



FirstEnergy Corp. (FE)

Updated October 28th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	9.9%	Market Cap:	\$21.3 B
Fair Value Price:	\$37	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	11/04/2022
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	12/01/2022
Dividend Yield:	4.2%	5 Year Price Target	\$51	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating	Hold

Overview & Current Events

FirstEnergy Corp, through its subsidiaries, generates, transmits, and distributes electricity in the United States. The company operates through Regulated Distribution and Regulated Transmission segments. It owns and manages hydroelectric, coal-fired, nuclear, and natural gas, as well as renewable power generating facilities. Its 10 electric distribution companies form one of the nation's largest investor-owned electric systems, serving customers in Ohio, Pennsylvania, New Jersey, West Virginia, Maryland, and New York. The \$21.3 billion company serves approximately six million customers.

On October 25th, 2022, FirstEnergy announced its Q3 results for the period ending September 30th, 2022. Revenues came in at \$3.50 billion, 12% higher year-over-year, while adjusted EPS totaled \$0.79 compared to \$0.82 in Q3-2021.

Total distribution deliveries were flat compared to last year, with lower sales in the residential and commercial sectors offset by a 2% increase in industrial sales. The lower EPS was the result of higher planned expenses and dilution related to the common equity financing that closed at the end of 2021.

In fact, during the quarter, the company made substantial progress in improving the balance sheet by utilizing the proceeds from its historic equity raises. Specifically, during the third quarter, FirstEnergy repurchased approximately \$140 million of holding company debt in the open market, bringing its total holding company debt reduction to \$2.5 billion this year, which is more than a 30% reduction from the end of 2021.

Management reaffirmed its full-year EPS outlook, which is still expected to be between \$2.30 and \$2.50. We continue to utilize the midpoint of this range in our estimates, which implies year-over-year growth of 2.1% compared to FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.84	\$0.94	\$0.71	\$1.37	(\$14.50)	(\$3.88)	\$1.99	\$1.70	\$1.99	\$2.35	\$2.40	\$3.29
DPS	\$2.20	\$2.20	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.53	\$1.56	\$1.56	\$1.56	\$1.90
Shares¹	418	418	420	422	426	444	492	535	543	545	571	630

FirstEnergy has a volatile history of EPS generation amid some past unsuccessful investments. Its involvement with coal, whose demand is decreasing, and the bankruptcy case involving its ex-subsidiaries, among other reasons, have not allowed for a steady and growing profitability. However, management's updated plan has turned around the company over the past few years, which has led to double-digit EPS growth.

Management reaffirmed its long-term operating EPS growth outlook, expecting annualized growth between 6% and 8%. Therefore, we remain optimistic in FirstEnergy's bottom-line growth going forward, despite this year's outlook pointing towards softer growth. We retain our medium-term EPS CAGR estimate at 6.5%, slightly lower than the midpoint of management's guidance to be prudent. Further, despite FirstEnergy's DPS growth streak coming to an end last year, we have retain our medium-term DPS CAGR estimate at 4% to reflect management's goal to retain a payout ratio between 55% and 65%. That said, investors should not expect hikes to occur on a steady, annual basis.

¹ Share count is 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	17.1	23.7	45.7	29.9	---	---	31.0	21.0	15.0	17.0	15.5	15.5
Avg. Yld.	2.4%	2.4%	2.6%	5.4%	6.9%	4.7%	4.4%	4.8%	5.2%	3.9%	4.2%	3.7%

In line with the company's volatile earnings, FirstEnergy's valuation has fluctuated wildly. The stock's valuation corrected over the past couple of years amid a political scandal in Ohio. Shares are currently trading at 15.5 times the midpoint of this year's adjusted EPS guidance. While this multiple is lower than the stock's historical average, we believe it's relatively fair considering FirstEnergy's shaky operating history and the fact the dividend growth streak recently ended. Thus, we retain have lowered our fair multiple from 16.5 to 15.5 in the face of rising interest rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

