Vistra Corp (VST)

Updated March 14th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	14.6%	**Market Cap:**	$9.3 B
Fair Value Price:	$39	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	03/21/2023
% Fair Value:	65%	**5 Year Valuation Multiple Estimate:**	9.0%	**Dividend Payment Date[2]:**	03/31/2023
Dividend Yield:	3.1%	**5 Year Price Target:**	$45	**Years of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Vistra is an integrated retail electricity and power generation company. In 2016, Vistra was created as a stand-alone entity as a result of the Energy Future Holdings bankruptcy. Vistra is one of the largest power generators in the U.S. and has a capacity of roughly 37,000 megawatts generated by a diverse portfolio which includes natural gas, nuclear, solar and battery energy storage facilities. Its products and services are offered across 20 states and the District of Columbia, including wholesale markets in Canada and Japan. Vistra serves approximately 4 million residential, commercial, and industrial retail customers with electricity and natural gas. The company also offers over 50 renewable energy plans. The power producer has a market capitalization of $9.3 billion and trades on the NYSE under the ticker symbol VST.

On February 23rd, 2023, Vistra declared a $0.1975 quarterly dividend, which represents a 16% year-over-year increase.

Vistra Corp reported full year 2022 results on March 1st, 2023. Vistra reported adjusted EBITDA from ongoing operations for 2022 to be $3,115 million. Adjusted EBITDA results compare favorably to 2021's $2,029 million.

Leadership provided fiscal 2023 guidance. The guidance calls for adjusted EBITDA of $3.70 billion at the midpoint. Adjusted free cash flow before growth capex is expected to come in at $2.05 billion at the midpoint.

As of February 23rd, 2023, Vistra completed about $2.45 billion of its upsized $3.25 billion share repurchase program. Since the program was announced in November 2021, Vistra has reduced their share count by about 21%.

Growth on a Per-Share Basis

Year	2012	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	($0.38)	($0.59)	($0.11)	$1.86	$1.30	($2.69)	($3.26)	***$3.78***	***$4.94***
EBITDA/S	---	---	---	$1.72	$3.40	$5.47	$6.65	$7.50	$3.96	$6.21	***$9.80***	***$11.36***
DPS	---	---	---	$2.32	$0.00	$0.00	$0.50	$0.54	$0.60	$0.72	***$0.79***	***$1.16***
Shares[3]	---	---	---	427.6	427.8	505.0	499.9	491.1	482.2	422.4	***375.0***	***325.0***

Vistra Corp has a messy earnings per share history, and as a result it is near impossible to extract any sort of consistent growth in earnings from which to base future expectations off. VST largely utilizes adjusted EBITDA to measure company performance, so we have converted this to display as adjusted EBITDA per share. We would also like to point out that the tabled results for 2016 are only for the fourth quarter results, when the company began trading on the NYSE; as a result, year-over-year comparisons can only truly begin with year 2017.

Based on our adjusted EBITDA per share calculations, EBITDA has grown by 12.8% and 9.3% on average over the past 5 and 3 years. 2021 results were significantly impacted by the winter storm Uri catastrophe.

We forecast the corporation can grow adjusted EBITDA by 3.0% from a high comparison base in 2023. We see Vistra on this path to growth through its large investments in solar and batteries as they progressively retire their coal plants, which would see a large uptick in their zero-carbon generation. Vistra has guided for roughly 7,300 MW of zero-carbon

[1] Estimate
[2] Estimate
[3] 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.

generation expected by 2026, as they have many projects under construction and development. This may cause some short-term pain though as coal made up 29% of 2021 energy capacity. Additionally, federal tax policy encourages the expansion of renewable energy through tax credits, as well as many U.S. states and corporation have clean energy goals, that could be a catalyst for further tailwinds to Vistra Corp's clean energy generation.

Valuation Analysis

Year	2012	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
P/EBITDA	---	---	---	8.7	5.0	4.1	3.8	2.6	4.8	3.8	***2.6***	***4.0***
Avg. Yld.	---	---	---	15%	-	-	2.8%	2.8%	3.0%	2.6%	***3.1%***	***2.6%***

Considering that Vistra's earnings are volatile, we are valuing the company based on its historical adjusted EBITDA. Dating back to it's inception, Vistra has traded on an average basis of 4.7 times adjusted EBITDA. If we remove the data from 2016, Vistra's average price to adjusted EBITDA has been 4.0. Today, Vistra trades at 2.6 times adjusted EBITDA, and we rate the shares fair value at around 4.0 times, for a 9.0% average annual gain due to valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	135%	0%	0%	27%	42%	---	---	***21%***	***23%***

