



Black Hills Corporation (BKH)

Updated May 30th, 2023 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|----------|
| Current Price: | \$60 | 5 Year CAGR Estimate: | 10.0% | Market Cap: | \$4.0B |
| Fair Value Price: | \$68 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 05/17/23 |
| % Fair Value: | 89% | 5 Year Valuation Multiple Estimate: | 2.4% | Dividend Payment Date: | 06/01/23 |
| Dividend Yield: | 4.2% | 5 Year Price Target | \$82 | Years Of Dividend Growth: | 52 |
| Dividend Risk Score: | B | Retirement Suitability Score: | A | Rating: | Buy |

Overview & Current Events

Black Hills Corporation is an electric utility that provides electricity and natural gas to customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota, and Wyoming. Black Hills was founded in 1941, and the company is headquartered in Rapid City, South Dakota. Black Hills Corporation has increased its dividend for more than 50 years in a row, which makes it a Dividend King thanks to five decades of dividend raises.

Black Hills Corporation reported its first quarter earnings results on May 7. The company generated revenues of \$920 million during the quarter, which was 12% more than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. Black Hills Corporation's revenues were higher than what the analyst community had expected, beating the consensus estimate by a hefty \$170 million.

Black Hills Corporation generated earnings-per-share of \$1.73 during the first quarter, which was above the consensus analyst estimate. Earnings-per-share were down slightly versus the previous year's quarter. Q4 and Q1 are seasonally stronger quarters due to higher natural gas demand for heating, which was again showcased by the above-average profitability during the first quarter. Black Hills Corporation forecasts earnings-per-share of \$3.65 to \$3.85 for the current fiscal year. This represents a reduction versus the guidance range the company set earlier, and implies that profits will decline versus 2022, which had been a record year for the company.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.61 | \$2.89 | \$2.83 | \$3.13 | \$3.36 | \$3.54 | \$3.53 | \$3.73 | \$3.74 | \$3.97 | \$3.75 | \$4.56 |
| DPS | \$1.52 | \$1.56 | \$1.62 | \$1.68 | \$1.81 | \$1.93 | \$2.05 | \$2.17 | \$2.31 | \$2.50 | \$2.50 | \$3.19 |
| Shares¹ | 45 | 45 | 51 | 53 | 54 | 58 | 61 | 63 | 64 | 65 | 66 | 70 |

Black Hills' profitability has been rather volatile over the last decade. Overall, earnings-per-share grew by 14% annually in the 2011-to-2020 time frame. This is a strong growth rate for a utility.

The swings in Black Hills' profits are primarily based on the impact that weather conditions have on the demand for electricity, for cooling in summer, and natural gas, for heating in winter. Black Hills' growth over the coming years depends on several factors. This includes rate reviews, which drive revenues and profits per kWh. Another factor is the expansion of the company's existing assets via new utility infrastructure. Black Hills regularly adds new projects to its growth investment backlog, which currently stands at \$2.7 billion for the 2020-2024 time frame. Black Hills' planned growth investments include new electric transmission lines and new natural gas pipelines to service its customers.

Rate reviews will allow Black Hills to recover investments into its existing systems, thereby more or less guaranteeing increasing revenues, which should lead to rising profits down the road. In 2018, Black Hills exited its oil business, since then the company is less impacted by changes in commodity prices. The increased focus on its core utility business is a positive for Black Hills, as this allows for more consistent and reliable growth. We forecast a mid-single digit earnings-per-share growth rate in the long run, but there could be some ups and downs over the years.