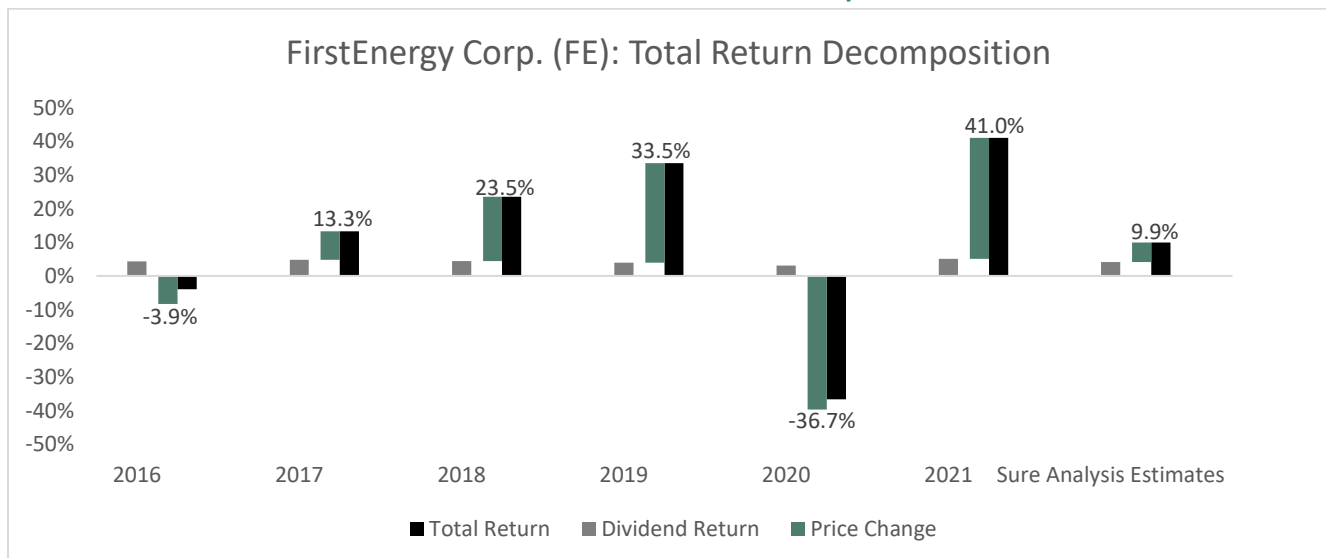
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	120%	234%	203%	105%	---	---	72%	90%	78%	66%	65%	58%

FirstEnergy's dividend should be safe, for now, as management somewhat checks its EPS targets. Its future, though, is highly correlated with the performance of the future projects currently in the pipeline. The company has a quality asset-base, despite failing to provide investors with consistent returns in the past. With a well-laddered debt maturity profile, the company has no further maturities expiring in 2022, and only \$300 million maturing in 2023. Its liquidity remains strong, at \$4.7 billion, and the debt-to-cap covenant is at a comfortable 65%. Future projects will likely require further funds. However, the company's scheduled equity raise in 2022 has already taken place, which should result in predictable financing going forward. Overall, FirstEnergy is a financially healthy and flexible company with geographical diversity and operations in constructive regulatory jurisdictions, which add to its moat.

Final Thoughts & Recommendation

FirstEnergy investors have seen little to no capital gains over the past 20 years. However, management seems to be executing a solid plan in the medium-term, and the EPS results prove it so far. By utilizing stable valuation assumptions, our growth estimates, and the current yield of 4.2%, we project annualized returns of 9.9% through 2027. We continue to rate shares a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	14892	15049	15026	10700	10928	11261	11035	10790	11130
Gross Profit	8433	8053	8748	6819	7505	7614	7611	7720	7687
Gross Margin	56.6%	53.5%	58.2%	63.7%	68.7%	67.6%	69.0%	71.5%	69.1%
SG&A Exp.	(256)	835	242	102	102	144	674	477	-382
D&A Exp.	2022	1592	1826	1974	1700	1384	1217	1199	1601
Operating Profit	2377	1062	2334	1995	2326	2358	1836	1685	2229
Operating Margin	16.0%	7.1%	15.5%	18.6%	21.3%	20.9%	16.6%	15.6%	20.0%
Net Profit	392	299	578	(6177)	(1724)	1348	912	1079	1283
Net Margin	2.6%	2.0%	3.8%	-57.7%	-15.8%	12.0%	8.3%	10.0%	11.5%
Free Cash Flow	(226)	(832)	566	316	967	(1265)	(198)	(1234)	366
Income Tax	195	(42)	315	527	1715	490	213	126	320

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	50424	51648	52094	43148	42257	40063	42301	44460	45430
Cash & Equivalents	218	85	131	199	588	367	627	1734	1462
Accounts Receivable	1010	914	836	833	754	686	564	1203	1033
Inventories	752	817	785	564	236	252	281	317	260
Goodwill & Int. Ass.	6418	6418	6418	5618	5618	5618	5698	5691	5618
Total Liabilities	37729	39226	39672	36907	38332	33249	35326	37230	36760
Accounts Payable	1250	1279	1075	1043	827	965	918	827	943
Long-Term Debt	20650	21779	21973	22552	19545	19504	20998	24460	23840
Shareholder's Equity	12692	12420	12421	6241	3925	6743	6975	7237	8675
LTD/E Ratio	1.63	1.75	1.77	3.61	4.98	2.86	3.01	3.38	2.75

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.6%	1.1%	-13.0%	-4.0%	3.3%	2.2%	2.5%	2.9%
Return on Equity	3.0%	2.4%	4.7%	-66.2%	-33.9%	25.3%	13.3%	15.2%	16.1%
ROIC	1.2%	0.9%	1.7%	-19.6%	-6.6%	5.4%	3.4%	3.6%	4.0%
Shares Out.	418	420	422	426	444	492	535	543	546
Revenue/Share	35.54	35.75	35.44	25.12	24.61	22.80	20.36	19.87	20.39
FCF/Share	(0.54)	(1.98)	1.33	0.74	2.18	(2.56)	(0.37)	(2.27)	0.67

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

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