



Black Hills Corporation (BKH)

Updated August 10th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	6.2%	Market Cap:	\$5.0B
Fair Value Price:	\$73	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	08/17/22
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	09/01/22
Dividend Yield:	3.1%	5 Year Price Target	\$89	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Black Hills Corporation is an electric utility that provides electricity and natural gas to customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota, and Wyoming. Black Hills was founded in 1941, and the company is headquartered in Rapid City, South Dakota. Black Hills Corporation has increased its dividend for 50 years in a row, which qualifies it as Dividend King thanks to five decades of dividend raises.

Black Hills Corporation reported its second quarter earnings results on August 3. The company generated revenues of \$470 million during the quarter, which was 27% more than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. Black Hills Corporation's revenues were higher than what the analyst community had expected, beating the consensus estimate by a hefty \$79 million.

Black Hills Corporation generated earnings-per-share of \$0.52 during the second quarter, which was above the consensus analyst estimate. Earnings-per-share were up by \$0.12, or 30% on a relative basis, versus the previous year's quarter. Q4 and Q1 are seasonally stronger quarters due to higher natural gas demand for heating, which was again showcased by the below-average profitability during the second quarter. Black Hills Corporation forecasts earnings-per-share of \$3.95 to \$4.15 for the current fiscal year. This represents attractive earnings-per-share growth of around 8% relative to the profit generated in the previous year, using the midpoint of management's guidance range.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
EPS	\$1.97	\$2.61	\$2.89	\$2.83	\$3.13	\$3.36	\$3.54	\$3.53	\$3.73	\$3.74	\$4.05	\$4.93
DPS	\$1.48	\$1.52	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	\$2.05	\$2.17	\$2.31	\$2.38	\$3.04
Shares¹	44	45	45	51	53	54	58	61	63	64	65	70

Black Hills' profitability has been rather volatile over the last decade. Overall, earnings-per-share grew by 14% annually in the 2011-to-2020 time frame. This is a strong growth rate for a utility, but keep in mind 2011 was a down year.

The swings in Black Hills' profits are primarily based on the impact that weather conditions have on the demand for electricity, for cooling in summer, and natural gas, for heating in winter. Black Hills' growth over the coming years depends on several factors. This includes rate reviews, which drive revenues and profits per kWh. Another factor is the expansion of the company's existing assets via new utility infrastructure. Black Hills regularly adds new projects to its growth investment backlog, which currently stands at \$2.7 billion for the 2020-2024 time frame. Black Hills' planned growth investments include new electric transmission lines and new natural gas pipelines to service its customers.

Rate reviews will allow Black Hills to recover investments into its existing systems, thereby more or less guaranteeing increasing revenues, which should lead to rising profits down the road. In 2018, Black Hills exited its oil business, since then the company is less impacted by changes in commodity prices. The increased focus on its core utility business is a positive for Black Hills, as this allows for more consistent and reliable growth. We forecast a mid-single digit earnings-per-share growth rate in the long run, but there could be some ups and downs over the years.

¹ In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.1	18.2	19.0	16.1	22.3	19.7	17.8	22.4	16.1	19.0	18.8	18.0
Avg. Yld.	4.4%	3.2%	2.8%	3.5%	2.9%	2.7%	3.3%	2.6%	3.6%	3.3%	3.1%	3.4%

Black Hills Corporation trades for ~19 times this year’s expected net profits right now. Black Hills’ valuation has moved in a very wide range throughout the past. The company was valued at less than 10 times profits during the midst of the financial crisis, but at as much as 30+ times earnings in 2011. Shares trade slightly ahead of our fair value estimate right now, but we do not forecast a large impact from multiple changes going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	75.1%	58.2%	54.0%	57.2%	53.7%	53.9%	54.5%	58.1%	58.2%	61.8%	58.8%	61.6%