¹ 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 | 18.2 | 19.0 | 16.1 | 22.3 | 19.7 | 17.8 | 22.4 | 16.1 | 19.0 | 17.6 | 16.0 | 18.0 |
| Avg. Yld. | 3.2% | 2.8% | 3.5% | 2.9% | 2.7% | 3.3% | 2.6% | 3.6% | 3.3% | 3.6% | 4.2% | 3.9% |

Black Hills Corporation trades for 16 times this year's expected net profits right now. Black Hills' valuation has moved in a very wide range throughout the past. The company was valued at less than 10 times profits during the midst of the financial crisis, but at as much as 20+ times earnings in other years. Shares trade slightly below our fair value estimate right now, and the dividend is at an attractive above-average level today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 58.2% | 54.0% | 57.2% | 53.7% | 53.9% | 54.5% | 58.1% | 58.2% | 61.8% | 63.0% | 66.7% | 69.9% |

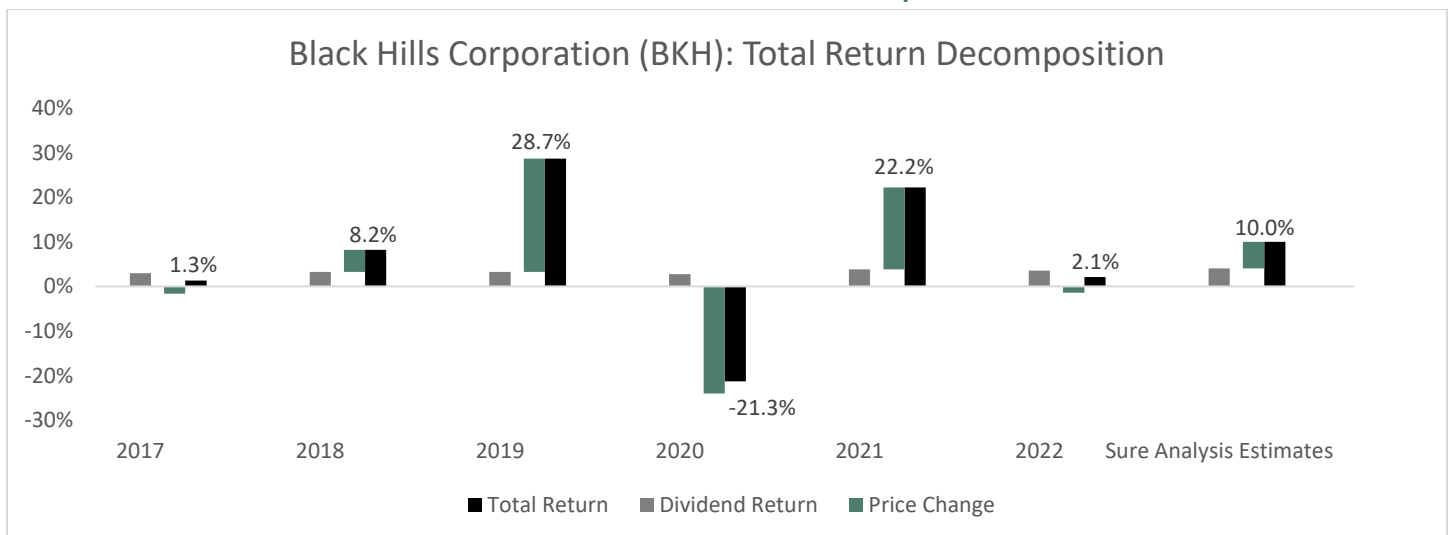
Overall, Black Hills Corporation's dividend payout ratio declined between 2010 and 2019, due to a modest dividend growth rate. Today, the company pays out roughly 67% of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit. The same thing happened during 2011. The company nevertheless raised its dividend during those years, and its decades-long dividend growth track record gives investors assurance that a dividend cut is unlikely from this utility company.

Demand for electricity and gas is not very cyclical, although it is dependent upon weather conditions to some degree. Thus, Black Hills should remain profitable under most circumstances. The fact that customers tend to stick with their provider means that Black Hills operates a relatively stable business model. The company should also be able to weather future recessions well, which creates appeal for more conservative investors.

