Evergy Inc. (EVRG)

Updated March 29th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$13.3 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	5/18/2021[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	6/18/2021
Dividend Yield:	3.7%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	16
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.9%

Overview & Current Events

Evergy is an electric utility holding company incorporated in 2017 and headquartered in Kansas City, Missouri. Through its subsidiaries Evergy Kansas, Evergy Metro and Evergy Missouri West, the company serves approximately 1.4 million residential customers, nearly 200,000 commercial customers and 6,900 industrial customers and municipalities in Kansas and Missouri. Evergy has a market capitalization of $13.3 billion and is significantly impacted by seasonality, as about one-third of its retail revenues is recorded in the third quarter.

In late February, Evergy reported (2/26/21) financial results for the fourth quarter of fiscal 2020. In the year, strong residential sales nearly offset lower commercial and industrial sales and thus total revenue dipped only -2% over the prior year. The share of residential sales rose from 36% in 2019 to 50% in 2020 and adjusted earnings-per-share grew 7%, from $2.89 to $3.10. Evergy grew its earnings-per-share thanks to lower operations and maintenance expenses and share repurchases, which were partly offset by unfavorable weather and reduced commercial and industrial demand.

Management issued positive guidance for 2021. It expects adjusted earnings-per-share of $3.20-$3.40 thanks to normalization of weather, higher retail revenues and rate hikes. At the mid-point, this guidance implies 6.5% growth.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.93	$2.15	$2.27	$2.35	$2.09	$2.43	$2.27	$2.50	$2.89	$3.10	***$3.32***	***$4.66***
DPS	$1.28	$1.32	$1.36	$1.40	$1.44	$1.52	$1.60	$1.74	$1.93	$2.05	***$2.17***	***$3.04***
Shares[2]	118.3	126.9	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	***220.0***	***200.0***

Evergy has grown its earnings-per-share at a 5.4% average annual rate over the last decade. This mid-single digit growth rate is typical in the utility sector. However, Evergy has enhanced its investments in growth projects lately and hence it is likely to accelerate its growth pattern in the upcoming years. The company expects to spend $9.2 billion on capital expenses in 2021-2025 while it will also reduce its operations and maintenance expenses. It reduced these expenses by 10% in 2020 and expects to reduce them by another 8% until 2024. Given also expected regulatory approval of 5%-6% annual growth in rates, Evergy expects to grow its earnings-per-share by 6%-8% per year until at least 2024. The utility also expects to grow its dividend in line with its earnings-per-share, at a 6%-8% annual rate, and maintain a dividend payout ratio of 60%-70% until at least 2024.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.7	13.4	14.0	15.3	18.5	21.6	23.4	21.8	20.9	19.0	***17.8***	***18.2***
Avg. Yld.	4.8%	4.6%	4.3%	3.9%	3.7%	2.9%	3.0%	3.2%	3.2%	3.5%	***3.7%***	***3.6%***

[1] Estimated date.

[2] In millions.

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Evergy is currently trading at a price-to-earnings ratio of 17.8, which is slightly lower than its historical 10-year average of 18.2. If the stock trades at its 10-year average valuation level in five years, it will enjoy a modest 0.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	66%	61%	60%	60%	69%	63%	70%	70%	67%	66%	***65%***	***65%***

The subsidiaries of Evergy operate on a fully regulated retail utility model in Missouri and Kansas and thus they do not face any competition in these markets. This typical utility model, which generates reliable and growing earnings, is undoubtedly a strong competitive advantage.

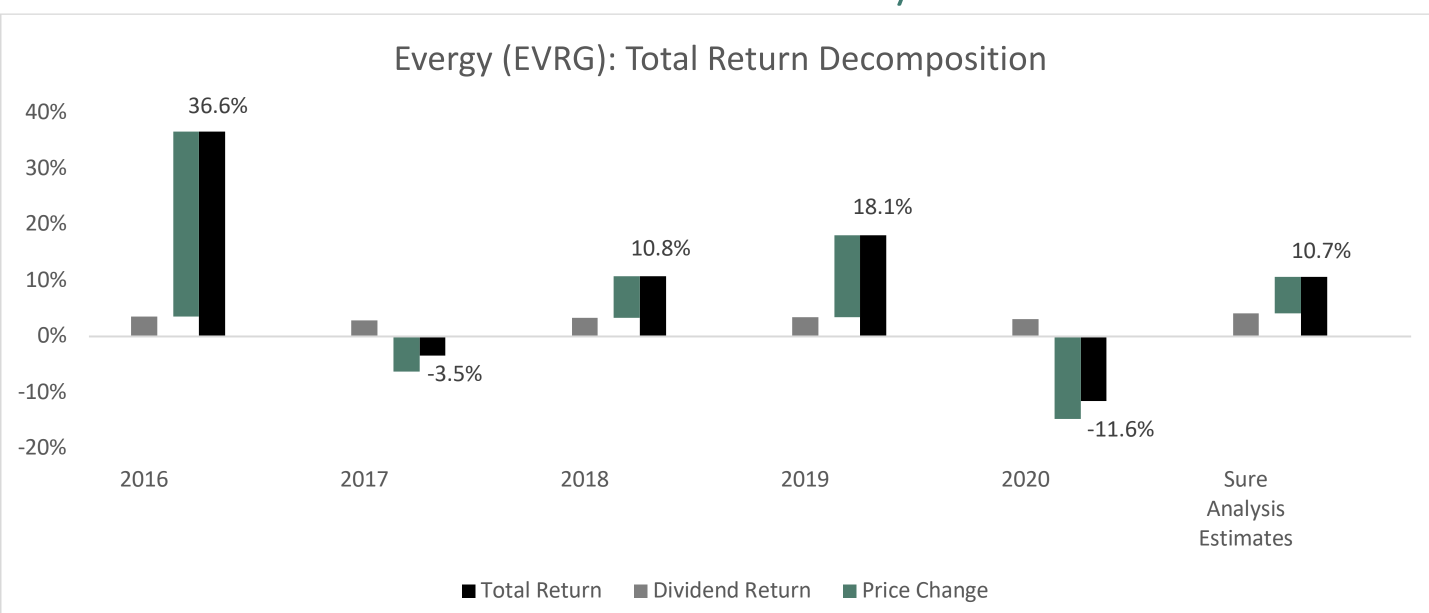
Another major advantage of utilities is their resilience to recessions. Even during the fiercest recessions, people do not cut electricity consumption. In fact, they spend more time at home and thus they increase their consumption. In the severe recession, which was caused by the pandemic, Evergy grew its adjusted earnings-per-share 7% in 2020, to an all-time high level. Moreover, thanks to its 3.7% dividend, its healthy payout ratio of 65% and its expected dividend growth rate of 6%-8% per year until at least 2024, Evergy is a great candidate for income-oriented investors.

