Avista Corp. (AVA)

Updated November 12th, 2022, by Tiago Dias

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$2.8 B
Fair Value Price:	$30	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	11/17/2022
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	12/15/2022
Dividend Yield:	4.6%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	19
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Avista Corp. (AVA) is an electric and natural gas utility operating primarily in the states of Washington, Idaho, Oregon, and Alaska. In addition to its regulated utility business, the company also operates other businesses, including venture funds, real estate investments, and other investments. Founded in 1889, this $2.8 billion market cap company has raised its dividend every year for the past 19 years.

Avista reported Q3 2022 earnings on November 1st, 2022. For the quarter, the company reported a net loss per share of $0.08, 28 cents below the $0.20 earnings per share the company reported in Q3 2021. Avista declared a $0.44 dividend payable to shareholder of record at the close of business on November 18th. This dividend will be paid on the 15th of December and is not covered by the company's quarterly earnings.

Earnings at Avista Utilities were lower than expected, primarily due to higher interest costs and increased operating expenses. Due to this the company is lowering its 2022 consolidated earnings guidance by $0.15 per diluted share to a range of $2.27 to $2.47 per share. They continue to manage costs, but inflationary pressures are too much to offset.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.32	$1.85	$1.84	$1.89	$2.15	$1.95	$2.07	$2.97	$1.90	$2.10	***$2.00***	***$2.32***
DPS	$1.16	$1.22	$1.27	$1.32	$1.37	$1.43	$1.49	$1.55	$1.62	$1.69	***$1.76***	***$2.04***
Shares	60	60	62	62	64	65	66	67	69	72	***74***	***83***

Utility companies are often seen as stable businesses with low volatility in their dividends, at the expense of limited growth opportunities. Avista Corp. is no different from its peers, and its dividend has steadily and slowly grown over the past decade. Unfortunately, this stability has also come at a great cost, and its revenue has been flat over this period, with earnings growth coming primarily from increased margins.

As a mature company in a mature industry, we don't expect this situation to change, and while the rate increases that are currently being negotiated may bump up the revenue a little bit, we expect that much of those increased revenues will be balanced out by higher costs, both in commodities and in labor. Additionally, environmental concerns will likely continue to add downward pressure in terms of overall electricity and natural gas consumption, and the company will also continue to issue shares which will also depress earnings per share.

For these reasons we estimate only 3% annual growth over the next 5 years, and estimate earnings of $2.32 per share in 2027, with a dividend per share of $2.04. This is a more conservative estimate than the company's own expectations, but one that we believe is more in line with the company's historical norms and prospects.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	14.6	17.3	17.6	18.8	23.4	24.5	15.0	21.2	20.2	***19.0***	***15.0***
Avg. Yld.	4.6%	4.5%	4.0%	4.0%	3.4%	3.1%	2.9%	3.5%	4.0%	4.0%	***4.6%***	***5.9%***

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Avista has traded hands with an average P/E ratio of about 19 times earnings in the last decade. While it's possible that this premium will continue to be paid, such a situation would not be justified by the company's fundamentals, and as such we expect the company's valuation to be re-rated to the lower end of its historical range by 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

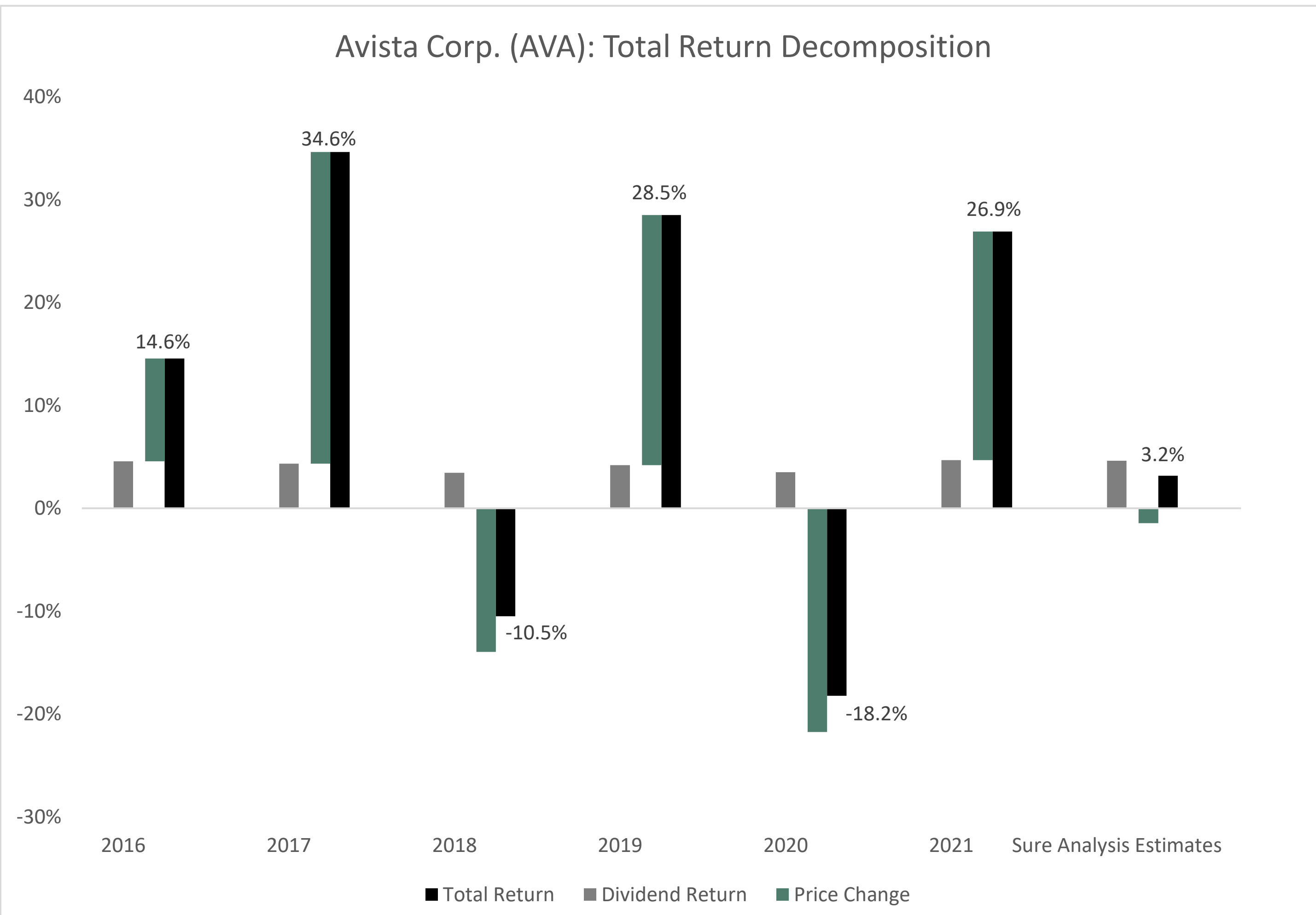
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	88%	66%	69%	70%	64%	73%	72%	52%	85%	80%	***88%***	***88%***

