



# FirstEnergy Corp. (FE)

Updated May 2<sup>nd</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	10.0%	<b>Market Cap:</b>	\$22.3 B
<b>Fair Value Price:</b>	\$39	<b>5 Year Growth Estimate:</b>	6.5%	<b>Ex-Dividend Date:</b>	05/04/2023
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Dividend Payment Date:</b>	06/01/2023
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$54	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating</b>	Buy

## 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 \$22.3 billion company serves approximately six million customers.

On April 27<sup>th</sup>, 2023, FirstEnergy announced its Q1 results for the period ending March 31<sup>st</sup>, 2023. For the quarter, revenues came in at \$3.2 billion, 7.0% higher year-over-year, while adjusted EPS totaled \$0.60, stable year-over-year.

Significant earnings drivers in the quarter include the company's long-term regulated investment strategies, lower operating expenses, and higher investment income. These were primarily offset by the impact of mild winter temperatures, which negatively impacted usage.

Specifically, total distribution deliveries fell by 5.3% compared to last year due to lower weather-related usage in the residential and commercial sectors and nearly flat industrial sales. Residential and commercial sales fell by 8.4% and by 7.1% year-over-year, respectively, while sales to industrial customers fell by less than 1% over the same period.

Management reaffirmed its FY2023 outlook, which projects adjusted EPS between \$2.44 and \$2.64. We have applied the midpoint of this range in our estimates. All other entries in the table reflect GAAP results as filed with the SEC.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.94	\$0.71	\$1.37	(\$14.50)	(\$3.88)	\$1.99	\$1.70	\$1.99	\$2.35	\$0.71	<b>\$2.54</b>	<b>\$3.48</b>
<b>DPS</b>	\$2.20	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.53	\$1.56	\$1.56	\$1.56	<b>\$1.56</b>	<b>\$1.90</b>
<b>Shares<sup>1</sup></b>	418	420	422	426	444	492	535	543	545	571	<b>573</b>	<b>630</b>

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.

Along with its Q1-2023 results, management reaffirmed its long-term operating EPS growth outlook, expecting annualized growth between 6% and 8%. Therefore, we retain our medium-term EPS CAGR estimate at 6.5%. It's slightly lower than the midpoint of management's guidance to be prudent.

Further, despite the lack of dividend growth recently, we retain our medium-term DPS CAGR estimate at 4% as management updated their dividend policy. The updated policy raises the targeted dividend payout ratio to 60% to 70% of operating earnings, up from the prior range of 55% to 65%. Assuming board approval, the company expects to resume dividend growth for dividends payable later in fiscal 2023.

<sup>1</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.7	45.7	29.9	---	---	31.0	21.0	15.0	17.0	---	15.4	15.5
Avg. Yld.	2.4%	2.6%	5.4%	6.9%	4.7%	4.4%	4.8%	5.2%	3.9%	4.1%	4.0%	3.5%

In line with the company's volatile earnings, FirstEnergy's valuation has fluctuated wildly. Shares are currently trading at 15.4 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. We retain our fair multiple at 15.5, which implies a negligible valuation tailwind from the stock's current price levels.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

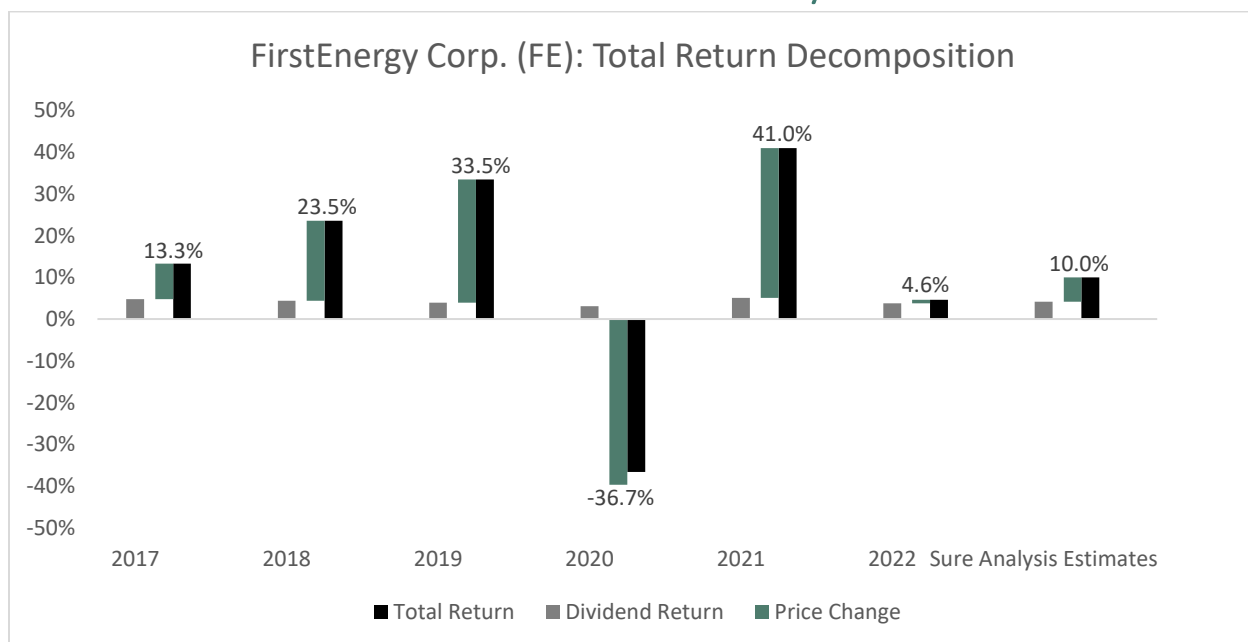
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	234%	203%	105%	---	---	72%	90%	78%	66%	220%	61%	55%

