WEC Energy Group, Inc. (WEC)

Updated August 2nd, 2022 by Nathan Parsh

Key Metrics

Current Price:	$104	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$33 billion
Fair Value Price:	$83	**5 Year Growth Estimate:**	5.2%	**Ex-Dividend Date:**	08/11/22
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	09/01/22
Dividend Yield:	2.8%	**5 Year Price Target**	$107	**Years Of Dividend Growth:**	19
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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. 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. The company has annual revenues of nearly $9 billion.

On December 2nd, 2021, WEC Energy Group announced 7.4% increase in its quarterly dividend to $0.7275.

On August 2nd, 2022, WEC Energy Group reported second quarter results for the period ending June 30th, 2022. Revenue grew 26.8% to $2.13 billion, which was $370 million above expectations. Net income of $287.5 million, or $0.91 per share, compared to net income of $276 million, or $0.87 per share, in the prior year and was $0.06 ahead of estimates.

Retail deliveries of electricity decreased by 0.4%, with residential electricity usage higher by 0.1%. Weather normalized deliveries were up 0.3%. Electricity usage by small commercial and industrial customers improved 0.7%. Large commercial and industrial customers usage fell 2.0% year-over-year.

The company also offered a revised outlook for the year, with earnings-per-share now expected in a range of $4.36 to $4.40 for 2022, up from $4.34 to $4.38 and $4.29 to $4.33 previously.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.35	$2.51	$2.59	$2.34	$2.96	$3.14	$3.34	$3.58	$3.80	$4.12	***$4.38***	***$5.64***
DPS	$1.20	$1.45	$1.56	$1.74	$1.98	$2.08	$2.21	$2.36	$2.53	$2.71	***$2.91***	***$3.75***
Shares[1]	229	226	226	316	316	316	316	317	317	315	***315***	***315***

WEC Energy Group compounded earnings-per-share by a rate of 6.4% per year from 2012 to 2021. 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 2027, primarily attributable to increases in revenue and returns from nonutility investments.

The dividend has compounded at a rate of 5.3% over the last five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.8	16.5	17.7	21.3	19.9	20.0	19.6	23.5	24.9	23.6	***23.7***	***19.0***
Avg. Yld.	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.8%	2.7%	2.8%	***2.8%***	***3.5%***

[1] Share count in millions

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Shares of WEC Energy Group have increased $4, or 4%, since our May 4th, 2022 update. Based off of the current share price and the company's expected earnings-per-share for 2022, WEC Energy Group trades with a price-to-earnings ratio of nearly 30. 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 2027 then shareholders would see annual returns reduced by 4.4% over this time period.

WEC Energy Group has a dividend yield of 2.8% currently, which is below the 10-year average yield of 3.3% for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

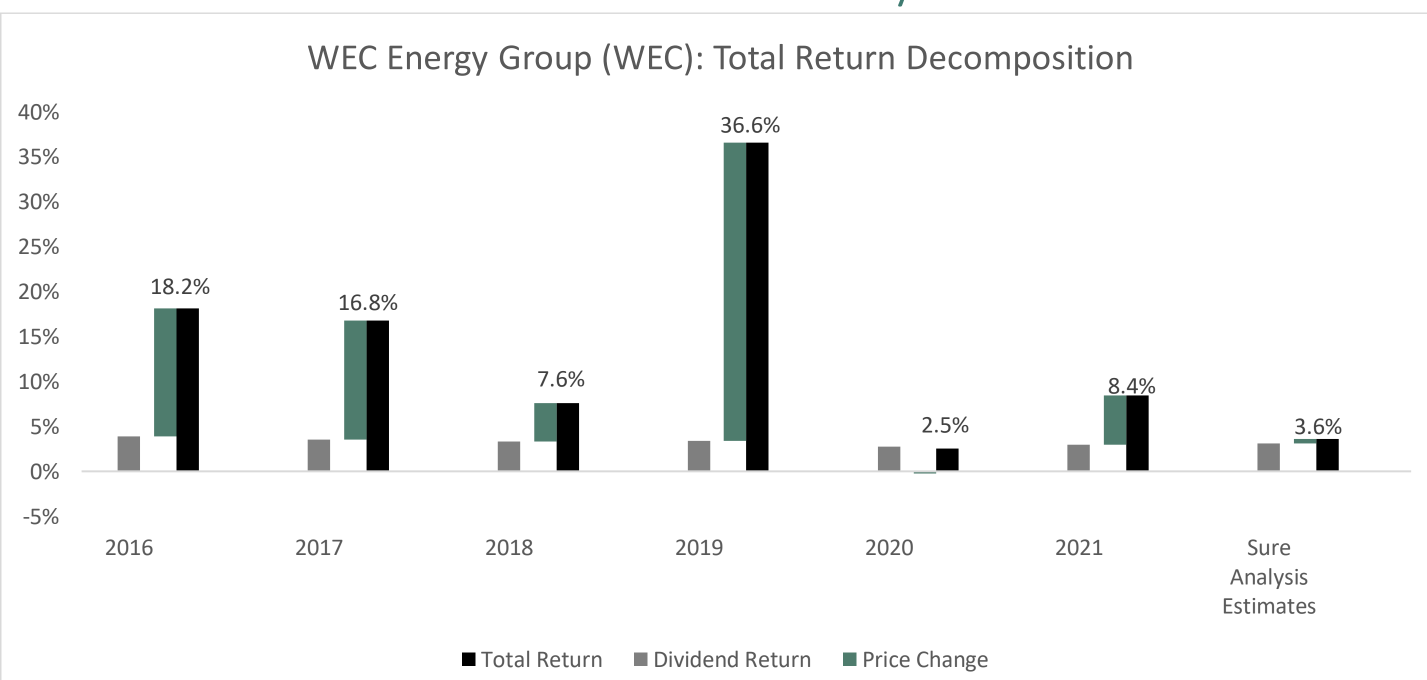
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	51%	58%	60%	74%	67%	66%	66%	66%	67%	66%	***66%***	***66%***

