



# Ameren Corporation (AEE)

Updated November 10<sup>th</sup>, 2023, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	13.5%	<b>Market Cap:</b>	\$20 B
<b>Fair Value Price:</b>	\$91	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/12/23
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Dividend Payment Date<sup>1</sup>:</b>	12/29/23
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$128	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## Overview & Current Events

Ameren Corporation owns rate-regulated generation, transmission, and distribution networks that deliver electricity and natural gas in Missouri and Illinois. The company serves 2.4 million electricity customers and more than 900,000 natural gas customers. It primarily generates electricity through coal, nuclear, and natural gas, as well as renewable sources, such as hydroelectric, wind, methane gas, and solar. The company serves residential (49% of revenues), commercial (34%), and industrial customers (17%). This \$20 billion company was founded in 1881 and has about 9,000 employees.

On November 8<sup>th</sup>, 2023, Ameren Corporation released its third quarter 2023 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, the company reported net income of \$493 million and \$1.87 earnings per diluted share, compared to same quarter a year ago net income of \$452 million and \$1.74 earnings per diluted share. The reported earnings increased 7.5% year-over-year and were driven by increased infrastructure investments made across all business segments, and new Ameren Missouri electric service rates, effective during the quarter, also contributed to the earnings growth.

Total revenues came in at \$2,060 million in the quarter, which decreased 10.7% year-over-year due to the absence of an energy efficiency performance incentive at Ameren Missouri compared to the year-ago quarter. Ameren's total electricity sales volumes declined 3.1% to 19,098 million kilowatt-hours (kWh) in the third quarter compared with the 19,702 million kWh in the year-ago quarter. Gas volumes decreased to 27 million dekatherms from 29 million dekatherms in the prior-year period. Total operating expenses were \$1,446 million, down 15.3% year-over-year. The company's interest expenses in the third quarter were \$152 million compared with the prior-year quarter's \$126 million.

Ameren has the goal to invest in the range of \$19.7 billion in different projects in the 2023-2027 timeframe, which will support its net-zero carbon emission target of 2050. The company presented a positive outlook during the investor update<sup>2</sup>. Ameren expects diluted earnings per share to grow at a 6% to 8% compound annual rate from 2023 through 2027. Ameren updated its 2023 guidance; the company expects to generate earnings per share in the range of \$4.30-\$4.45, narrower than the prior guidance range of \$4.25-\$4.45.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.10	\$2.40	\$2.38	\$2.68	\$2.77	\$3.32	\$3.35	\$3.50	\$3.84	\$4.14	<b>\$4.35</b>	<b>\$6.10</b>
<b>DPS</b>	\$1.60	\$1.61	\$1.66	\$1.72	\$1.78	\$1.85	\$1.92	\$2.00	\$2.20	\$2.36	<b>\$2.52</b>	<b>\$3.37</b>
<b>Shares<sup>3</sup></b>	243	243	243	243	243	245	246	253	258	258	<b>263</b>	<b>267</b>

Ameren's long-term earnings growth track record is solid, growing EPS every year since 2015. Over the last five years, the average EPS growth rate is almost 6%.

<sup>1</sup> Estimated date.

<sup>2</sup> 2022 Results and Guidance, Feb. 2023.

<sup>3</sup> In millions.

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We expect the company to grow its earnings-per-share by 7.8% per year on average over the next five years. The company has a good earnings track record and will benefit from gas & electricity rate hikes. This should compensate the effects of higher operating and maintenance costs, depreciation, and slightly higher average shares outstanding.

The company has a long history of paying dividends and has increased its payout for 10 consecutive years. In February 2023, the quarterly dividend increased by 6.8% from \$0.59 to \$0.63 per share. Over the last five years, the average annual dividend growth rate is 6.4%.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	16.5	16.7	17.5	18.3	20.6	18.3	22.1	22.2	21.4	21.5	17.5	21.0
Avg. Yld.	1.9%	4.0%	4.0%	3.5%	3.1%	3.0%	2.6%	2.6%	2.7%	2.7%	3.3%	2.6%

During the past decade shares of Ameren Corporation have traded with an average price-to-earnings ratio of about 19 times earnings and today, it stands at 17.5. We are using 21 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The average industry price-to-earnings is 25.5. The company's dividend yield is currently 3.3% and the raises in the last few years have contributed to total returns.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	76%	67%	70%	64%	64%	56%	57%	57%	57%	57%	58%	55%