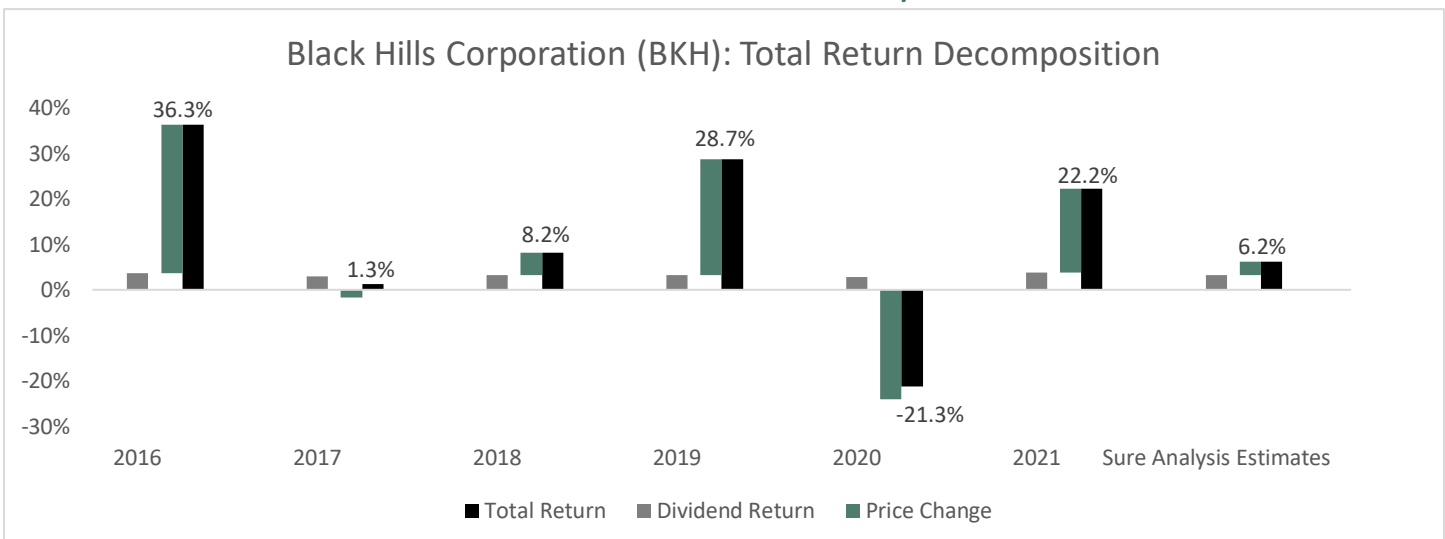
Overall, Black Hills Corporation’s dividend payout ratio declined between 2010 and 2019, due to a modest dividend growth rate. Today, the company pays out roughly 60% of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit. The same thing happened during 2011. The company nevertheless raised its dividend during those years, and its decades-long dividend growth track record gives investors assurance that a dividend cut is unlikely from this utility company.

Demand for electricity and gas is not very cyclical, although it is dependent upon weather conditions to some degree. Thus, Black Hills should remain profitable under most circumstances. The fact that customers tend to stick with their provider means that Black Hills operates a relatively stable business model. The company should also be able to weather future recessions well, which creates appeal for more conservative investors.

Final Thoughts & Recommendation

Black Hills is a relatively small utility company, but it has a compelling dividend growth track record, having raised its dividend annually for five decades in a row. We believe that it is likely that the company will continue to grow its earnings and its dividend reliably over the coming years. The company’s shares trade slightly ahead of our fair value estimate right now, and we forecast solid returns going forward. We thus rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,174	1,276	1,394	1,261	1,539	1,680	1,754	1,735	1,697	1,949
Gross Profit	439	438	453	481	613	662	647	668	709	705
Gross Margin	37.4%	34.3%	32.5%	38.1%	39.8%	39.4%	36.9%	38.5%	41.8%	36.2%
Operating Profit	250	259	264	300	336	417	397	406	428	409
Operating Margin	21.3%	20.3%	18.9%	23.8%	21.8%	24.8%	22.6%	23.4%	25.2%	21.0%
Net Profit	102	117	131	(32)	73	177	258	199	228	237
Net Margin	8.7%	9.2%	9.4%	-2.5%	4.7%	10.5%	14.7%	11.5%	13.4%	12.1%
Free Cash Flow	(32)	(30)	(83)	158	(134)	102	31	(313)	(226)	(742)
Income Tax	60	63	67	79	59	73	(24)	30	33	7

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,729	3,838	4,246	4,627	6,542	6,659	6,963	7,558	8,089	9,132
Cash & Equivalents	15	8	21	441	14	15	21	10	6	9
Accounts Receivable	101	114	119	80	137	126	147	145	147	181
Inventories	78	88	91	87	104	113	117	117	117	151
Goodwill & Int. Ass.	357	357	357	363	1,308	1,307	1,314	1,313	1,311	1,310
Total Liabilities	2,497	2,554	2,892	3,161	4,812	4,839	4,676	5,094	5,426	6,245
Accounts Payable	84	130	124	90	152	161	211	194	183	218
Long-Term Debt	1,320	1,479	1,618	1,930	3,314	3,326	3,142	3,495	3,771	4,547
Shareholder's Equity	1,233	1,284	1,354	1,466	1,615	1,709	2,182	2,362	2,561	2,787
LTD/E Ratio	1.07	1.15	1.19	1.32	2.05	1.95	1.44	1.48	1.47	1.63

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.6%	3.1%	3.2%	-0.7%	1.3%	2.7%	3.8%	2.7%	2.9%	2.7%
Return on Equity	8.4%	9.3%	9.9%	-2.3%	4.7%	10.7%	13.3%	8.8%	9.2%	8.9%
ROIC	3.8%	4.4%	4.6%	-1.0%	1.7%	3.5%	4.9%	3.5%	3.7%	3.4%
Shares Out.	44	45	45	51	53	54	58	61	63	64
Revenue/Share	26.64	28.72	31.25	27.85	28.89	30.48	31.62	28.54	27.18	30.78
FCF/Share	(0.73)	(0.68)	(1.87)	3.49	(2.52)	1.86	0.56	(5.15)	(3.61)	(11.72)

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

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