Vistra Corp (VST)

Updated May 26th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$7.9B
Fair Value Price:	$14	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	06/15/2021
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date[2]:**	06/30/2021
Dividend Yield:	3.7%	**5 Year Price Target:**	$23	**Years of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.1%

Overview & Current Events

Vistra is an integrated retail electricity and power generation company. In 2016, Vistra was created as a stand-alone entity as a result of the Energy Future Holdings bankruptcy. Vistra is one of the largest power generators in the U.S. and has a capacity of roughly 39,000 megawatts generated by a diverse portfolio which includes natural gas, nuclear, solar and battery energy storage facilities. Its products and services are offered across 20 states and the District of Columbia, including wholesale markets in Canada and Japan. Vistra serves nearly 5 million residential, commercial, and industrial retail customers with electricity and natural gas. The company also offers over 50 renewable energy plans. The power producer has a market capitalization of $7.9 billion and trades on the NYSE under the ticker symbol VST.

Vistra Corp released first quarter results on May 4th. VST reported adjusted EBITDA from ongoing operations of $(1.3) billion, which is highly unfavorable in comparison to Q1 2020 adjusted EBITDA of $851 million. Adjusted EBITDA results were $2.1 billion lower than in the prior year quarter, and this was due to the significant winter storm Uri in Texas. The winter storm Uri left close to 4.5 million homes and businesses without power at the peak, and produced billions in damage. Leadership updated fiscal 2021 guidance to reflect the impacts of Winter Storm Uri on the business. The reissued guidance calls for adjusted EBITDA of between $1.48 billion - $1.88 billion. Adjusted free cash flow before growth capex is expected to come in at roughly $200 to $600 million. The company believes the catastrophic winter storm will not be indicative of future results and that actions will be taken to reduce the risk of this occurrence on the business. VST is anticipating $630 million in adjusted capital expenditures for fiscal 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EBITDA/S	---	---	---	---	---	$1.72	$3.40	$5.47	$6.65	$7.50	**$3.45**	**$5.56**
EPS	---	---	---	---	---	($0.38)	($0.59)	($0.11)	$1.86	$1.30	**($1.34)**	**$2.24**
DPS	---	---	---	---	---	$2.32	$0.00	$0.00	$0.50	$0.54	**$0.60**	**$0.88**
Shares[3]	---	---	---	---	---	427.6	427.8	505.0	499.9	491.1	**485.0**	**480.0**

Vistra Corp has a messy earnings per share history, and as a result it is near impossible to extract any sort of consistent growth in earnings from which to base future expectations off. VST largely utilizes adjusted EBITDA to measure company performance, so we have converted this to display as adjusted EBITDA per share. We would also like to point out that the tabled results for 2016 are only for the fourth quarter results, when the company began trading on the NYSE; as a result, year-over-year comparisons can only truly begin with year 2017.

Based on our adjusted EBITDA per share calculations, EBITDA has grown by 30% and 17% on average over the past 3 and 2 years. While 2021 results is expected to be significantly impacted by the winter storm Uri catastrophe, we believe the corporation can grow adjusted EBITDA by 10% from there on. We see VST on this path to growth through its large investments in solar and batteries as they progressively retire their coal plants, which would see a large uptick in their zero-carbon generation. In fact, Vistra is guiding for roughly 9,000 MW of zero-carbon generation expected by 2030. This

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[1] Estimate
[2] Estimate
[3] In millions

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may cause some short-term pain though as coal makes up 29% of 2021 energy capacity. The company currently has 4,000 MW of zero-carbon generation under development, which includes a 400-MW/1,600 MW-h battery energy storage system in California, the largest of its kind in the world. Additionally, federal tax policy encourages the expansion of renewable energy through tax credits, as well as many U.S. states and corporation have clean energy goals, that could be a catalyst for further tailwinds to Vistra Corp's clean energy generation.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/EBITDA	---	---	---	---	---	8.70	5.01	4.07	3.75	2.55	**4.7**	**4.1**
Avg. Yld.	---	---	---	---	---	15%	---	---	2.8%	3.0%	**3.7%**	**3.9%**

Considering that Vistra's earnings data are so choppy, we are valuing the company based on its historical adjusted EBITDA. Dating back to it's inception, VST has traded on an average basis of 4.8 times adjusted EBITDA. If we remove the data from 2016, the corporation's average price to adjusted EBITDA has been 3.8. Today Vistra trades at 4.7 times adjusted EBITDA, and we rate the shares fair value at around 4.1 times, for a 2.8% average annual loss due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	0%	0%	27%	42%	**---**	***39%***

