Alliant Energy Corporation (LNT)

Updated April 17th, 2020 by Felix Martinez

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$12.4 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	4/29/20
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	5/15/20
Dividend Yield:	3.0%	**5 Year Price Target**	$63	**Years Of Dividend Growth:**	17
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	7.04%

Overview & Current Events

Alliant Energy Corporation is a public utility holding company that incorporated in Madison, Wisconsin, in 1981. It generates $3.6 billion in operating revenues. The company serves approximately 970,000 electric and 420,000 natural gas customers. Alliant has approximately 3,600 employees. Based on electric sales, the largest cities served in Iowa and Wisconsin are Cedar Rapids and Beloit, respectively. The company consists of three subsidiaries. The first being the largest, Interstate Power and Light Company (IPL), which accounted for 51.5% of Alliant 2019 earnings. IPL is a public utility that generates and distributes electricity and distributes and transports natural gas in Iowa. The second subsidiary is Wisconsin Power and Light Company (WPL), which provides similar services to IPL in southern and central Wisconsin. WPL contributed 42.4% of total 2019 earnings. The last is Corporate Services, which accounts for a tiny percentage of the company's total earnings.

On February 20, 2020, Alliant Energy reported fourth quarter and Fiscal Year 2019 results. For the fourth quarter, the company saw weak growth in revenues of 0.8%, from $873.5 million to $880.1 million. For the full year, revenue went from $3.5 billion in FY18 to $3.6 billion last year, modest growth of 3.2%. Net income grew at a much better rate. Quarter over quarter, net income rose 29.8%, from $87.8 million to $114 million. However, Year Over Year (YoY), net income went from $522.3 million to $567.4 million, or an increase of 8.6%. The primary drivers for this growth were IPL's and WPL's increasing rate base.

Overall, the company grew Non-GAAP EPS from $2.17 in 2018 to $2.31 in 2019, for growth of 6.45%. This is consistent with management's 5-7% long-term earnings growth goal.

For FY2020, the company provided an EPS guidance of $2.34 to $2.48. Thus, we will use the midpoint of $2.41 for our FY2020 fair value calculations.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.38	$1.38	$1.51	$1.63	$1.74	$1.74	$1.87	$1.93	$2.17	$2.31	***$2.41***	***$3.15***
DPS	$0.79	$0.85	$0.90	$0.94	$1.02	$1.10	$1.18	$1.26	$1.34	$1.42	***$1.52***	***$1.94***
Shares[1]	221.0	221.0	221.0	221.0	221.0	225.0	227.0	229.0	233.0	239.0	***239.0***	***239.0***

LNT's earnings have been steadily growing at a rate of 6.7% annually for the past ten years. As a utility company, LNT is restricted on how it can increase their rate of returns. The net margin has been gradually growing as well. In 2010, net margin was 8.4%. Now net margin is at a rate of 15.3%. This is a byproduct of the tax rate decreasing from a high of 32% in 2010 to 10.8% last year. However, the share count has been increasing at a compound growth rate of 0.9%. This dilutes the EPS slightly.

We expect earnings to continue to grow at a modest rate of 5.5%, giving us an estimated EPS of $3.15 for 2025. The company has also been very consistent with its dividend policies. LNT has been growing dividends for the past seventeen years. In the last ten years, dividend growth has averaged 6.7% annually. We are being conservative and predicting a dividend growth rate of 5% for the next five years.

[1] Shares count in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.4	16	14.6	15.9	19.1	18	20.3	22.1	19.5	23.7	***21.6***	***20.0***
Avg. Yld.	4.3%	3.9%	4.1%	3.6%	3.1%	3.5%	3.1%	3.0%	3.2%	2.6%	***3.0%***	***3.1%***

The company has been valued somewhat at a premium since 2016. For the past ten years, LNT has an average PE of 18.3 compared to the current PE of 21.6. We think a fair valued PE is 20, which is more in line with its five-year average.

The current dividend yield is a bit lower than the company's 5-year average of 3.1%. If the company revert to our target P/E of 20, then valuation would be a 1.5% annualized headwind on annual returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	57.2%	61.6%	59.6%	57.7%	58.6%	63.2%	63.1%	65.3%	61.8%	61.5%	***63%***	***62%***