The only material risk factor for Evergy is an environment of higher interest rates. Treasury yields have advanced this year due to expectations that the unprecedented stimulus packages in response to the pandemic will eventually lead to higher inflation. If bond yields continue to rise, they will render the dividend yield of Evergy less attractive and hence they will exert pressure on its stock price. On the other hand, Evergy has a higher growth rate and more attractive valuation than most of its peers. As a result, it is less vulnerable to higher interest rates than most of its peers.

Final Thoughts & Recommendation

Evergy has proved resilient to the pandemic and has among the most promising growth prospects in the utility sector. It also has a reasonable valuation. We expect the stock to offer a 10.7% average annual return over the next five years thanks to 7.0% earnings-per-share growth, its 3.7% dividend and a 0.5% annualized expansion of its valuation level. The stock earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,171	2,261	2,371	2,602	2,459	2,562	2,571	4,276	5,148	4,913
Gross Profit	1,075	1,163	1,198	1,310	1,339	1,233	1,218	1,822	2,413	2,388
Gross Margin	49.5%	51.4%	50.5%	50.4%	54.4%	48.1%	47.4%	42.6%	46.9%	48.6%
SG&A Exp.	185	226	224	250	250	---	---	---	---	---
D&A Exp.	306	295	295	312	338	365	404	662	913	938
Operating Profit	512	562	579	633	621	702	679	934	1,186	1,144
Operating Margin	23.6%	24.9%	24.4%	24.3%	25.3%	27.4%	26.4%	21.8%	23.0%	23.3%
Net Profit	230	275	293	313	292	347	324	536	670	618
Net Margin	10.6%	12.2%	12.3%	12.0%	11.9%	13.5%	12.6%	12.5%	13.0%	12.6%
Free Cash Flow	(235)	(211)	(77)	(27)	16	(283)	148	428	539	194
Income Tax	103	126	124	151	152	185	151	59	97	102

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	8,683	9,265	9,597	10,289	10,706	11,487	11,624	25,598	25,976	27,115
Cash & Equivalents	4	6	4	5	3	3	3	160	23	145
Accounts Receivable	226	224	250	267	258	289	165	17	7	5
Inventories	229	249	240	247	301	300	294	511	482	505
Goodwill & Int. Ass.	---	---	---	---	---	---	---	2,339	2,337	2,337
Total Liabilities	5,882	6,355	6,529	6,988	7,034	7,654	7,764	15,607	17,431	18,396
Accounts Payable	187	181	233	219	221	221	204	452	529	654
Long-Term Debt	3,055	3,407	3,576	3,639	3,581	4,018	4,073	8,527	9,950	10,321
Shareholder's Equity	2,769	2,896	3,063	3,295	3,657	3,806	3,908	10,028	8,572	8,733
D/E Ratio	1.09	1.18	1.17	1.10	0.98	1.06	1.04	0.85	1.16	1.18

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.7%	3.1%	3.1%	3.2%	2.8%	3.1%	2.8%	2.9%	2.6%	2.3%
Return on Equity	8.9%	9.7%	9.8%	9.9%	8.4%	9.3%	8.4%	7.7%	7.2%	7.1%
ROIC	4.1%	4.5%	4.5%	4.6%	4.1%	4.6%	4.1%	4.1%	3.6%	3.3%
Shares Out.	118.3	126.9	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5
Revenue/Share	18.35	17.82	18.48	19.59	17.66	17.98	18.03	19.97	21.46	21.60
FCF/Share	(1.98)	(1.66)	(0.60)	(0.20)	0.11	(1.99)	1.04	2.00	2.25	0.85

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

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