WEC Energy Group, Inc. (WEC)

Updated February 7th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$87	**5 Year CAGR Estimate:**	3.8%	**Market Cap:**	$27.4 billion
Fair Value Price:	$69	**5 Year Growth Estimate:**	5.2%	**Ex-Dividend Date:**	2/11/2021
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	3/1/2021
Dividend Yield:	3.1%	**5 Year Price Target**	$89	**Years Of Dividend Growth:**	18
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	7.1%

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 more than $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. WEC Energy Group has a five-year capital plan that includes investment of 1,800 megawatts of wind, solar and battery storage that will be added to the company's regulated asset base in Wisconsin.

WEC Energy Group reported fourth quarter and full year earnings results on 2/4/2021. For the quarter, net income of $239 million, or $0.76 per share, compared unfavorably to net income of $243.9 million, or $0.77 per share, in the prior year. EPS estimates did beat analysts' estimates by $0.03. Revenue fell 1% to $1.93 billion and was $200 million below estimates. For the year, net income of $1.2 billion, or $3.80 per share, compared favorably to net income of $1.1 billion, or $3.58 per share, in the prior year. Earnings-per-share topped our estimate by $0.05. Revenue decreased 3.7% to $7.2 billion.

For the full year, retail delivers of electricity fell by 2.1%, though deliveries were lower by 2.9% on a weather-normalized basis. Residential electricity usage increased 5.5%. Electricity usage for small commercial and industrial customers fell 4.8% while large commercial and industrial customers used 6.5% less electricity than the prior year. Both figures were a decline sequentially. WEC Energy Group ended 2020 with 11,000 more electric and 27,000 additional natural gas customers compared to 2019. The company expects earnings-per-share in a range of $3.99 to $4.03 for 2021, which would be a 5.5% increase from the prior year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.18	$2.35	$2.51	$2.59	$2.34	$2.96	$3.14	$3.34	$3.58	$3.80	***$4.01***	***$5.17***
DPS	$1.04	$1.20	$1.45	$1.56	$1.74	$1.98	$2.08	$2.21	$2.36	$2.53	***$2.71***	***$3.49***
Shares[1]	230	229	226	226	316	316	316	316	317	317	***317***	***317***

WEC Energy Group compounded earnings-per-share by a rate of 5.7% per year from 2011 to 2020. Profitability has increased even as the share count has increased by 38% over that time frame. Growth has declined to just over 5% 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 2026 due to increases in revenue and returns from nonutility investments.

WEC Energy Group has raised its dividend for 18 consecutive years. The company increased its dividend by 7.1% for the 3/1/2021 payment. The dividend has compounded at a rate of 5.0% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.2	15.8	16.5	17.7	21.3	19.9	20.0	19.6	25.8	24.2	***21.7***	***17.2***
Avg. Yld.	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.6%	2.7%	***3.1%***	***3.9%***

Shares of WEC Energy Group have decreased $18, or 17.1%, since our 11/3/2021 update. Based off of the current share price and the company's expected earnings-per-share for 2021, WEC Energy Group trades with a price-to-earnings ratio of 21.7. This compares unfavorably to the stock's 10-year average valuation of 17.2x earnings. If the stock reverted to this valuation by 2026 then shareholders would see annual returns reduced by 4.5% over this time period.

WEC Energy Group has a dividend yield of 3.1% currently. This is below the 10-year average yield of 3.3% for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

