WEC Energy Group, Inc. (WEC)

Updated August 7th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	0.7%	**Volatility Percentile:**	6.0%
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.2%	**Momentum Percentile:**	95.4%
% Fair Value:	144%	**5 Year Valuation Multiple Estimate:**	-7.2%	**Growth Percentile:**	50.4%
Dividend Yield:	2.7%	**5 Year Price Target**	$78	**Valuation Percentile:**	8.0%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	7.3%

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 almost $28 billion, with annual revenues of $7.9 billion.

During the first quarter of 2019, 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 second quarter financial results on 8/5/2019. The company earned $0.74 per share, which was $0.04 higher than expected and a 1.4% improvement from the previous year. Revenue declined 4.9% to $1.6 billion, which was $61 million below estimates.

Retail deliveries of electricity declined 5.9%. Residential electricity usage was down 8.9% while electricity consumption by small commercial and industrial customers was lower by 5.2%. Electricity usage by large commercial and industrial customers was down 4.1% year-over-year. On a weather-normalized basis, retail deliveries of electricity were down 1.6%. Natural gas deliveries, excluding gas used for power generation, were down 2.9%. The company grew its electric customer base by 11,000 and its natural gas customer base by 23,000 compared to the second quarter of 2018. WEC Energy Group raised its earnings-per-share estimates for the year to a range of $3.50 to $3.53 up from $3.48 to $3.52 previously. The updated guidance for earnings-per-share would represent growth of 5.4% growth from 2018. WEC Energy Group managed to reach a new 52-week high despite a market wide sell off during the 8/7/2019 trading session.

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	***$3.52***	***$4.54***
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	14.0	14.2	15.8	16.5	17.7	21.3	19.9	20.0	19.6	***25.0***	***17.2***
Avg. Yld.	3.2%	3.0%	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	***2.7%***	***3.9%***

Shares of WEC Energy Group have increased $10, or 12.8%, since our 4/25/2019 update. Based off of the current share price and the company's updated guidance for earnings-per-share, WEC Energy Group trades with a price-to-earnings ratio of 25. This compares unfavorably to the stock's 10-year average valuation of 17.2 earnings. If the stock reverted to this valuation by 2024, shareholders would see annual returns reduced by 7.2% over this time period.

WEC Energy Group has a dividend yield of 2.7% currently, below the stock's 10-year average yield of 3.3%. 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%***

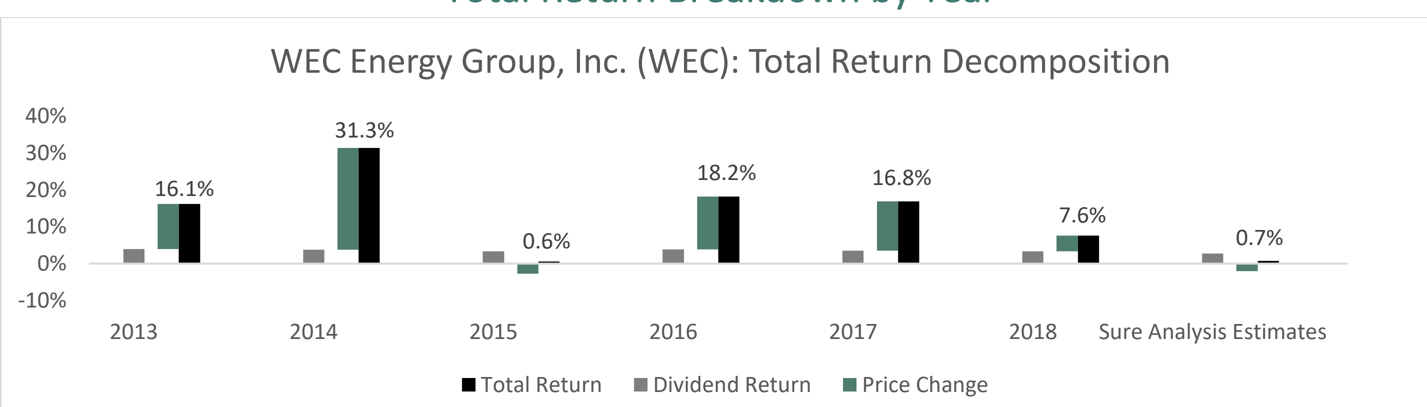
The expected dividend payout ratio for 2019 is 67%, which is relatively low for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%.

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

Following second quarter results and the nearly 13% return since our last update, we expect WEC Energy Group to offer a total annual return of just 0.7% through 2024, down from 3.2% previously. Earnings growth (5.2%) and dividend yield (2.7%) are nearly offset by our expected valuation reversion (7.2%). WEC Energy Group saw deliveries for both electricity and gas decline from the previous year, even when accounting for weather. While the stock showing gains on a day when much of the market declined is a positive sign, expectations for diminutive total returns over the next five years earn shares of WEC Energy Group a sell recommendation 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.