Ameren Corporation (AEE)

Updated February 17th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	12.3%	**Market Cap:**	$21 B
Fair Value Price:	$91	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	03/14/23
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Dividend Payment Date[1]:**	03/31/23
Dividend Yield:	3.1%	**5 Year Price Target**	$128	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Ameren Corporation owns rate-regulated generation, transmission, and distribution networks that deliver electricity and natural gas in Missouri and Illinois. The company serves 2.4 million electricity customers and more than 900,000 natural gas customers. It primarily generates electricity through coal, nuclear, and natural gas, as well as renewable sources, such as hydroelectric, wind, methane gas, and solar. The company serves residential (49% of revenues), commercial (34%), and industrial customers (17%). This $21 billion company was founded in 1881 and has about 9,000 employees.

On February 15th, 2023, Ameren Corporation released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported net income of $163 million and $0.63 earnings per diluted share, compared to same quarter a year ago net income of $125 million and $0.48 earnings per diluted share. The reported earnings increased 31.3% year-over-year and were driven by increased infrastructure investments made across all business segments, and higher weather-driven electric retail sales, coupled with higher energy efficiency performance incentives in 2022. Total revenues came in at $2,046 million in the quarter, which improved 32.4% year-over-year due to higher electric and natural gas revenues.

For the full-year 2022, total revenues came in at $7,957 million, an increase of 24.4% year over year. For the full-year 2022, AEE reported earnings of $4.14 per share compared with $3.84 in the previous year. Ameren has the goal to invest in the range of $19.7 billion in different projects in the 2023-2027 timeframe, which will support its net-zero carbon emission target of 2050. The company presented a positive outlook during the investor update[2]. Ameren expects diluted earnings per share to grow at a 6% to 8% compound annual rate from 2023 through 2027.

Ameren initiated its 2023 guidance; the company expects to generate earnings per share in the range of $4.25 to $4.45.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.10	$2.40	$2.38	$2.68	$2.77	$3.32	$3.35	$3.50	$3.84	$4.14	***$4.35***	***$6.10***
DPS	$1.60	$1.61	$1.66	$1.72	$1.78	$1.85	$1.92	$2.00	$2.20	$2.36	***$2.52***	***$3.37***
Shares[3]	243	243	243	243	243	245	246	253	258	258	***263***	***267***

Ameren's long-term earnings growth track record is solid, growing EPS every year since 2015. Over the last five years, the average EPS growth rate is almost 6%.

We expect the company to grow its earnings-per-share by 7% per year on average over the next five years. The company has a good earnings track record and will benefit from gas & electricity rate hikes. This should compensate the effects of higher operating and maintenance costs, depreciation, and slightly higher average shares outstanding.

The company has a long history of paying dividends and has increased its payout for 10 consecutive years. In February 2023, the quarterly dividend increased by 6.8% from $0.59 to $0.63 per share. Over the last five years, the average annual dividend growth rate is 6.4%.

[1] Estimated date.
[2] 2022 Results and Guidance, Feb. 2023.
[3] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	16.5	16.7	17.5	18.3	20.6	18.3	22.1	22.2	21.4	19.9	***18.5***	***21.0***
Avg. Yld.	1.9%	4.0%	4.0%	3.5%	3.1%	3.0%	2.6%	2.6%	2.7%	2.9%	***3.1%***	***2.6%***

During the past decade shares of Ameren Corporation have traded with an average price-to-earnings ratio of about 19 times earnings and today, it stands at 18.5. We are using 21 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The average industry price-to-earnings is 25.5. The company's dividend yield is currently 3.1% and the raises in the last few years have contributed to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	76%	67%	70%	64%	64%	56%	57%	57%	57%	57%	***58%***	***55%***