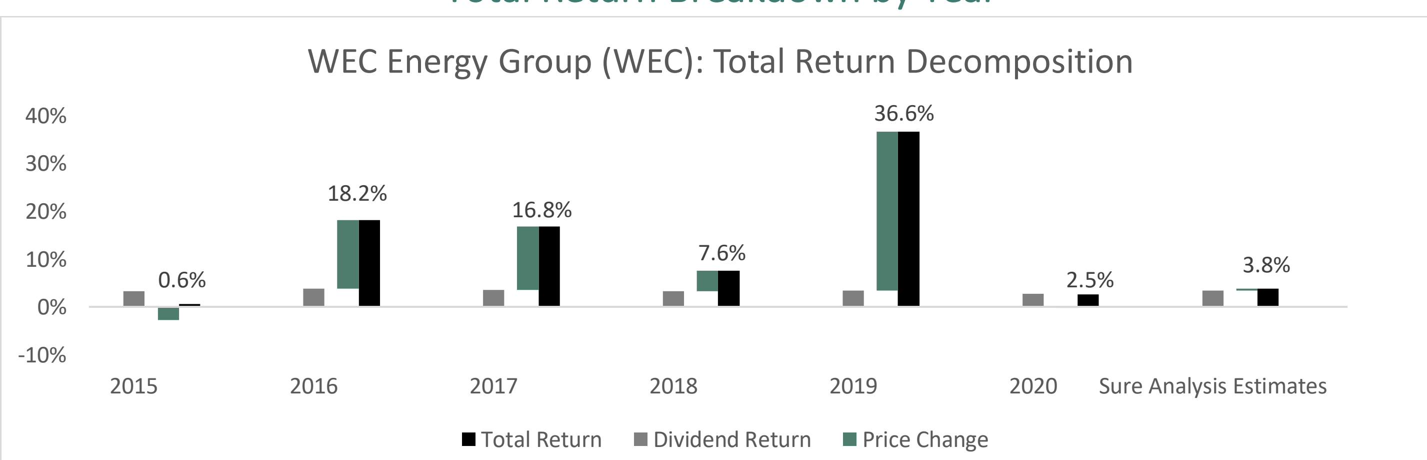
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	48%	51%	58%	60%	74%	67%	66%	66%	66%	67%	***68%***	***68%***

The expected dividend payout ratio for 2021 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 this 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

After fourth quarter and full year results, WEC Energy Group is expected to offer a total annual return of 3.8% through 2026, an improvement from our previous projection of a negative return of 1.4%. Our projected return stems from an annual earnings growth rate of 5.2% and a starting yield of 3.1% offset by a single-digit headwind from expected valuation compression. Electricity usage for residential customers was higher, likely due to consumers staying at home more often due to COVID-19 restrictions. On the other side, commercial and industrial customers used less electricity, likely for the same reasons. We have raised our five-year price target $6 to $89 due to expected EPS for 2021, but maintain our sell rating on WEC Energy Group due to expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4,486	4,246	4,519	4,997	5,926	7,472	7,649	7,680	7,523	7,242
Gross Profit	1,331	1,486	1,537	1,625	1,977	2,654	2,770	2,511	2,660	2,890
Gross Margin	29.7%	35.0%	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%	39.9%
SG&A Exp.										
D&A Exp.	336	372	396	417	584	763	799	846	926	976
Operating Profit	887	1,000	1,080	1,112	1,251	1,696	1,776	1,468	1,531	1,706
Operating Margin	19.8%	23.6%	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%	23.6%
Net Profit	526	546	579	590	640	940	1,205	1,061	1,135	1,201
Net Margin	11.7%	12.9%	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%	16.6%
Free Cash Flow	163	467	507	438	27	680	119	330	85	(43)
Income Tax	264	306	338	362	434	567	384	170	125	228

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13,862	14,285	14,769	14,905	29,355	30,123	31,591	33,476	34,952	37,028
Cash & Equivalents	14	36	26	62	50	38	39	85	38	25
Accounts Receivable	349	285	406	643	1,029	1,242	1,351	1,281	1,177	1,203
Inventories	382	361	329	401	687	588	539	548	550	529
Goodwill & Int. Ass.	442	442	442	442	3,024	3,046	3,054	3,053	3,053	3,053
Total Liabilities	9,868	10,120	10,506	10,455	20,670	21,163	22,099	23,633	24,697	26,366
Accounts Payable	326	368	343	363	815	862	860	876	908	881
Long-Term Debt	5,317	5,261	5,243	5,212	10,377	10,176	11,033	11,799	12,735	14,291
Shareholder's Equity	3,994	4,166	4,263	4,450	8,685	8,960	9,492	9,819	10,144	10,500
D/E Ratio	1.33	1.26	1.23	1.17	1.19	1.14	1.16	1.20	1.26	1.36

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.9%	3.9%	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%	3.3%
Return on Equity	13.4%	13.4%	13.7%	13.5%	9.7%	10.7%	13.1%	11.0%	11.4%	11.6%
ROIC	5.8%	5.8%	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%	5.0%
Shares Out.	230	229	226	226	316	316	316	316	317	317
Revenue/Share	19.06	18.24	19.67	21.97	21.73	23.58	24.11	24.23	23.75	22.88
FCF/Share	0.69	2.01	2.21	1.92	0.10	2.15	0.38	1.04	0.27	(0.14)

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