Final Thoughts & Recommendation

Black Hills is a relatively small utility company, but it has a compelling dividend growth track record, having raised its dividend annually for more than five decades in a row. We believe that it is likely that the company will continue to grow its earnings and its dividend reliably over the coming years. The company's shares trade below our fair value estimate right now, and we forecast compelling returns going forward. We rate the stock a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 1,276 | 1,394 | 1,261 | 1,539 | 1,680 | 1,754 | 1,735 | 1,697 | 1,949 | 2,552 |
| Gross Profit | 438 | 453 | 481 | 613 | 662 | 647 | 668 | 709 | 705 | 773 |
| Gross Margin | 34.3% | 32.5% | 38.1% | 39.8% | 39.4% | 36.9% | 38.5% | 41.8% | 36.2% | 30.3% |
| Operating Profit | 259 | 264 | 300 | 336 | 417 | 397 | 406 | 428 | 409 | 455 |
| Operating Margin | 20.3% | 18.9% | 23.8% | 21.8% | 24.8% | 22.6% | 23.4% | 25.2% | 21.0% | 17.8% |
| Net Profit | 117 | 131 | (32) | 73 | 177 | 258 | 199 | 228 | 237 | 258 |
| Net Margin | 9.2% | 9.4% | -2.5% | 4.7% | 10.5% | 14.7% | 11.5% | 13.4% | 12.1% | 10.1% |
| Free Cash Flow | (30) | (83) | 158 | (134) | 102 | 31 | (313) | (226) | (742) | (20) |
| Income Tax | 63 | 67 | 79 | 59 | 73 | (24) | 30 | 33 | 7 | 25 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 3,838 | 4,246 | 4,627 | 6,542 | 6,659 | 6,963 | 7,558 | 8,089 | 9,132 | 9,618 |
| Cash & Equivalents | 8 | 21 | 441 | 14 | 15 | 21 | 10 | 6 | 9 | 21 |
| Accounts Receivable | 114 | 119 | 80 | 137 | 126 | 147 | 145 | 147 | 181 | 268 |
| Inventories | 88 | 91 | 87 | 104 | 113 | 117 | 117 | 117 | 151 | 207 |
| Goodwill & Int. Ass. | 357 | 357 | 363 | 1,308 | 1,307 | 1,314 | 1,313 | 1,311 | 1,310 | 1,309 |
| Total Liabilities | 2,554 | 2,892 | 3,161 | 4,812 | 4,839 | 4,676 | 5,094 | 5,426 | 6,245 | 6,528 |
| Accounts Payable | 130 | 124 | 90 | 152 | 161 | 211 | 194 | 183 | 218 | 310 |
| Long-Term Debt | 1,479 | 1,618 | 1,930 | 3,314 | 3,326 | 3,142 | 3,495 | 3,771 | 4,547 | 4,668 |
| Shareholder's Equity | 1,284 | 1,354 | 1,466 | 1,615 | 1,709 | 2,182 | 2,362 | 2,561 | 2,787 | 2,995 |
| LTD/E Ratio | 1.15 | 1.19 | 1.32 | 2.05 | 1.95 | 1.44 | 1.48 | 1.47 | 1.63 | 1.56 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|--------|--------|-------|--------|-------|-------|--------|--------|---------|--------|
| Return on Assets | 3.1% | 3.2% | -0.7% | 1.3% | 2.7% | 3.8% | 2.7% | 2.9% | 2.7% | 2.8% |
| Return on Equity | 9.3% | 9.9% | -2.3% | 4.7% | 10.7% | 13.3% | 8.8% | 9.2% | 8.9% | 8.9% |
| ROIC | 4.4% | 4.6% | -1.0% | 1.7% | 3.5% | 4.9% | 3.5% | 3.7% | 3.4% | 3.4% |
| Shares Out. | 45 | 45 | 51 | 53 | 54 | 58 | 61 | 63 | 64 | 65 |
| Revenue/Share | 28.72 | 31.25 | 27.85 | 28.89 | 30.48 | 31.62 | 28.54 | 27.18 | 30.78 | 39.25 |
| FCF/Share | (0.68) | (1.87) | 3.49 | (2.52) | 1.86 | 0.56 | (5.15) | (3.61) | (11.72) | (0.30) |

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

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