



WEC Energy Group, Inc. (WEC)

Updated February 2nd, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	-0.5%	Market Cap:	\$31.5 billion
Fair Value Price:	\$64	5 Year Growth Estimate:	5.2%	Ex-Dividend Date:	2/13/2020
% Fair Value:	156%	5 Year Valuation Multiple Estimate:	-8.5%	Dividend Payment Date:	3/1/2020
Dividend Yield:	2.5%	5 Year Price Target	\$83	Years Of Dividend Growth:	17
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	7.2%

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 annual revenues of \$8 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 released fourth quarter and full year results on 1/30/2020. The company earned \$0.77 per share in the quarter, which was \$0.05 above estimates and an 18.5% improvement from the previous year. Revenue declined 6.2% to \$1.96 billion, which was \$250 million lower than expected. For the year, earnings-per-share increased 7.2% to \$3.58 while revenue decreased 2% to \$7.5 billion.

For the year, retail deliveries of electricity were down 2.8% while natural gas deliveries in Wisconsin were up 2.6%. A cooler summer negatively impacted results. On a weather normalized basis, deliveries were down 1.7% from 2018. The company announced on the quarter that its Coyote Ridge Wind Farm is now in service in South Dakota and will contribute to earnings in 2020. This facility has 39 turbines with a capacity of ~97 megawatts. WEC Energy Group has invested \$145 million in the facility for an 80% ownership stake. In September, WEC Energy Group invested \$338 million for an 80% ownership stake in the Thunderhead Wind Energy Center in Nebraska. The 108 turbines at this facility have the combined capacity of 300 megawatts. The project is expected to be online by the end of 2020. The company added 10,000 more electric customers and 1400 more natural gas customers during the year. WEC Energy Group expects earnings-per-share in a range of \$3.71 to \$3.75 for 2020. The midpoint would be a 4.2% increase from 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.92	\$2.18	\$2.35	\$2.51	\$2.59	\$2.34	\$2.96	\$3.14	\$3.34	\$3.58	\$3.73	\$4.81
DPS	\$0.80	\$1.04	\$1.20	\$1.45	\$1.56	\$1.74	\$1.98	\$2.08	\$2.21	\$2.36	\$2.53	\$3.26
Shares¹	234	230	229	226	226	316	316	316	316	317	317	317

WEC Energy Group has compound earnings-per-share by a rate of 6.4% per year from 2010 to 2019. Profitability has increased even as the share count has increased by 35% over that time frame. Growth has increased to 8.9% over the last five years. We remain cautious and continue to expect that WEC Energy Group will be able to increase earnings-per-share by 5.2% annually through 2025 due to increases in revenue and returns from nonutility investments.

WEC Energy Group has raised its dividend for 17 consecutive years. The company increased its dividend by 7.2% for the upcoming 3/1/2020 payment. The dividend has compounded at a rate of 6.3% over the last five years.

¹ Share count 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	14.0	14.2	15.8	16.5	17.7	21.3	19.9	20.0	19.6	25.8	26.8	17.2
Avg. Yld.	3.0%	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.6%	2.5%	3.9%

Based off of the current share price and the company's expected earnings-per-share for 2020, WEC Energy Group trades with a price-to-earnings ratio of 26.8. This compares unfavorably to the stock's 10-year average valuation of 17.2x earnings. If the stock reverted to this valuation by 2025 then shareholders would see annual returns reduced by 8.5% over this time period.

WEC Energy Group has a dividend yield of 2.5% currently. This is slightly below the 10-year average yield of 3.3% for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	48%	51%	58%	60%	74%	67%	66%	66%	66%	68%	68%