The expected dividend payout ratio for 2022 is 66%, 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

After second quarter results, WEC Energy Group is expected to offer a total annual return of 3.6% through 2027, down from our previous estimate of a 4.3% return. Our projected return stems from an annual earnings growth rate of 5.2% and a starting yield of 2.8%, offset by a low single-digit headwind from expected valuation compression. WEC Energy topped estimates for the quarter and raised guidance once again. That said, the valuation is a bit rich in our opinion. We maintain our 2027 price target of $107, but maintain our hold rating on WEC Energy Group due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,246	4,519	4,997	5,926	7,472	7,649	7,680	7,523	7,242	8,316
Gross Profit	1,486	1,537	1,625	1,977	2,654	2,770	2,511	2,660	2,890	3,000
Gross Margin	35.0%	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%	39.9%	36.1%
D&A Exp.	372	396	417	584	763	799	846	926	976	1,074
Operating Profit	1,000	1,080	1,112	1,251	1,696	1,776	1,468	1,531	1,706	1,715
Operating Margin	23.6%	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%	23.6%	20.6%
Net Profit	546	579	590	640	940	1,205	1,061	1,135	1,201	1,302
Net Margin	12.9%	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%	16.6%	15.7%
Free Cash Flow	467	507	438	27	680	119	330	85	(43)	(220)
Income Tax	306	338	362	434	567	384	170	125	228	200

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14,285	14,769	14,905	29,355	30,123	31,591	33,476	34,952	37,028	38,989
Cash & Equivalents	36	26	62	50	38	39	85	38	25	16
Accounts Receivable	285	406	643	1,029	1,242	1,351	1,281	1,177	1,203	1,506
Inventories	361	329	401	687	588	539	548	550	529	636
Goodwill & Int. Ass.	442	442	442	3,024	3,046	3,054	3,053	3,053	3,053	3,053
Total Liabilities	10,120	10,506	10,455	20,670	21,163	22,099	23,633	24,697	26,366	27,875
Accounts Payable	368	343	363	815	862	860	876	908	881	1,006
Long-Term Debt	5,261	5,243	5,212	10,377	10,176	11,033	11,799	12,689	14,227	15,590
Shareholder's Equity	4,166	4,263	4,450	8,655	8,930	9,461	9,789	10,113	10,470	10,913
LTD/E Ratio	1.26	1.23	1.17	1.19	1.14	1.16	1.20	1.25	1.36	1.42

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%	3.3%	3.4%
Return on Equity	13.4%	13.7%	13.5%	9.8%	10.7%	13.1%	11.0%	11.4%	11.7%	12.2%
ROIC	5.8%	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%	5.0%	5.0%
Shares Out.	229	226	226	316	316	316	316	317	317	315
Revenue/Share	18.24	19.67	21.97	21.73	23.58	24.11	24.23	23.75	22.88	26.29
FCF/Share	2.01	2.21	1.92	0.10	2.15	0.38	1.04	0.27	(0.14)	(0.70)

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