



Evergy Inc. (EVRG)

Updated May 6th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$68	5 Year CAGR Estimate:	9.4%	Market Cap:	\$15.4 B
Fair Value Price:	\$66	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	5/19/2022
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	6/20/2022
Dividend Yield:	3.4%	5 Year Price Target	\$92	Years Of Dividend Growth:	17
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 \$15.4 billion and is significantly impacted by seasonality, as about one-third of its retail revenues is recorded in the third quarter.

In early May, Evergy reported (5/5/22) financial results for the first quarter of fiscal 2022. The company benefited from higher transmission margin and lower credit loss expenses. As a result, it grew its adjusted earnings-per-share 6% over last year's quarter, from \$0.55 to \$0.58, and exceeded the analysts' consensus by \$0.03.

The business outlook of Evergy is positive. Management reaffirmed its guidance for adjusted earnings-per-share of \$3.43-\$3.63 in 2022 and 6%-8% adjusted earnings-per-share growth off the level of \$3.30 until 2025. We still expect earnings-per-share around \$3.55 this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.15	\$2.27	\$2.35	\$2.09	\$2.43	\$2.27	\$2.50	\$2.89	\$3.10	\$3.54	\$3.55	\$4.98
DPS	\$1.32	\$1.36	\$1.40	\$1.44	\$1.52	\$1.60	\$1.74	\$1.93	\$2.05	\$2.18	\$2.29	\$3.26
Shares¹	126.9	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	231.0	200.0

Evergy has grown its earnings-per-share at a 5.7% 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 \$10.7 billion on capital expenses in 2022-2026 while it will also reduce its operational and maintenance expenses. It has reduced these expenses by -18% since 2018 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 2025. 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 2025. We expect 7.0% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.4	14.0	15.3	18.5	21.6	23.4	21.8	20.9	19.0	17.6	19.2	18.5
Avg. Yld.	4.6%	4.3%	3.9%	3.7%	2.9%	3.0%	3.2%	3.2%	3.5%	3.5%	3.4%	3.5%

Evergy is currently trading at a price-to-earnings ratio of 19.2, which is higher than its historical 10-year average of 18.5. If Evergy trades at its 10-year average valuation level in five years, it will incur a -0.7% annualized drag in its returns.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	61%	60%	60%	69%	63%	70%	70%	67%	66%	62%	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.