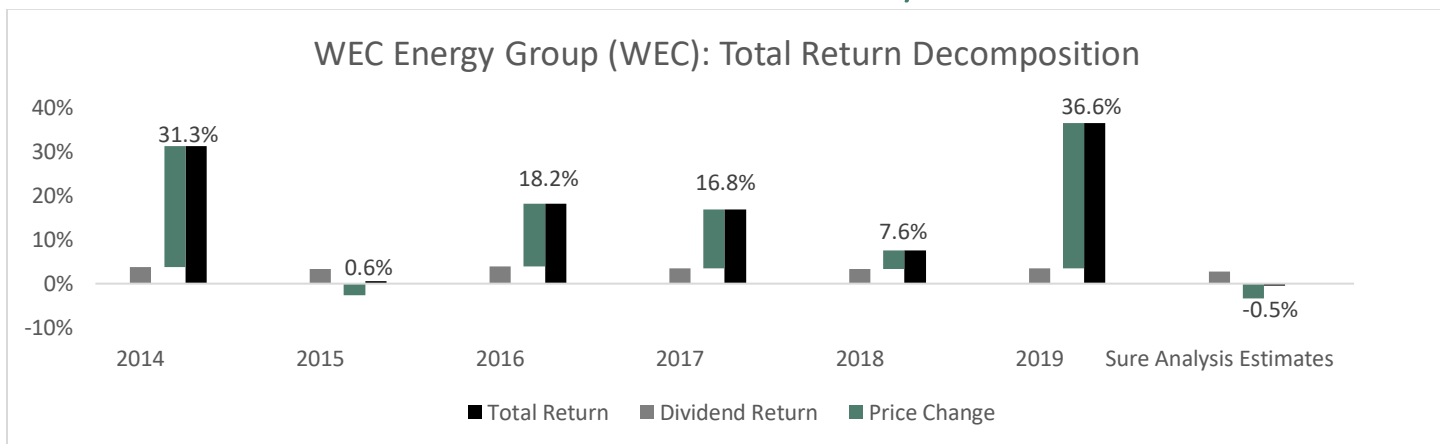
The expected dividend payout ratio for 2020 is 68%, which is relatively low for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%.

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 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 fourth quarter and full year results, Energy Group is expected to lose 0.5% annually through 2025, down from our previous estimate of 0.2% growth. Earnings-per-share grew in both the quarter and full year even with a decrease in revenue. The company added a solid number of customers during 2019, but cooler temperatures reduced results. Shares of WEC Energy Group trade at a significant premium to the historical valuation. While we are raising our 2025 price target \$5 to \$83 due to estimates for 2020, we maintain our sell rating on shares due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,203	4,486	4,246	4,519	4,997	5,926	7,472	7,649	7,680	7,523
Gross Profit	1,024	1,331	1,486	1,537	1,625	1,977	2,654	2,770	2,511	2,660
Gross Margin	24.4%	29.7%	35.0%	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%
SG&A Exp.										
D&A Exp.	317	336	372	396	417	584	763	799	846	926
Operating Profit	612	887	1,000	1,080	1,112	1,251	1,696	1,776	1,468	1,531
Operating Margin	14.6%	19.8%	23.6%	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%
Net Profit	457	526	546	579	590	640	940	1,205	1,061	1,135
Net Margin	10.9%	11.7%	12.9%	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%
Free Cash Flow	12	163	467	507	438	27	680	119	330	85
Income Tax	250	264	306	338	362	434	567	384	170	125

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,060	13,862	14,285	14,769	14,905	29,355	30,123	31,591	33,476	34,952
Cash & Equivalents	25	14	36	26	62	50	38	39	85	38
Accounts Receivable	345	349	285	406	643	1,029	1,242	1,351	1,281	1,177
Inventories	379	382	361	329	401	687	588	539	548	550
Goodwill & Int. Ass.	442	442	442	442	442	3,024	3,046	3,054	3,053	3,053
Total Liabilities	9,227	9,868	10,120	10,506	10,455	20,670	21,163	22,099	23,633	24,697
Accounts Payable	315	326	368	343	363	815	862	860	876	908
Long-Term Debt	5,063	5,317	5,261	5,243	5,212	10,377	10,176	11,033	11,799	12,735
Shareholder's Equity	3,833	3,994	4,166	4,263	4,450	8,685	8,960	9,492	9,819	10,144
D/E Ratio	1.32	1.33	1.26	1.23	1.17	1.19	1.14	1.16	1.20	1.26

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.5%	3.9%	3.9%	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%
Return on Equity	12.3%	13.4%	13.4%	13.7%	13.5%	9.7%	10.7%	13.1%	11.0%	11.4%
ROIC	5.2%	5.8%	5.8%	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%
Shares Out.	234	230	229	226	226	316	316	316	316	317
Revenue/Share	17.75	19.06	18.24	19.67	21.97	21.73	23.58	24.11	24.23	23.75
FCF/Share	0.05	0.69	2.01	2.21	1.92	0.10	2.15	0.38	1.04	0.27

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

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