



Black Hills Corporation (BKH)

Updated February 6th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	2.2%	Market Cap:	\$5.1B
Fair Value Price:	\$65	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	02/13/20
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.1%	Dividend Payment Date:	03/01/20
Dividend Yield:	2.6%	5 Year Price Target	\$81	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	5.9%

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 \$5.1 billion. The company is headquartered in Rapid City, SD. Black Hills Corporation has increased its dividend for 48 years in a row, which qualifies it as a Dividend Champion.

Black Hills Corporation reported its fourth quarter earnings results on February 6. The company generated revenues of \$478 million during the quarter, which was 4.7% less than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. Black Hills Corporation's revenues were a lot lower than what the analyst community had expected, missing the consensus estimate by \$78 million, or almost 15%.

Black Hills Corporation generated earnings-per-share of \$1.13 during the fourth quarter of 2019, which was a higher than the earnings-per-share that Black Hills generated during the previous year's quarter, at \$1.05. Higher profits were possible thanks to new rates, lower purchased power capacity cost, and tax credits on wind generation assets. Q4 traditionally is one of the stronger two quarters for Black Hills during every year. Black Hills managed to generate earnings-per-share of \$3.53 during all of 2019, down marginally from the previous year's level.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.66	\$1.01	\$1.97	\$2.61	\$2.89	\$2.83	\$3.13	\$3.36	\$3.54	\$3.53	\$3.60	\$4.49
DPS	\$1.44	\$1.46	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	\$2.05	\$2.14	\$2.86
Shares¹	39	44	44	45	45	51	53	54	58	61	63	65

Black Hills' profitability has been rather volatile over the last decade. Overall, earnings-per-share have grown by 5% annually in the 2009 to 2019 time frame. This is not a bad growth rate for a utility, as utilities seldom grow their profits at a high pace. Black Hills' earnings-per-share growth rate was relatively consistent, except for 2011.

The swings in Black Hills' profits are primarily based on the impact that weather conditions have on the demand for electricity (cooling in summer) and 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 \$2.7 billion for the 2020-2024 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 forecast a mid-single-digit earnings-per-share growth rate in the long run, but there will likely be some ups and downs due to weather impacts.

¹ In Millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.1	31.1	17.1	18.2	19.0	16.1	22.3	19.7	17.8	22.4	23.3	18.0
Avg. Yld.	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.3%	2.6%	2.6%	3.5%

Black Hills Corporation trades at more than 23 times this year's expected net profits at current prices. 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 also explains why the dividend yield is at the low end of the historical range today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	86.7%	145%	75.1%	58.2%	54.0%	57.2%	53.7%	53.9%	54.5%	58.1%	59.4%	63.8%

