



NorthWestern Corp. (NWE)

Updated July 29th, 2022, by Ian Bezek

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	8.1%	Market Cap:	\$3.2 B
Fair Value Price:	\$56	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	09/15/22
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	09/30/22
Dividend Yield:	4.5%	5 Year Price Target	\$69	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

NorthWestern Corp. is a Sioux Falls, South Dakota based electricity and gas utility. It has 1,500 employees, and primarily serves the states of South Dakota and Montana. The company's largest source of power generation is currently coal. However, it does produce 27% of its power from hydro and another 6% from wind. The company currently sources 35% of its electricity from power purchases rather than its own generation capacity. However, that will soon change as the company has been building two new plants. One, the 58-megawatt Huron plant in South Dakota, opened on time and under budget in May 2022. Another larger 175-megawatt plant is supposed to come online in Montana in a few years, and the company has now begun site work for that facility.

On July 28th, 2022, NorthWestern announced its Q2 fiscal 2022 earnings. Operating revenues jumped 8% from the same period of 2021 to \$323 million. The company credited customer growth and favorable weather for the jump. But this didn't translate to the bottom line, which was essentially flat. Second quarter adjusted net income was \$30.1 million, or \$0.54 per diluted share, as compared with net income of \$29.2 million, or \$0.56 per diluted share, for the same period in 2021.

NorthWestern's profit margins declined in large part due to higher administrative and general costs along with an increase in maintenance expenses. However, the company maintained its full-year 2022 guidance. Also, NorthWestern CEO Robert Rowe announced that he will be retiring at the end of the year after 14 years leading the company. Current NorthWestern COO Brian Bird will replace him as CEO going forward.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.26	\$2.46	\$2.99	\$2.90	\$3.39	\$3.34	\$3.40	\$3.53	\$3.06	\$3.60	\$3.28	\$4.09
DPS	\$1.48	\$1.52	\$1.60	\$1.92	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.48	\$2.52	\$2.72
Shares¹	37	39	47	48	48	49	50	50	51	54	58	63

Since 2012, NorthWestern Corp. has grown its earnings per share by an average compound rate of 5.3%. Meanwhile, it has grown its dividend by 5.9% per year on average over the same period. However, NorthWestern's growth has slowed significantly in recent years. The company's earnings have been roughly flat over the past five years through to 2022. The company's dividend hikes have also slowed down, with the latest increase being by just one cent per quarter.

Following a dip in earnings this year, we are forecasting 4.5% intermediate-term earnings growth, which falls in the middle part of management's range for longer-term earnings growth. The company is in a heavy investment cycle with its two new power facilities under way. This year will be the biggest capital investment year in NorthWestern's history. In light of that, it's understandable why NorthWestern has moved to smaller dividend increases than it has historically achieved. As part of that, the company has engaged in some dilution recently, which further limits the potential pace of earnings and dividend growth.

As the new power generation comes online, however, this should give a boost to Northwestern's earnings and allow it to return to more normal levels of growth.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.7	16.9	16.2	18.4	17.2	17.8	16.8	19.9	19.5	16.9	17.1	17.0
Avg. Yld.	4.2%	3.7%	3.3%	3.6%	3.4%	3.5%	3.9%	3.3%	4.0%	4.1%	4.5%	3.9%

NorthWestern has historically had a stable P/E ratio with its average not going above 20 or below 15 over the past decade. Shares are currently well within their normal relative value range at 17.1 earnings. We see the company's long-term P/E multiple remaining right around that figure.

The company's dividend yield has generally run between the mid-3% to low 4% range. The current 4.5% dividend yield is a higher than usual entry point for NorthWestern stock. Offsetting the starting higher dividend yield, however, is the fact that dividend growth has significantly decelerated over the past couple of years. And dividend growth may remain muted until the company's current capital investment cycle concludes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	62%	54%	66%	59%	63%	65%	65%	78%	69%	77%	67%

