WEC Energy Group, Inc. (WEC)

Updated August 1st, 2023 by Nathan Parsh

Key Metrics

Current Price:	$90	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$28 B
Fair Value Price:	$87	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/11/23
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	09/01/23
Dividend Yield:	3.5%	**5 Year Price Target**	$117	**Years Of Dividend Growth:**	20
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Formerly known as Wisconsin Energy, WEC Energy Group, Inc. provides electric, gas & steam service to customers in Wisconsin and gas service to customers in Illinois, Minnesota and Michigan. In total, WEC Energy Group provides services to 1.6 million customers. The company has also made nearly $600 million in investments into nonutility wind projects over the past two years. As a nonutility, WEC Energy Group's return on investment can exceed that of a regulated utility. WEC Energy Group has a five-year capital plan that includes investment of 1,800 megawatts of wind, solar and battery storage that will be added to the company's regulated asset base in Wisconsin. The company has annual revenues of nearly $10 billion.

On January 19th, 2023, WEC Energy Group announced an 8.3% increase in its quarterly dividend to $0.78.

On August 1st, 2023, WEC Energy Group announced second quarter results for the period ending June 30th, 2023. For the quarter, revenue declined 14.1% to $1.83 billion, which was $200 million less than expected. Net income of $289.7 million, or $0.92 per share, compared favorably to net income of $287.5 million, or $0.91 per share, in the prior year, and was $0.07 above estimates.

Weather normalized deliveries were lower by 0.6%. Retail deliveries of electricity declined 3.2%, with residential electricity usage lower by 6.8%. Electricity usage by small commercial and industrial customers increased 0.1%. Large commercial and industrial customers usage was down 3.2% year-over-year.

WEC Energy Group again reaffirmed its 2023 earnings guidance, with the company expecting earnings-per-share in a range of $4.58 to $4.62 for the year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.51	$2.59	$2.34	$2.96	$3.14	$3.34	$3.58	$3.80	$4.12	$4.45	***$4.60***	***$6.16***
DPS	$1.45	$1.56	$1.74	$1.98	$2.08	$2.21	$2.36	$2.53	$2.71	$2.91	***$3.12***	***$4.18***
Shares[1]	226	226	316	316	316	316	317	317	315	316	***316***	***316***

WEC Energy Group compounded earnings-per-share by a rate of 6.6% per year for both the 2013 to 2022 and 2018 to 2022 time periods. Profitability has increased even as the share count has increased by 38% over that time frame. The Given the consistency over the medium- and long-term, we expect that WEC Energy Group will be able to increase earnings-per-share by 6% annually through 2028, primarily attributable to increases in revenue and returns from nonutility investments. The dividend has compounded at a rate of 7.1% over the last five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.5	17.7	21.3	19.9	20.0	19.6	23.5	24.9	23.6	20.7	***19.6***	***19.0***
Avg. Yld.	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.8%	2.7%	2.8%	3.1%	***3.5%***	***3.6%***

Shares of WEC Energy Group have decreased $7, or 7.2%, since our May 1st, 2023 update. Based off the current share price and the company's expected earnings-per-share for 2023, WEC Energy Group trades with a price-to-earnings ratio

[1] Share count 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.

of 19.6. We reaffirm our five-year target valuation of 19 to better reflect the average earnings multiple for the last decade. If the stock reverted to this valuation by 2028 then shareholders would see annual returns reduced by 0.6% over this time period.

WEC Energy Group has a dividend yield of 3.5% currently, which is above the stock's 10-year average yield of 3.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

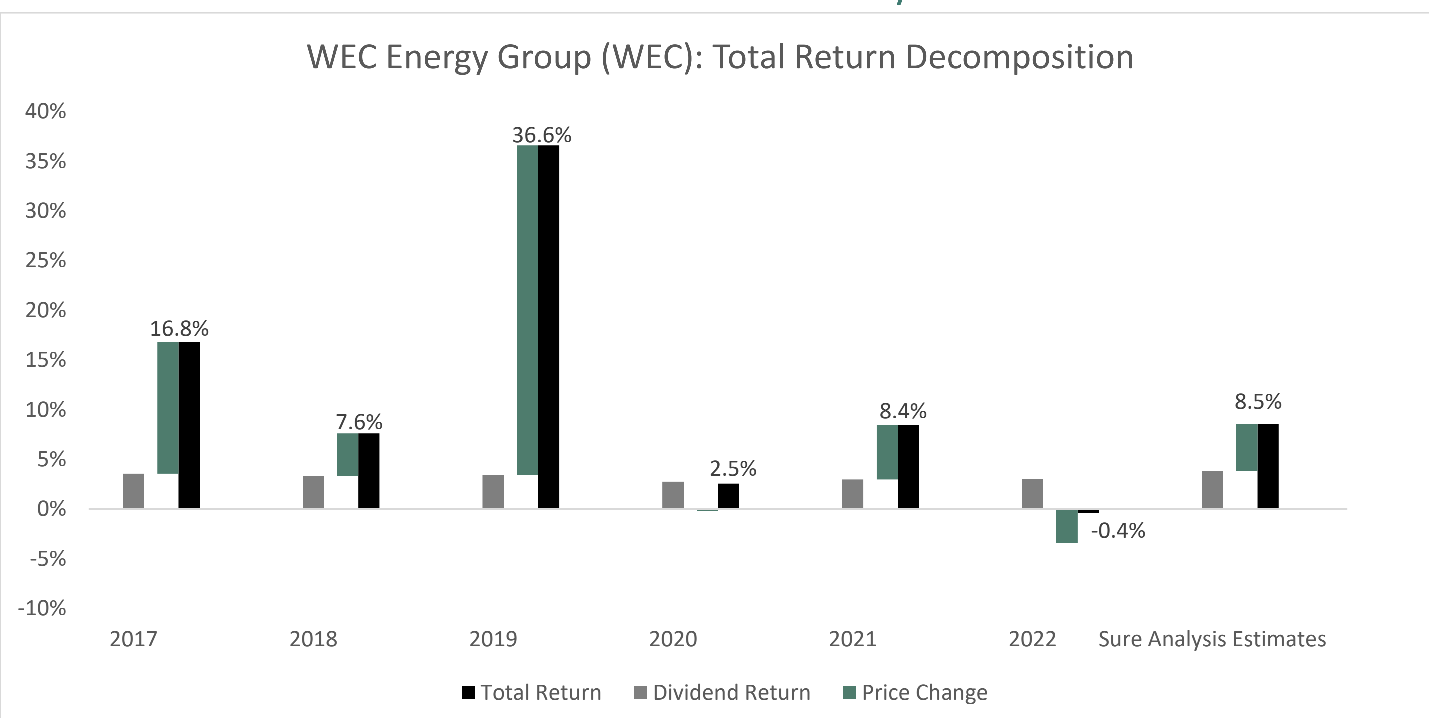
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58%	60%	74%	67%	66%	66%	66%	67%	66%	65%	***68%***	***68%***

