	39	39	44	44	45	45	51	53	54	56
<b>Revenue/Share</b>	31.62	30.48	28.89	27.85	31.25	28.72	26.64	31.74	31.20	32.82
<b>FCF/Share</b>	0.56	1.86	-2.52	3.49	-1.87	-0.68	-0.73	-5.41	-8.30	-1.97

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

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