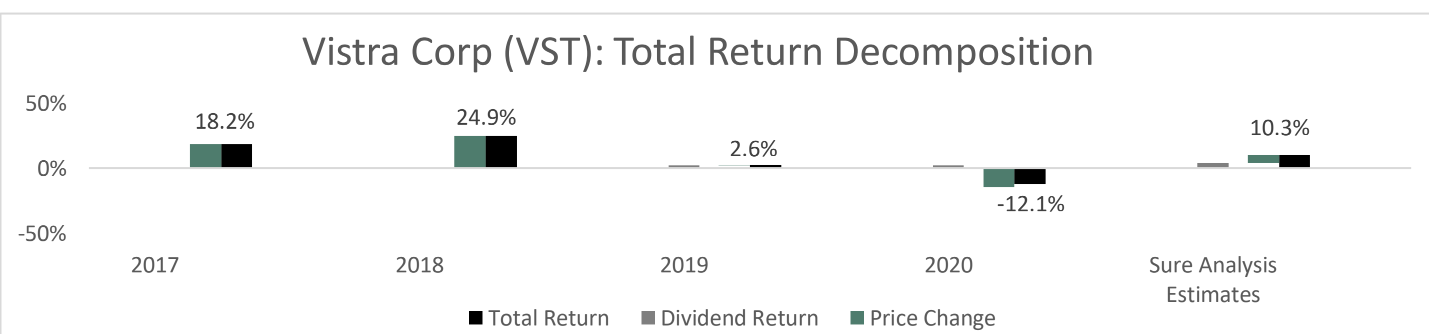
We have opted to calculate the payout ratio using the company's earnings per share as adjusted EBITDA does include costs such as interest and taxes that the corporation must pay at the end of the year. The payout ratio has been stable since its inception in 2019, but the company does not have the earnings for a payout ratio below 100% in 2021, and thus the dividend has some risk to it. Although by 2026, we estimate the payout ratio will be sub-100%.

We don't have operating results dating back to the great financial crisis so we can't say for certain how VST would have performed, but we believe utilities businesses are generally safe during a recession, especially power generators for residential customers. While the company may have resiliency during a recession, it is not immune. VST believes their integrated business model to be their prime competitive advantage in the electricity industry, as it allows them to reduce the effect of commodity price movements and contribute to earnings and cash flow stability.

Final Thoughts & Recommendation

Vistra Energy rose from the bankruptcy of Energy Future Holdings in late-2016 and since then has strongly compounded adjusted EBITDA per share. While the winter storm Uri caused massive catastrophic damage, it was a one-time event, and we see stronger growth after 2021. We rate the shares a hold as the company trades at 115% fair value, but growth investors may be interested in the estimated 10.3% total returns over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue				5978	5370	5164	5430	9144	11809	11443
Gross Profit				2222	1844	1490	1522	2811	4537	4647
Gross Margin				37.2%	34.3%	28.9%	28.0%	30.7%	38.4%	40.6%
SG&A Exp.				708	676	690	600	926	904	1035
Operating Profit				244	316	125	223	491	1993	1875
Op. Margin				4.1%	5.9%	2.4%	4.1%	5.4%	16.9%	16.4%
Net Profit				(6229)	(4677)	(819)	(254)	(54)	928	636
Net Margin				-104.2%	-87.1%	-15.9%	-4.7%	-0.6%	7.9%	5.6%
Free Cash Flow				31	(223)	(467)	855	941	2023	2078
Income Taxes				(2320)	(879)	(67)	504	(45)	290	266

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets					15658	15167	14600	26024	26616	25208
Cash & Equivalents					1400	843	1487	636	300	406
Accounts Recv.					533	612	582	1087	1365	1279
Inventories					428	285	253	412	469	515
Total Liabilities					38542	8570	8258	18157	18656	16847
Accounts Payable					514	479	473	945	947	880
Long-Term Debt					1444	4623	4423	11404	11179	9630
Total Equity					-22884	6597	6342	7863	7959	8371
D/E Ratio					(0.06)	0.70	0.70	1.45	1.40	1.15

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						-5.3%	-1.7%	-0.3%	3.5%	2.5%
Return on Equity							-3.9%	-0.8%	11.7%	7.8%
ROIC							-2.3%	-0.4%	4.8%	3.4%
Shares Out.						427.6	427.8	505.0	499.9	491.1
Revenue/Share				13.98	12.56	12.08	12.69	18.11	23.62	23.30
FCF/Share				0.07	(0.52)	(1.09)	2.00	1.86	4.05	4.23

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