FirstEnergy's dividend should be safe, as management has provided an optimistic EPS growth outlook and plans to resume dividend growth soon. Further, 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 only \$300 million maturing in 2023. Its liquidity remains strong, at \$3.9 billion, and the debt-to-cap covenant is at a comfortable 75%. Future projects will likely require further funds. However, the company's scheduled equity raise already took place in 2022, 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, pointing to earnings and dividend growth over the medium-term. Based on our projected growth of 6.5%, the 4.0% yield, and a 0.2% annualized valuation headwind, we project annualized returns of 10% through 2028. We rate shares a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	15049	15026	10700	10928	11261	11035	10790	11130	12460
Gross Profit	8053	8748	6819	7505	7614	7611	7720	7687	7866
Gross Margin	53.5%	58.2%	63.7%	68.7%	67.6%	69.0%	71.5%	69.1%	63.1%
SG&A Exp.	835	242	102	102	144	674	477	(382)	(72)
D&A Exp.	1592	1826	1974	1700	1384	1217	1199	1601	1317
Operating Profit	1062	2334	1995	2326	2358	1836	1685	2229	1982
Operating Margin	7.1%	15.5%	18.6%	21.3%	20.9%	16.6%	15.6%	20.0%	15.9%
Net Profit	299	578	(6177)	(1724)	1348	912	1079	1283	406
Net Margin	2.0%	3.8%	-57.7%	-15.8%	12.0%	8.3%	10.0%	11.5%	3.3%
Free Cash Flow	(832)	566	316	967	(1265)	(198)	(1234)	366	(73)
Income Tax	(42)	315	527	1715	490	213	126	320	1000

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	51648	52094	43148	42257	40063	42301	44460	45430	46110
Cash & Equivalents	85	131	199	588	367	627	1734	1462	160
Accounts Receivable	914	836	833	754	686	564	1203	1033	1318
Inventories	817	785	564	236	252	281	317	260	421
Goodwill & Int. Ass.	6418	6418	5618	5618	5618	5698	5691	5618	5618
Total Liabilities	39226	39672	36907	38332	33249	35326	37230	36760	35460
Accounts Payable	1279	1075	1043	827	965	918	827	943	1503
Long-Term Debt	21779	21973	22552	19545	19504	20998	24460	23840	21650
Shareholder's Equity	12420	12421	6241	3925	6743	6975	7237	8675	10170
LTD/E Ratio	1.75	1.77	3.61	4.98	2.86	3.01	3.38	2.75	2.13

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.6%	1.1%	-13.0%	-4.0%	3.3%	2.2%	2.5%	2.9%	0.9%
Return on Equity	2.4%	4.7%	-66.2%	-33.9%	25.3%	13.3%	15.2%	16.1%	4.3%
ROIC	0.9%	1.7%	-19.6%	-6.6%	5.4%	3.4%	3.6%	4.0%	1.3%
Shares Out.	420	422	426	444	492	535	543	546	572
Revenue/Share	35.75	35.44	25.12	24.61	22.80	20.36	19.87	20.39	21.78
FCF/Share	(1.98)	1.33	0.74	2.18	(2.56)	(0.37)	(2.27)	0.67	(0.13)

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

### Disclaimer

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