



# Evergy Inc. (EVRG)

Updated August 18<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	13.4%	<b>Market Cap:</b>	\$13.1 B
<b>Fair Value Price:</b>	\$68	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	8/18/2023
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.8%	<b>Dividend Payment Date:</b>	9/20/2023
<b>Dividend Yield:</b>	4.4%	<b>5 Year Price Target</b>	\$90	<b>Years Of Dividend Growth:</b>	18
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Evergy is an electric utility holding company incorporated in 2017 and headquartered in Kansas City, Missouri. Through its subsidiaries Evergy Kansas, Evergy Metro and Evergy Missouri West, the company serves approximately 1.4 million residential customers, nearly 200,000 commercial customers and 6,900 industrial customers and municipalities in Kansas and Missouri. Evergy has a market capitalization of \$13.1 billion and is significantly impacted by seasonality, as about one-third of its retail revenues is recorded in the third quarter.

In early August, Evergy reported (8/4/23) financial results for the second quarter of fiscal 2023. The company benefited from increased weather-normalized demand, lower maintenance and operating costs and higher transmission margin but it was hurt by unfavorable weather, higher interest expense and depreciation. As a result, its adjusted earnings-per-share dipped -4% over the prior year, from \$0.84 to \$0.81.

The business outlook of Evergy is positive, as the utility has proved resilient to rising interest rates and exceptionally high inflation. Management reiterated its guidance for adjusted earnings-per-share of \$3.55-\$3.75 in 2023 and its guidance for 6%-8% adjusted earnings-per-share growth off the level of \$3.30 until 2025. We still expect earnings-per-share around \$3.65 this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.27	\$2.35	\$2.09	\$2.43	\$2.27	\$2.50	\$2.89	\$3.10	\$3.54	\$3.71	<b>\$3.65</b>	<b>\$4.88</b>
<b>DPS</b>	\$1.36	\$1.40	\$1.44	\$1.52	\$1.60	\$1.74	\$1.93	\$2.05	\$2.18	\$2.33	<b>\$2.45</b>	<b>\$3.28</b>
<b>Shares<sup>1</sup></b>	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.6	<b>231.0</b>	<b>200.0</b>

Evergy has grown its earnings-per-share at a 5.6% average annual rate over the last decade. This mid-single digit growth rate is typical in the utility sector. However, Evergy has enhanced its investments in growth projects lately and hence it is likely to accelerate its growth pattern in the upcoming years. The company expects to spend \$11.6 billion on capital expenses in 2023-2027 while it will also reduce its operational and maintenance expenses. It has reduced these expenses by -18% since 2018 and expects to reduce them by another -8% until the end of 2024. Given also expected regulatory approval of 5%-6% annual growth in rates, Evergy expects to grow its earnings-per-share by 6%-8% per year until at least 2025. The utility also expects to grow its dividend in line with its earnings-per-share, at a 6%-8% annual rate, and maintain a dividend payout ratio of 60%-70% until at least 2025. We expect 6.0% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	14.0	15.3	18.5	21.6	23.4	21.8	20.9	19.0	17.6	17.5	<b>15.3</b>	<b>18.5</b>
<b>Avg. Yld.</b>	4.3%	3.9%	3.7%	2.9%	3.0%	3.2%	3.2%	3.5%	3.5%	3.6%	<b>4.4%</b>	<b>3.6%</b>

<sup>1</sup> 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.



# Energy Inc. (EVRG)

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The surge of interest rates to a 15-year high exerts pressure on the valuation of utilities, as investors can find decent yields elsewhere. As a result, Energy is currently trading at a nearly 10-year low price-to-earnings ratio of 15.3, which is lower than its historical 10-year average of 18.5. If Energy trades at its 10-year average valuation level in five years, it will enjoy a 3.8% annualized gain in its returns.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	60%	60%	69%	63%	70%	70%	67%	66%	62%	63%	67%	67%

The subsidiaries of Energy operate on a fully regulated retail utility model in Missouri and Kansas and thus they do not face any competition in these markets. This typical utility model, which generates reliable and growing earnings, is undoubtedly a strong competitive advantage.

