WEC Energy Group, Inc. (WEC)

Updated November 2nd, 2021 by Nathan Parsh

Key Metrics

Current Price:	$91	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$28.9 billion
Fair Value Price:	$77	**5 Year Growth Estimate:**	5.2%	**Ex-Dividend Date:**	11/10/2021
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	12/1/2021
Dividend Yield:	3.0%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	18
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**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 nearly $8 billion.

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 third quarter earnings results on 11/2/2021. For the quarter, net income of $290 million, or $0.92 per share, compared favorably to net income of $266.8 million, or $0.84 per share, in the prior year. EPS topped analysts' estimates by $0.13. Revenue increased 6.1% to $1.75 billion, $70 million better than expected.

Retail deliveries of electricity increased 2.4%, though residential electricity usage was higher by just 0.3%. Weather normalized deliveries were up 5.8%. Electricity usage by small commercial and industrial customers improved 3.5%. Large commercial and industrial customers usage grew 2.5% year-over-year. WEC Energy Group ended the third quarter with an additional 8,000 electric and 15,000 more natural gas customers from the previous year.

The company offered revised guidance for the year. WEC Energy Group now expects earnings-per-share of $4.05 to $4.07 for the year, up from $4.02 to $4.05 and $3.99 to $4.03 previously.

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	***$4.06***	***$5.23***
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	***316***	***316***

WEC Energy Group compounded earnings-per-share by a rate of 6.4% 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 but continue to expect that WEC Energy Group will be able to increase earnings-per-share by 5.2% annually through 2026, primarily attributable 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.

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	23.5	24.9	***22.4***	***19.0***
Avg. Yld.	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.8%	2.7%	***3.0%***	***3.5%***

[1] Share count in millions

WEC Energy Group, Inc. (WEC)

Updated November 2nd, 2021 by Nathan Parsh

Shares of WEC Energy Group have decreased $5, or 5.2%, since our 8/7/2021 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 22.4. We reaffirm our five-year target valuation of 19 to better reflect the average earnings multiple for the last decade. If the stock reverted to this valuation by 2026 then shareholders would see annual returns reduced by 3.3% over this time period.

WEC Energy Group has a dividend yield of 3.0% currently. This is below the 10-year average yield of 3.3% for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

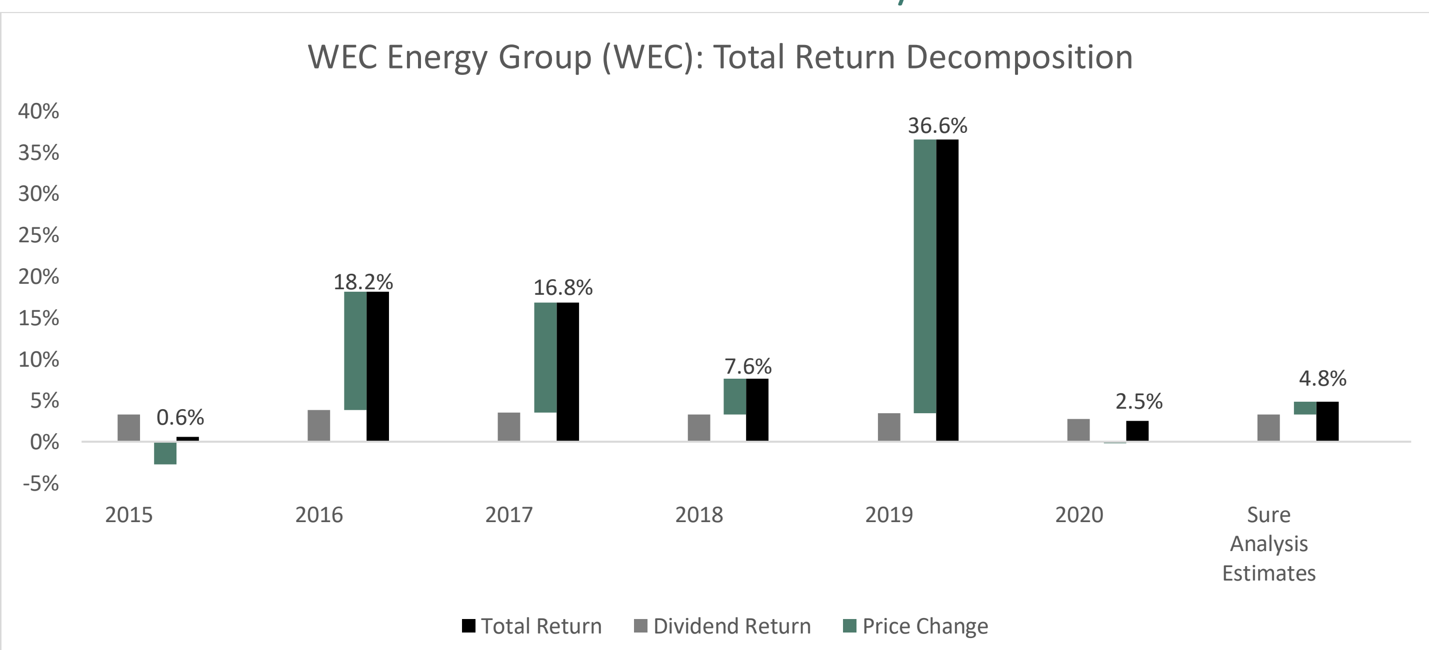
Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2026**
Payout	48%	51%	58%	60%	74%	67%	66%	66%	66%	67%	***67%***	***67%***

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 recessions 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

Following third quarter results, WEC Energy Group is expected to offer a total annual return of 4.8% through 2026, up from our previous projection of a 3.6% return. Our projected return stems from an annual earnings growth rate of 5.2% and a starting yield of 3.0% offset by a low single-digit headwind from expected valuation compression. WEC Energy continues to post solid results as the company recovers from the impacts of COVID-19 on its business. We maintain our five-year price target of $99, but now view shares as a hold. Income investors could be drawn to the stock's yield and dividend growth.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.

WEC Energy Group, Inc. (WEC)

Updated November 2nd, 2021 by Nathan Parsh

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.