The core competitive advantage is also the thing that prevented its revenue growth over the past decade, Avista is a regulated utility. Regulated utilities receive government backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the same time, however, the stringent regulations they operate under make it difficult to grow the business, and operate it in an efficient manner, and any price increases are subject to political pressures.

Final Thoughts & Recommendation

Despite an attractive 4.6% dividend yield, we are forecasting total return potential of just 3.2% per annum, driven by the yield and 3% growth, offset by the possibility of a notable valuation headwind. As a result, share earn a hold rating.

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	1,391	1,442	1,473	1,485	1,442	1,446	1,397	1,346	1,322	1,439
Gross Profit	698	752	794	828	891	921	902	906	923	942
Gross Margin	50.2%	52.2%	53.9%	55.8%	61.8%	63.7%	64.6%	67.3%	69.9%	65.5%
D&A Exp.	126	133	138	148	165	176	187	206	224	232
Operating Profit	187	231	253	253	300	307	265	230	233	228
Op. Margin	13.4%	16.0%	17.2%	17.1%	20.8%	21.2%	19.0%	17.1%	17.6%	15.9%
Net Profit	78	111	192	123	137	116	136	197	129	147
Net Margin	5.6%	7.7%	13.0%	8.3%	9.5%	8.0%	9.8%	14.6%	9.8%	10.2%
Free Cash Flow	41	(61)	(65)	(18)	(48)	(2)	(62)	(44)	(73)	(173)
Income Tax	40	58	72	67	78	83	26	31	7	12

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,313	4,362	4,701	4,907	5,310	5,515	5,783	6,082	6,402	6,854
Cash & Equivalents	89	99	22	10	9	16	15	10	14	22
Acc. Receivable	194	221	172	169	180	186	166	167	164	203
Inventories	47	45	66	54	53	58	64	67	67	85
Goodwill & Int.	122	116	58	58	58	58	58	52	52	52
Total Liabilities	3,036	3,044	3,218	3,378	3,661	3,784	4,009	4,143	4,372	4,699
Accounts Payable	199	182	113	114	116	107	108	110	107	133
Long-Term Debt	1,419	1,559	1,645	1,730	1,854	1,926	2,105	2,133	2,263	2,484
Total Equity	1,259	1,298	1,484	1,529	1,649	1,730	1,773	1,939	2,030	2,155
LTD/E Ratio	1.13	1.20	1.11	1.13	1.12	1.11	1.19	1.10	1.12	1.15

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.8%	2.6%	4.2%	2.6%	2.7%	2.1%	2.4%	3.3%	2.1%	2.2%
Return on Equity	6.4%	8.7%	13.8%	8.2%	8.6%	6.9%	7.8%	10.6%	6.5%	7.0%
ROIC	3.0%	4.0%	6.4%	3.9%	4.1%	3.2%	3.6%	5.0%	3.1%	3.3%
Shares Out.	60	60	62	62	64	65	66	67	69	72
Revenue/Share	23.50	24.03	23.79	23.68	22.57	22.31	21.18	20.29	19.41	20.53
FCF/Share	0.69	(1.01)	(1.05)	(0.28)	(0.76)	(0.03)	(0.95)	(0.67)	(1.08)	(2.46)

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