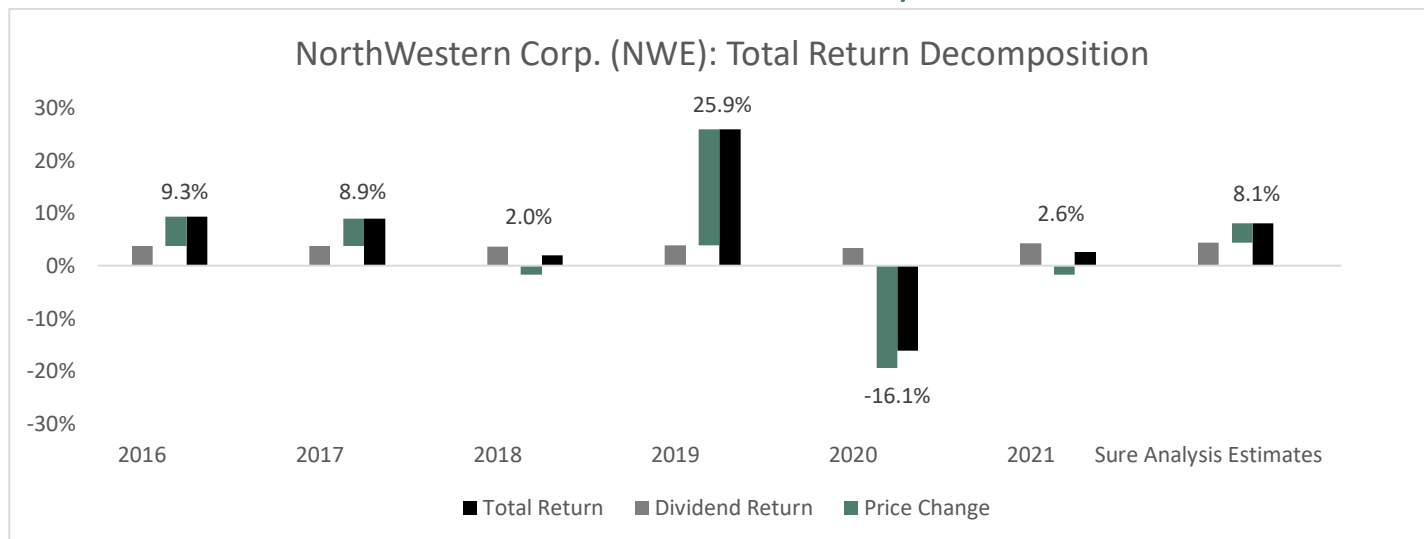
NorthWestern is somewhat on the small side as far as publicly traded utilities go and could face some geographical risk if anything happens to curb power demand in key states such as South Dakota and Montana. However, utilities, as an industry, are highly resilient and tend to fare relatively well during economic duress.

NorthWestern aims to have its dividend payout ratio be between 60% and 70%. However, it has now crept up to 77% based on this year's projected earnings. We expect that earnings will grow more quickly than dividends through 2027 as NorthWestern seeks to get its payout ratio back down to something below 70%.

Final Thoughts & Recommendation

NorthWestern shares have fallen 11% over the past year, making for a relatively more attractive entry point. We now estimate 8.1% per year total return potential, driven by a 4.5% earnings growth rate and the generous starting dividend yield. There is some execution risk around the company's new power plants, and dividend hikes will likely be somewhat subdued. However, the starting 4.5% dividend yield helps counterbalance those points. Shares earn a hold 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	1,070	1,155	1,205	1,214	1,257	1,306	1,192	1,258	1,199	1,372
Gross Profit	675	675	722	841	856	895	919	940	892	947
Gross Margin	63.1%	58.5%	59.9%	69.3%	68.1%	68.6%	77.1%	74.7%	74.5%	69.0%
SG&A Exp.	270	286	306	297	294	295	307	109	94	102
Operating Profit	201	171	178	266	255	272	266	277	236	276
Operating Margin	18.8%	14.8%	14.8%	21.9%	20.3%	20.8%	22.3%	22.0%	19.7%	20.1%
Net Profit	98	94	121	151	164	163	197	202	155	187
Net Margin	9.2%	8.1%	10.0%	12.5%	13.1%	12.5%	16.5%	16.1%	12.9%	13.6%
Free Cash Flow	32	(37)	(20)	56	(1)	46	98	(19)	(54)	(214)
Income Tax	18	14	(10)	30	(8)	13	(19)	(20)	(11)	3

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,486	3,715	4,974	5,265	5,499	5,421	5,644	6,083	6,389	6,780
Cash & Equivalents	10	17	20	12	5	8	8	5	6	3
Acc. Receivable	144	175	163	154	160	182	162	167	168	199
Inventories	54	56	55	53	49	52	51	54	61	81
Total Liabilities	355	355	355	358	358	358	358	358	358	358
Accounts Payable	2,552	2,685	3,496	3,665	3,823	3,622	3,702	4,044	4,310	4,441
Long-Term Debt	84	93	82	75	79	85	87	97	100	115
Total Equity	1,178	1,296	1,930	1,998	2,094	2,113	2,102	2,233	2,415	2,541
LTD/E Ratio	934	1,031	1,478	1,600	1,676	1,799	1,942	2,039	2,079	2,340

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	2.6%	2.8%	3.0%	3.1%	3.0%	3.6%	3.4%	2.5%	2.8%
Return on Equity	11.0%	9.6%	9.6%	9.8%	10.0%	9.4%	10.5%	10.2%	7.5%	8.5%
ROIC	4.9%	4.2%	4.2%	4.3%	4.5%	4.2%	5.0%	4.9%	3.5%	4.0%
Shares Out.	37.2	38.7	46.9	48.2	48.3	49.4	50.3	50.4	50.6	54.1
Revenue/Share	28.93	30.27	29.85	25.46	25.94	26.83	23.73	24.94	23.71	26.54
FCF/Share	0.86	(0.96)	(0.50)	1.18	(0.02)	0.95	1.95	(0.38)	(1.06)	(4.15)

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

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