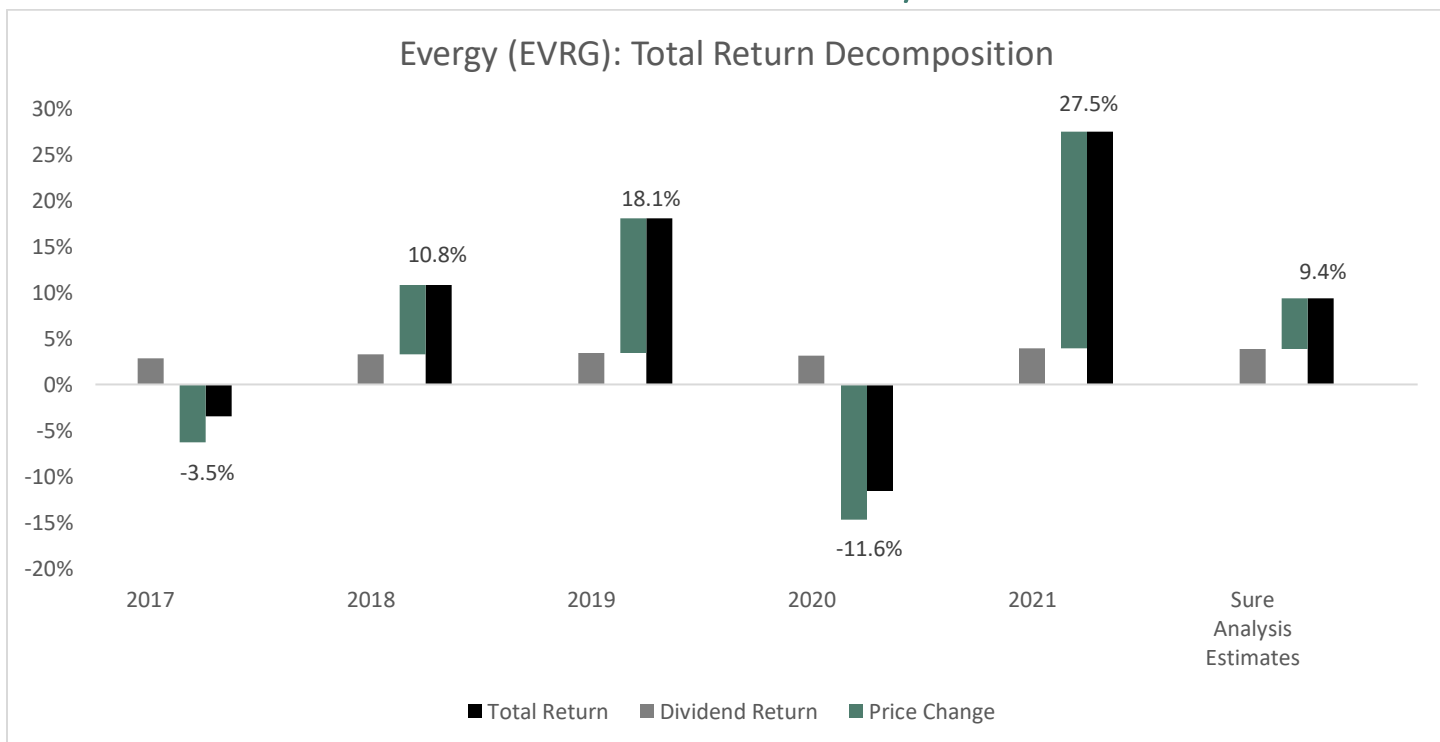
Another major advantage of utilities is their resilience to recessions. Even during the fiercest recessions, people do not cut electricity consumption. In fact, they spend more time at home and thus they increase their consumption. In the severe recession, which was caused by the pandemic, Evergy grew its adjusted earnings-per-share 7% in 2020, to an all-time high level. Moreover, thanks to its 3.4% dividend, its healthy payout ratio of 65% and its expected dividend growth rate of 6%-8% per year until at least 2025, 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 high inflation, which has resulted from the unprecedented stimulus packages offered by the government in response to the pandemic. 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 one of the most promising growth prospects in the utility sector. It also has a reasonable valuation. The stock has rallied 10% since our last research report, in March, but it could still offer a 9.4% average annual return over the next five years thanks to 7.0% earnings-per-share growth and its 3.4% dividend, partly offset by a -0.7% annualized valuation headwind. We maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,261	2,371	2,602	2,459	2,562	2,571	4,276	5,148	4,913	5,587
Gross Profit	1,163	1,198	1,310	1,339	1,233	1,218	1,822	2,413	2,388	2,632
Gross Margin	51.4%	50.5%	50.4%	54.4%	48.1%	47.4%	42.6%	46.9%	48.6%	47.1%
SG&A Exp.	226	224	250	250	---	---	---	---	---	---
D&A Exp.	295	295	312	338	365	404	662	913	938	948
Operating Profit	562	579	633	621	702	679	934	1,186	1,144	1,355
Operating Margin	24.9%	24.4%	24.3%	25.3%	27.4%	26.4%	21.8%	23.0%	23.3%	24.3%
Net Profit	275	293	313	292	347	324	536	670	618	880
Net Margin	12.2%	12.3%	12.0%	11.9%	13.5%	12.6%	12.5%	13.0%	12.6%	15.7%
Free Cash Flow	(211)	(77)	(27)	16	(283)	148	428	539	194	(621)
Income Tax	126	124	151	152	185	151	59	97	102	117

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,265	9,597	10,289	10,706	11,487	11,624	25,598	25,976	27,115	28,521
Cash & Equivalents	6	4	5	3	3	3	160	23	145	26
Accounts Receivable	224	250	267	258	289	165	17	7	5	14
Inventories	249	240	247	301	300	294	511	482	505	567
Goodwill & Int. Ass.	---	---	---	---	---	---	2,339	2,337	2,337	2,337
Total Liabilities	6,355	6,529	6,988	7,034	7,654	7,764	15,607	17,431	18,396	19,279
Accounts Payable	181	233	219	221	221	204	452	529	654	640
Long-Term Debt	3,407	3,576	3,639	3,581	4,018	4,073	8,527	9,950	10,321	11,166
Shareholder's Equity	2,896	3,063	3,295	3,657	3,806	3,908	10,028	8,572	8,733	9,244
D/E Ratio	1.18	1.17	1.10	0.98	1.06	1.04	0.85	1.16	1.18	1.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.1%	3.1%	3.2%	2.8%	3.1%	2.8%	2.9%	2.6%	2.3%	3.2%
Return on Equity	9.7%	9.8%	9.9%	8.4%	9.3%	8.4%	7.7%	7.2%	7.1%	9.8%
ROIC	4.5%	4.5%	4.6%	4.1%	4.6%	4.1%	4.1%	3.6%	3.3%	4.5%
Shares Out.	126.9	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3
Revenue/Share	17.82	18.48	19.59	17.66	17.98	18.03	19.97	21.46	21.60	24.33
FCF/Share	(1.66)	(0.60)	(0.20)	0.11	(1.99)	1.04	2.00	2.25	0.85	(2.70)

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

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