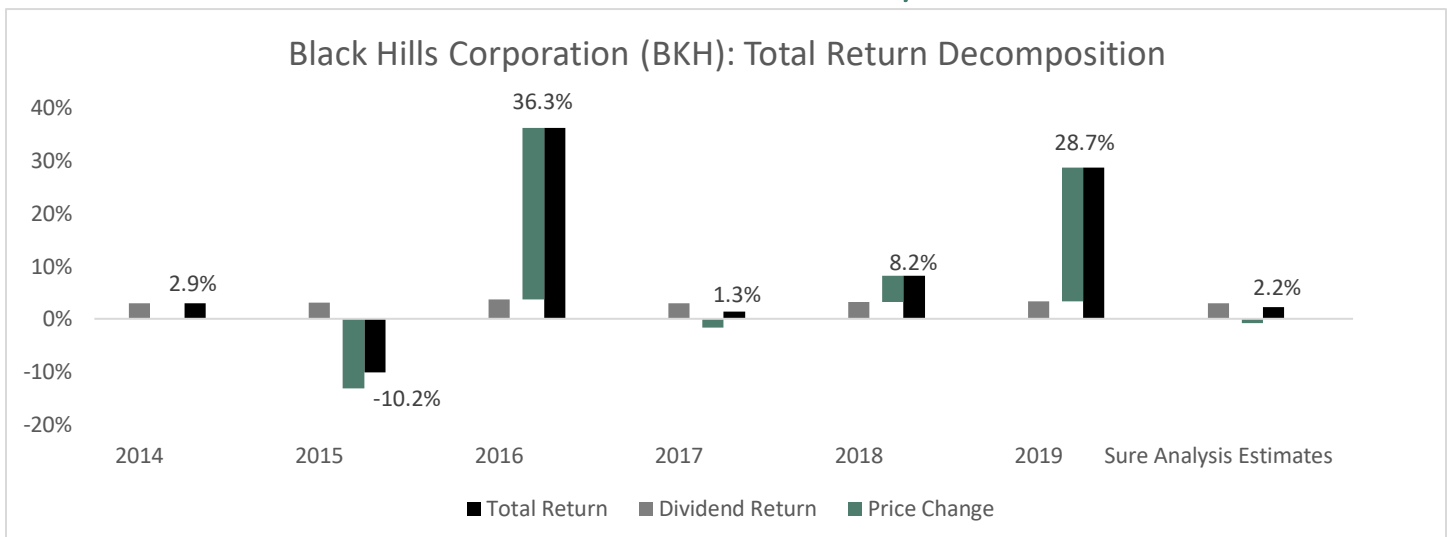
Overall, Black Hills Corporation's dividend payout ratio declined between 2010 and 2019, due to a modest dividend growth rate. Today, the company pays out roughly 60% of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit, as well as during 2011. The company nevertheless raised its dividend during those years, and its decades-long 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 upon 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 more conservative investors.

Final Thoughts & Recommendation

Black Hills is a relatively small utility company, but it has a compelling dividend growth track record, having raised its dividend annually for more than four decades in a row. We believe that it is highly likely that the company will continue to grow its earnings and its dividend over the coming years. The company's shares trade well above our fair value estimate, though, 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
Revenue	1754	1680	1539	1261	1394	1276	1174	1272	1220	1270
Gross Profit	647	662	613	481	453	438	439	356	653	617
Gross Margin	36.9%	39.4%	39.8%	38.1%	32.5%	34.3%	37.4%	28.0%	53.5%	48.6%
Operating Profit	397	417	336	300	264	259	250	186	183	170
Operating Margin	22.6%	24.8%	21.8%	23.8%	18.9%	20.3%	21.3%	14.6%	15.0%	13.4%
Net Profit	258	177	73	-32	131	117	102	50	69	82
Net Margin	14.7%	10.5%	4.7%	-2.5%	9.4%	9.2%	8.7%	3.9%	5.6%	6.4%
Free Cash Flow	31	102	-134	158	-83	-30	-32	-217	-325	-76
Income Tax	-24	73	59	79	67	63	60	18	22	33

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	6963	6659	6542	4627	4246	3838	3729	4127	3712	3318
Cash & Equivalents	21	15	14	441	21	8	15	22	16	113
Accounts Receivable	147	126	137	80	119	114	101	98	172	274
Inventories	117	113	104	87	91	88	78	84	63	123
Goodwill & Int. Ass.	1314	1307	1308	363	357	357	357	357	357	358
Total Liabilities	4676	4839	4812	3161	2892	2554	2497	2918	2611	2233
Accounts Payable	211	161	152	90	124	130	84	105	147	229
Long-Term Debt	3142	3326	3314	1930	1618	1479	1320	1628	1440	1216
Shareholder's Equity	2182	1709	1615	1466	1354	1284	1233	1209	1100	1085
D/E Ratio	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
Return on Assets	3.8%	2.7%	1.3%	-0.7%	3.2%	3.1%	2.6%	1.3%	2.0%	2.4%
Return on Equity	13.3%	10.7%	4.7%	-2.3%	9.9%	9.3%	8.4%	4.3%	6.3%	7.6%
ROIC	4.9%	3.5%	1.7%	-1.0%	4.6%	4.4%	3.8%	1.8%	2.8%	3.6%
Shares Out.	39	39	44	44	45	45	51	53	54	56
Revenue/Share	31.62	30.48	28.89	27.85	31.25	28.72	26.64	31.74	31.20	32.82
FCF/Share	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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