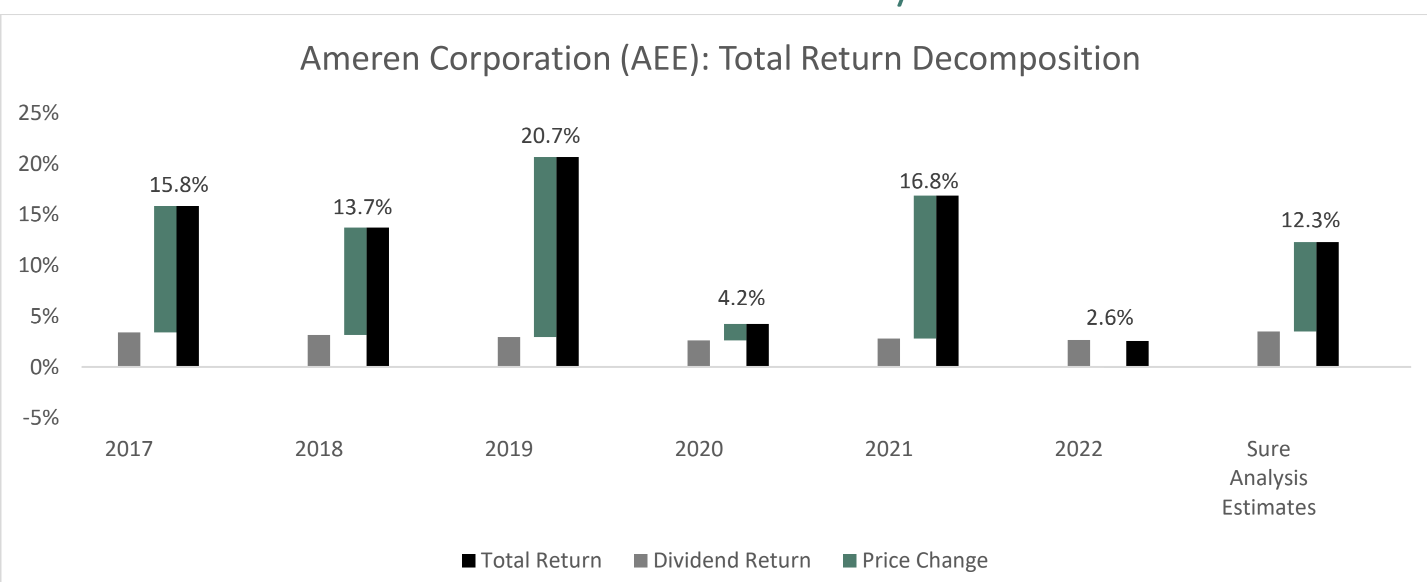
During the past five years, the company's dividend payout ratio has averaged around 57%. The company has a projected 2023 payout ratio of 58%, which indicates a sustainable dividend and is within Ameren's target payout range of 55%-70%. We expect that earnings growth will be stable, meaning that there is still room for the dividend to continue to grow with a payout ratio below 60%.

Ameren Corporation is investing very heavily in renewable energy and growing its rate base. Any increase to the rate base allows the company to increase the price that it charges to its customers. This will help Ameren to maintain a sustainable earnings growth rate. Investing in the energy grid should also improve reliability (less outage), increase customer satisfaction, and will result in attractive rates for customers below the US average.

Final Thoughts & Recommendation

Ameren Corporation is a quality dividend stock in terms of its earnings growth track record, its earnings growth outlook, its dividend yield, and its infrastructure investments related to the net-zero carbon emission target by 2050. We estimate a total return of 12.3% from a 3.1% yield, 7% EPS growth, and a valuation tailwind. Shares earn a buy 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	5,781	5,838	6,053	6,098	6,076	6,174	6,291	5,910	5,794	6,394
Gross Profit	2,304	2,348	2,467	2,597	2,634	2,783	2,795	2,743	2,858	2,991
Gross Margin	39.9%	40.2%	40.8%	42.6%	43.4%	45.1%	44.4%	46.4%	49.3%	46.8%
D&A Exp.	716	737	791	874	923	952	1,033	1,081	1,153	1,277
Operating Profit	1,188	1,184	1,254	1,259	1,322	1,410	1,357	1,267	1,300	1,333
Operating Margin	20.6%	20.3%	20.7%	20.6%	21.8%	22.8%	21.6%	21.4%	22.4%	20.8%
Net Profit	(974)	289	586	630	653	523	815	828	871	990
Net Margin	-17%	5.0%	9.7%	10.3%	10.7%	8.5%	13.0%	14.0%	15.0%	15.5%
Free Cash Flow	536	269	(294)	62	(14)	(77)	(168)	(272)	(1,572)	(1,862)
Income Tax	307	311	377	363	382	576	237	182	155	157

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	22,230	21,042	22,289	23,640	24,699	25,945	27,215	28,933	32,030	35,735
Cash & Equivalents	184	30	5	292	9	10	16	16	139	8
Accounts Receivable	354	404	423	388	437	445	463	393	415	434
Inventories	570	526	524	538	527	522	483	494	521	592
Goodwill & Int. Ass.	425	411	411	411	411	411	411	411	411	411
Total Liabilities	15,463	14,356	15,434	16,552	17,454	18,619	19,442	20,732	22,950	25,906
Accounts Payable	533	806	711	777	805	902	817	874	958	1,095
Long-Term Debt	6,157	6,406	6,919	7,576	7,834	8,419	9,036	9,797	11,576	13,612
Shareholder’s Equity	6,616	6,544	6,713	6,946	7,103	7,184	7,631	8,059	8,938	9,700
LTD/E Ratio	0.93	0.98	1.03	1.09	1.10	1.17	1.18	1.22	1.30	1.40

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-4.2%	1.3%	2.7%	2.7%	2.7%	2.1%	3.1%	2.9%	2.9%	2.9%
Return on Equity	-13%	4.4%	8.8%	9.2%	9.3%	7.3%	11.0%	10.6%	10.2%	10.6%
ROIC	-7.0%	2.2%	4.4%	4.4%	4.4%	3.4%	5.0%	4.8%	4.5%	4.5%
Shares Out.	243	243	243	243	243	243	245	246	253	258
Revenue/Share	23.79	23.88	24.77	25.03	24.96	25.28	25.59	23.92	23.30	24.82
FCF/Share	2.21	1.10	(1.20)	0.25	(0.06)	(0.32)	(0.68)	(1.10)	(6.32)	(7.23)

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