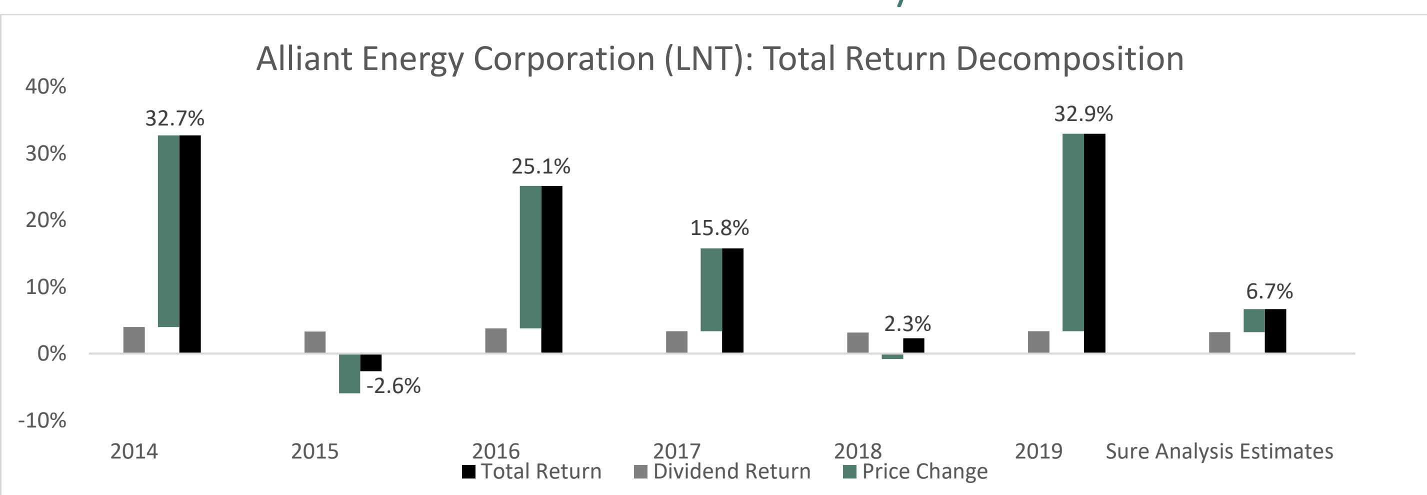
The company's competitive advantage is that a utility company is very monopolizing as there is only one utility company in any given area. Thus, utility stocks are often held by investors for their defensive nature. People will always need to power their homes and businesses.

However, LNT shows that earnings can decrease during a recession. For example, during the Great Recession from 2008-2009, the company's earnings-per-share fell from a high of $1.35 in 2007 to $0.98 in 2009. Earnings did bounce back big by 40% in 2010, to $1.38. Even though earnings fell significantly in this period, the dividend was not cut. It was raised from $0.70 in 2008 to $0.75 in 2009. This shows the company is committed to paying growing dividends. Debt to Equity ratio (D/E) is 1.7 for FY19 compared to 1.88 in FY18. Thus, the company has a stable balance sheet.

Final Thoughts & Recommendation

Alliant Energy is a safe business. The company continues to produce a very reliable and growing dividend that has been increasing it for the past 17 years. At the current price, the company is overvalued based on our fair price of $48. Thus, we rate the company as a hold at the current price based on our 6.7% expected annual total returns.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$5,968	$6,162	$5,992	$6,080	$6,565	$6,617	$6,098	$6,921	$8,138	$8,175
Gross Profit	$685	$783	$702	$704	$764	$896	$851	$883	$1,020	$997
Gross Margin	11.5%	12.7%	11.7%	11.6%	11.6%	13.5%	14.0%	12.8%	12.5%	12.2%
D&A Exp.	$344	$380	$388	$411	$442	$414	$407	$462	$507	$567
Operating Profit	$560	$513	$520	$534	$544	$577	$624	$671	$694	$778
Operating Margin	17.2%	15.9%	16.8%	16.3%	16.2%	17.7%	18.8%	19.8%	19.6%	21.3%
Net Profit	$306	$322	$336	$376	$393	$388	$382	$468	$522	$567
Net Margin	9.4%	10.0%	10.8%	11.5%	11.7%	11.9%	11.5%	13.8%	14.8%	15.6%
Free Cash Flow	$985	$703	$841	$731	$892	$871	$393	$522	$528	$660
Income Tax	$148	$69	$89	$54	$44	$70	$59	$67	$48	$69

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	9283	9688	10786	11112	12064	12495	13374	14188	15426	16701
Cash & Equivalents	159	11	21	10	57	6	8	28	21	16
Accounts Receivable	121	88	95	82	88	94	112	91	81	84
Total Liabilities	233	218	204	212	224	224	222	222	212	227
Accounts Payable	6144	6528	7504	7629	8423	8571	9312	9806	10640	11296
Long-Term Debt	336	268	339	365	428	402	445	477	543	422
Shareholder's Equity	2752	2807	3356	3616	3909	3995	4564	5282	5944	6528

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.3%	3.4%	3.3%	3.4%	3.4%	3.2%	3.0%	3.4%	3.5%	3.5%
Return on Equity	10.4%	10.8%	10.9%	11.7%	11.7%	10.8%	10.1%	11.6%	11.9%	11.6%
ROIC	5.3%	5.4%	5.3%	5.5%	5.4%	5.0%	4.6%	5.1%	5.1%	5.0%
Shares Out.	221.0	221.4	221.6	221.6	221.7	225.4	227.1	229.7	233.6	239.0
Revenue/Share	$14.76	$14.55	$13.96	$14.79	$15.11	$14.43	$14.62	$14.72	$15.13	$15.26
FCF/Share	$4.46	$3.17	$3.80	$3.30	$4.02	$3.87	$1.73	$2.27	$2.26	$2.76

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