The expected dividend payout ratio for 2023 is 68%, which is relatively low for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%. Earnings-per-share increased during the last recession, growing nearly 13% from 2007 to 2009. As a utility company, WEC Energy Group is likely to remain profitable during recessions as customers usually prioritize their gas and electric bills. The company is able to recover spending to update infrastructure through the customers it serves. WEC Energy Group's expansion into renewable energy, like wind farms, could help the company to grow at a higher than expected rate due to the potential of higher return on investments. Low unemployment and colder temperatures in its service areas should also help the company improve its financial metrics.

Final Thoughts & Recommendation

After second quarter results, WEC Energy Group is expected to offer a total annual return of 8.5% through 2028, up from our previous estimate of an 6.9% return. Our projected return stems from an annual earnings growth rate of 6% and a starting yield of 3.5%, offset by a small headwind from expected valuation compression. WEC Energy's quarter was mixed, but management reaffirmed its prior guidance once again. That said, the stock is just ahead of our target valuation. We reaffirm our five-year price target of $117, but continue to rate shares of WEC Energy Group as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,519	4,997	5,926	7,472	7,649	7,680	7,523	7,242	8,316	9,597
Gross Profit	1,537	1,625	1,977	2,654	2,770	2,511	2,660	2,890	3,000	3,301
Gross Margin	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%	39.9%	36.1%	34.4%
D&A Exp.	396	417	584	763	799	846	926	976	1,074	1,123
Operating Profit	1,080	1,112	1,251	1,696	1,776	1,468	1,531	1,706	1,715	1,924
Operating Margin	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%	23.6%	20.6%	20.0%
Net Profit	579	590	640	940	1,205	1,061	1,135	1,201	1,302	1,409
Net Margin	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%	16.6%	15.7%	14.7%
Free Cash Flow	507	438	27	680	119	330	85	(43)	(220)	(273)
Income Tax	338	362	434	567	384	170	125	228	200	323

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	14,769	14,905	29,355	30,123	31,591	33,476	34,952	37,028	38,989	41,872
Cash & Equivalents	26	62	50	38	39	85	38	25	16	29
Accounts Receivable	406	643	1,029	1,242	1,351	1,281	1,177	1,203	1,506	1,818
Inventories	329	401	687	588	539	548	550	529	636	807
Goodwill & Int. Ass.	442	442	3,024	3,046	3,054	3,053	3,053	3,053	3,053	3,053
Total Liabilities	10,506	10,455	20,670	21,163	22,099	23,633	24,697	26,366	27,875	30,256
Accounts Payable	343	363	815	862	860	876	908	881	1,006	1,198
Long-Term Debt	5,243	5,212	10,377	10,176	11,033	11,799	12,689	14,227	15,590	17,295
Shareholder's Equity	4,263	4,450	8,655	8,930	9,461	9,789	10,113	10,470	10,913	11,377
LTD/E Ratio	1.23	1.17	1.19	1.14	1.16	1.20	1.25	1.36	1.42	1.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%	3.3%	3.4%	3.5%
Return on Equity	13.7%	13.5%	9.8%	10.7%	13.1%	11.0%	11.4%	11.7%	12.2%	12.6%
ROIC	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%	5.0%	5.0%	5.1%
Shares Out.	226	226	316	316	316	316	317	317	315	316
Revenue/Share	19.67	21.97	21.73	23.58	24.11	24.23	23.75	22.88	26.29	30.36
FCF/Share	2.21	1.92	0.10	2.15	0.38	1.04	0.27	(0.14)	(0.70)	(0.86)

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