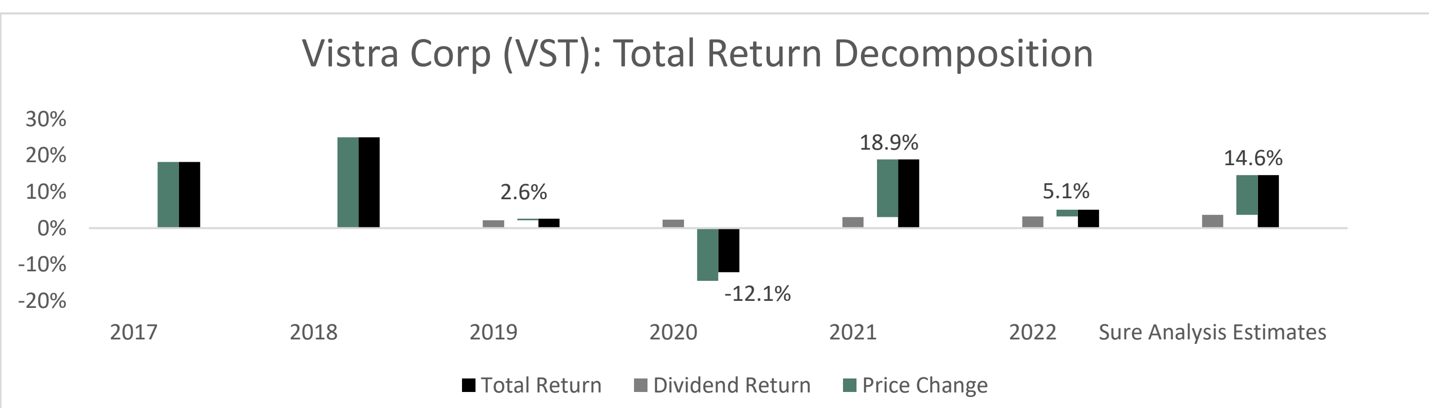
We have opted to calculate the payout ratio using the company's earnings per share as adjusted EBITDA does not include costs such as interest and taxes that the corporation must pay at the end of the year. The payout ratio was stable since its inception in 2019, but negative EPS in 2021 caused it to eclipse 100%, thus the dividend has some risk to it. Although in 2023, we estimate a fair payout ratio of sub-100%.

We don't have operating results dating back to the great financial crisis so we can't say for certain how Vistra would have performed, but we believe utilities businesses are generally safe during a recession, especially power generators for residential customers. While the company may have resiliency during a recession, it is not immune. Vistra believes their integrated business model to be their prime competitive advantage in the electricity industry, as it allows them to reduce the effect of commodity price movements and contribute to earnings and cash flow stability.

Final Thoughts & Recommendation

Vistra Energy rose from the bankruptcy of Energy Future Holdings in late-2016 and since then has strongly compounded adjusted EBITDA per share. While the winter storm Uri caused massive catastrophic damage, it was a one-time event, and we see stronger growth in 2023 and beyond. We rate the shares as a buy due to estimated annualized total returns of 14.6% over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue		5,978	5,370	5,164	5,430	9,144	11,809	11,443	12,077	13728
Gross Profit		2,222	1,844	1,490	1,522	2,811	4,537	4,647	1,349	1682
Gross Margin		37.2%	34.3%	28.9%	28.0%	30.7%	38.4%	40.6%	11.2%	12.3%
SG&A Exp.		708	676	690	600	926	904	1,035	1,040	1189
Operating Profit		1,440	995	817	835	1,533	1,876	2,048	2,050	2047
Op. Margin		244	316	125	223	491	1,993	1,875	-1,444	-1103
Net Profit		4.1%	5.9%	2.4%	4.1%	5.4%	16.9%	16.4%	-12.0%	-8.0%
Net Margin		-6,229	-4,677	-819	-254	-54	928	636	-1,274	-1227
Free Cash Flow		-104.2%	-87.1%	-15.9%	-4.7%	-0.6%	7.9%	5.6%	-10.5%	-8.9%
Income Taxes		31	-223	-467	855	941	2,023	2,078	-1,239	-816

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets			15,658	15,167	14,600	26,024	26,616	25,208	29,683	32787
Cash & Equivalents			1,400	843	1,487	636	300	406	1,325	455
Accounts Recv.			533	612	582	1,087	1,365	1,279	1,397	2059
Inventories			428	285	253	412	469	515	610	570
Total Liabilities			38,542	8,570	8,258	18,157	18,656	16,847	21,391	27869
Accounts Payable			514	479	473	945	947	880	1,515	1556
Long-Term Debt			1,444	4,623	4,423	11,404	11,179	9,630	10,731	13046
Total Equity			-22,884	6,597	6,342	7,863	7,959	8,371	6,291	2902
LTD/E Ratio			-0.06	0.70	0.70	1.45	1.40	1.15	1.29	2.66

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets				-5.3%	-1.7%	-0.3%	3.5%	2.5%	-4.6%	-3.9%
Return on Equity					-3.9%	-0.8%	11.7%	7.8%	-17.4%	-26.7%
ROIC					-2.3%	-0.4%	4.8%	3.4%	-6.9%	-6.6%
Shares Out.				427.6	427.8	505.0	499.9	491.1	482.2	422.45
Revenue/Share		13.98	12.56	12.08	12.69	18.11	23.62	23.30	25.04	32.50
FCF/Share		0.07	-0.52	-1.09	2.00	1.86	4.05	4.23	-2.57	-1.93

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