



Black Hills Corporation (BKH)

Updated May 11th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	9.2%	Market Cap:	\$3.8B
Fair Value Price:	\$64	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/13/20
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	06/01/20
Dividend Yield:	3.7%	5 Year Price Target	\$78	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 the company is headquartered in Rapid City, South Dakota. Black Hills Corporation has increased its dividend for 48 years in a row, which qualifies it as a Dividend Champion, and a potential Dividend King in just 2 years.

Black Hills Corporation reported its first quarter earnings results on May 4. The company generated revenues of \$540 million during the quarter, which was 10% 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 \$96 million, or more than 15%.

Black Hills Corporation generated earnings-per-share of \$1.59 during the first quarter, which was marginally lower than the consensus analyst estimate for the quarter. Management explains that the revenue decline and the earnings decline were both caused by negative weather impact, adjusted for that, earnings-per-share would have increased slightly year over year. Warmer than normal weather led to lower consumption of natural gas by Black Hills' customers. The company also stated that the coronavirus impact in Q1 was minimal, the same is expected for the remainder of 2020.

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	\$3.55	\$4.32
DPS	\$1.44	\$1.46	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	\$2.05	\$2.14	\$2.73
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, for cooling in summer, and natural gas, for 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 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. Black Hills' planned growth investments include new electric transmission lines and new 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 business, which means that the company is now less impacted by changes in commodity prices. Focusing on its core utility 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 the impact of weather in specific quarters.

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	16.3	18.0
Avg. Yld.	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.3%	2.6%	3.7%	3.5%

Black Hills Corporation trades 16 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. Following a steep share price drop since our last update, shares trade below our fair value estimate right now, which is also why its dividend yield has risen to an above-average level.

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%	60.3%	63.2%

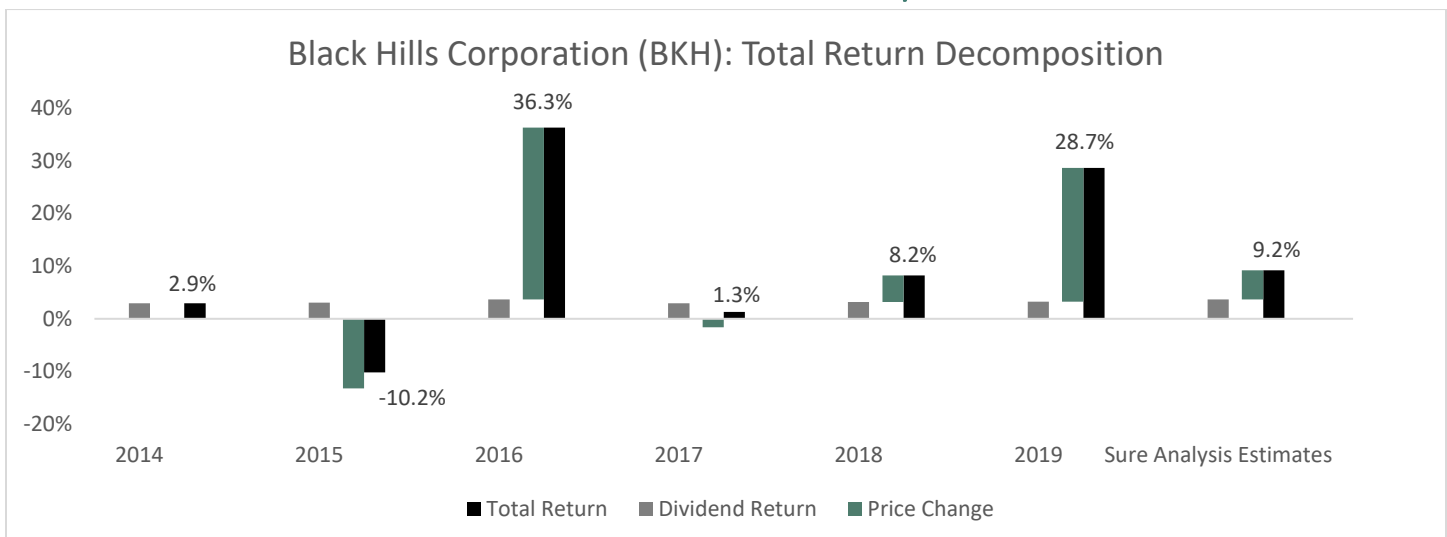
Overall, Black Hills Corporation's dividend payout ratio declined between 2010 and 2019, due to a modest dividend growth rate. Today, the company pays out roughly 60% of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net 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 below our fair value estimate right now, which they did not do during the last couple of years, and we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,220	1,272	1,174	1,276	1,394	1,261	1,539	1,680	1,754	1,735
Gross Profit	653	356	439	438	453	481	613	662	647	668
Gross Margin	53.5%	28.0%	37.4%	34.3%	32.5%	38.1%	39.8%	39.4%	36.9%	38.5%
Operating Profit	183	186	250	259	264	300	336	417	397	406
Operating Margin	15.0%	14.6%	21.3%	20.3%	18.9%	23.8%	21.8%	24.8%	22.6%	23.4%
Net Profit	69	50	102	117	131	(32)	73	177	258	199
Net Margin	5.6%	3.9%	8.7%	9.2%	9.4%	-2.5%	4.7%	10.5%	14.7%	11.5%
Free Cash Flow	(325)	(217)	(32)	(30)	(83)	158	(134)	102	31	(313)
Income Tax	22	18	60	63	67	79	59	73	(24)	30

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,712	4,127	3,729	3,838	4,246	4,627	6,542	6,659	6,963	7,558
Cash & Equivalents	16	22	15	8	21	441	14	15	21	10
Accounts Receivable	172	98	101	114	119	80	137	126	147	145
Inventories	63	84	78	88	91	87	104	113	117	117
Goodwill & Int. Ass.	357	357	357	357	357	363	1,308	1,307	1,314	1,313
Total Liabilities	2,611	2,918	2,497	2,554	2,892	3,161	4,812	4,839	4,676	5,094
Accounts Payable	147	105	84	130	124	90	152	161	211	194
Long-Term Debt	1,440	1,628	1,320	1,479	1,618	1,930	3,314	3,326	3,142	3,495
Shareholder's Equity	1,100	1,209	1,233	1,284	1,354	1,466	1,615	1,709	2,182	2,362
D/E Ratio	1.31	1.35	1.07	1.15	1.19	1.32	2.05	1.95	1.44	1.48

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.0%	1.3%	2.6%	3.1%	3.2%	-0.7%	1.3%	2.7%	3.8%	2.7%
Return on Equity	6.3%	4.3%	8.4%	9.3%	9.9%	-2.3%	4.7%	10.7%	13.3%	8.8%
ROIC	2.8%	1.8%	3.8%	4.4%	4.6%	-1.0%	1.7%	3.5%	4.9%	3.5%
Shares Out.	39	44	44	45	45	51	53	54	58	61
Revenue/Share	31.20	31.74	26.64	28.72	31.25	27.85	28.89	30.48	31.62	28.54
FCF/Share	(8.30)	(5.41)	(0.73)	(0.68)	(1.87)	3.49	(2.52)	1.86	0.56	(5.15)

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

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