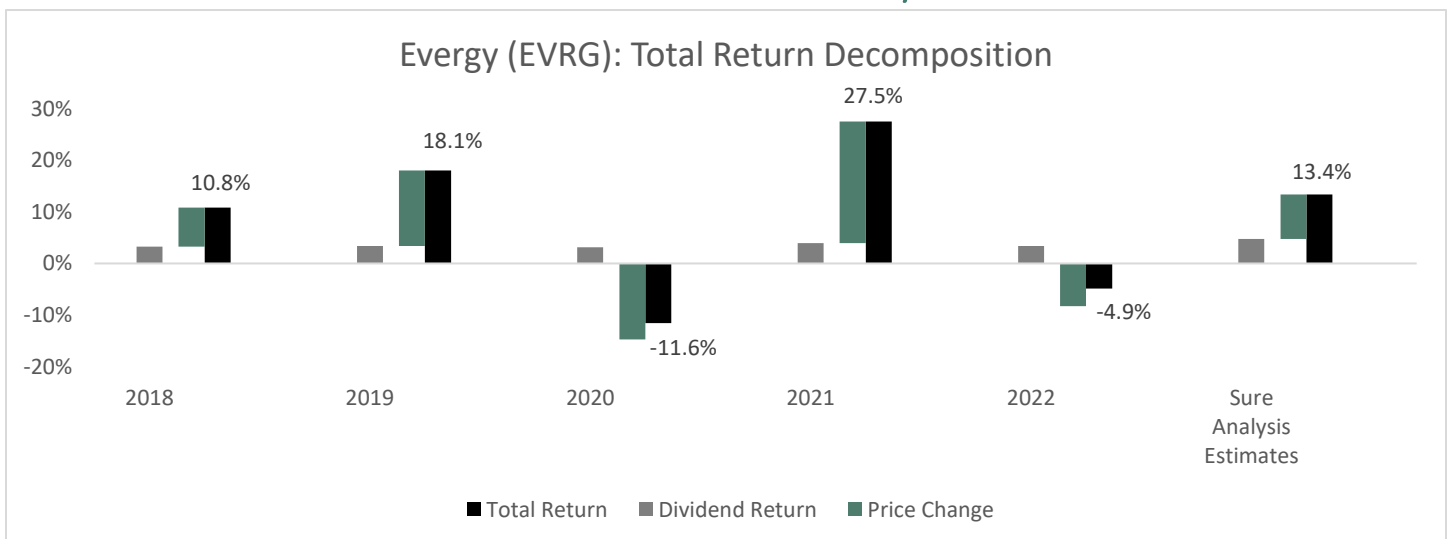
Another major advantage of utilities is their resilience to recessions. Even during the fiercest recessions, people do not cut electricity consumption. In fact, they spend more time at home and thus they increase their consumption. In the severe recession, which was caused by the pandemic, Energy grew its adjusted earnings-per-share 7% in 2020, to an all-time high level. Moreover, thanks to its 4.4% dividend, its healthy payout ratio of 67% and its expected dividend growth rate of 6%-8% per year until at least 2025, Energy is a great candidate for income-oriented investors.

The only material risk factor for Energy is an environment of higher interest rates. Treasury yields have rallied to a 15-year high due to high inflation and the resultant interest rate hikes implemented by the Fed. If bond yields continue to rise, they will render the dividend yield of Energy less attractive and hence they will exert pressure on its stock price. On the other hand, Energy has a higher growth rate than most of its peers. As a result, it is less vulnerable to higher interest rates than most of its peers.

## Final Thoughts & Recommendation

Energy has proved resilient to the pandemic and the highly inflationary environment prevailing now and has among the most promising growth prospects in the utility sector. It is also trading with an exceptionally cheap valuation, which is likely to highly reward investors whenever interest rates moderate. Energy could offer a 13.4% average annual return over the next five years thanks to 6.0% earnings-per-share growth, its 4.4% dividend and a 3.8% annualized valuation tailwind. It thus maintains its buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	2,371	2,602	2,459	2,562	2,571	4,276	5,148	4,913	5,587	5,859
<b>Gross Profit</b>	1,198	1,310	1,339	1,233	1,218	1,822	2,413	2,388	2,632	2,630
<b>Gross Margin</b>	50.5%	50.4%	54.4%	48.1%	47.4%	42.6%	46.9%	48.6%	47.1%	44.9%
<b>SG&amp;A Exp.</b>	224	250	250	---	---	---	---	---	---	---
<b>D&amp;A Exp.</b>	295	312	338	365	404	662	913	938	948	985
<b>Operating Profit</b>	579	633	621	702	679	934	1,186	1,144	1,355	1,302
<b>Operating Margin</b>	24.4%	24.3%	25.3%	27.4%	26.4%	21.8%	23.0%	23.3%	24.3%	22.2%
<b>Net Profit</b>	293	313	292	347	324	536	670	618	880	753
<b>Net Margin</b>	12.3%	12.0%	11.9%	13.5%	12.6%	12.5%	13.0%	12.6%	15.7%	12.9%
<b>Free Cash Flow</b>	(77)	(27)	16	(283)	148	428	539	194	(621)	(365)
<b>Income Tax</b>	124	151	152	185	151	59	97	102	117	48

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	9,597	10,289	10,706	11,487	11,624	25,598	25,976	27,115	28,521	29,490
<b>Cash &amp; Equivalents</b>	4	5	3	3	3	160	23	145	26	25
<b>Accounts Receivable</b>	250	267	258	289	165	17	7	5	14	9
<b>Inventories</b>	240	247	301	300	294	511	482	505	567	673
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	---	---	2,339	2,337	2,337	2,337	2,337
<b>Total Liabilities</b>	6,529	6,988	7,034	7,654	7,764	15,607	17,431	18,396	19,279	19,997
<b>Accounts Payable</b>	233	219	221	221	204	452	529	654	640	601
<b>Long-Term Debt</b>	3,576	3,639	3,581	4,018	4,073	8,527	9,950	10,321	11,166	12,036
<b>Shareholder's Equity</b>	3,063	3,295	3,657	3,806	3,908	10,028	8,572	8,733	9,244	9,484
<b>D/E Ratio</b>	1.17	1.10	0.98	1.06	1.04	0.85	1.16	1.18	1.21	1.27

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	3.1%	3.2%	2.8%	3.1%	2.8%	2.9%	2.6%	2.3%	3.2%	2.6%
<b>Return on Equity</b>	9.8%	9.9%	8.4%	9.3%	8.4%	7.7%	7.2%	7.1%	9.8%	8.0%
<b>ROIC</b>	4.5%	4.6%	4.1%	4.6%	4.1%	4.1%	3.6%	3.3%	4.5%	3.6%
<b>Shares Out.</b>	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.3
<b>Revenue/Share</b>	18.48	19.59	17.66	17.98	18.03	19.97	21.46	21.60	24.33	25.44
<b>FCF/Share</b>	(0.60)	(0.20)	0.11	(1.99)	1.04	2.00	2.25	0.85	(2.70)	(1.58)

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

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