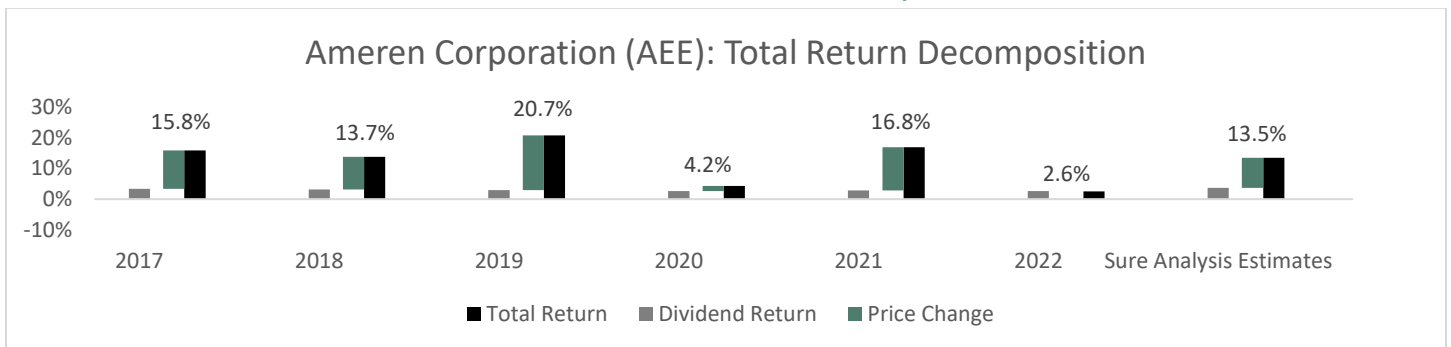
During the past five years, the company's dividend payout ratio has averaged around 57%. The company has a projected 2023 payout ratio of 58%, which indicates a sustainable dividend and is within Ameren's target<sup>4</sup> payout range of 55%-70%. We expect that earnings growth will be stable, meaning that there is still room for the dividend to continue to grow with a payout ratio below 60%.

Ameren Corporation is investing very heavily in renewable energy and growing its rate base. Any increase to the rate base allows the company to increase the price that it charges to its customers. This will help Ameren to maintain a sustainable earnings growth rate. Investing in the energy grid should also improve reliability (less outage), increase customer satisfaction, and will result in attractive rates for customers below the US average. The expected compound annual rate base growth<sup>4</sup> 2022 through 2027 is 8.4%.

## Final Thoughts & Recommendation

Ameren Corporation is a quality dividend stock in terms of its earnings growth track record, its earnings growth outlook, its dividend yield, and its infrastructure investments related to the net-zero carbon emission target by 2050. We estimate a total return of 13.5% from a 3.3% yield, 7% EPS growth, and a valuation tailwind. Shares earn a buy rating.

## Total Return Breakdown by Year



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<sup>4</sup> First Quarter 2023 Earnings presentation

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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	5,838	6,053	6,098	6,076	6,174	6,291	5,910	5,794	6,394	7,957
<b>Gross Profit</b>	2,348	2,467	2,597	2,634	2,783	2,795	2,743	2,858	2,991	3,343
<b>Gross Margin</b>	40.2%	40.8%	42.6%	43.4%	45.1%	44.4%	46.4%	49.3%	46.8%	42.0%
<b>D&amp;A Exp.</b>	737	791	874	923	952	1,033	1,081	1,153	1,277	1,438
<b>Operating Profit</b>	1,184	1,254	1,259	1,322	1,410	1,357	1,267	1,300	1,333	1,515
<b>Operating Margin</b>	20.3%	20.7%	20.6%	21.8%	22.8%	21.6%	21.4%	22.4%	20.8%	19.0%
<b>Net Profit</b>	289	586	630	653	523	815	828	871	990	1,074
<b>Net Margin</b>	5.0%	9.7%	10.3%	10.7%	8.5%	13.0%	14.0%	15.0%	15.5%	13.5%
<b>Free Cash Flow</b>	269	(294)	62	(14)	(77)	(168)	(272)	(1,572)	(1,862)	(1,117)
<b>Income Tax</b>	311	377	363	382	576	237	182	155	157	176

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	21,042	22,289	23,640	24,699	25,945	27,215	28,933	32,030	35,735	37,900
<b>Cash &amp; Equivalents</b>	30	5	292	9	10	16	16	139	8	10
<b>Accounts Receivable</b>	404	423	388	437	445	463	393	415	434	600
<b>Inventories</b>	526	524	538	527	522	483	494	521	592	667
<b>Goodwill &amp; Int. Ass.</b>	411	411	411	411	411	411	411	411	411	411
<b>Total Liabilities</b>	14,356	15,434	16,552	17,454	18,619	19,442	20,732	22,950	25,906	27,270
<b>Accounts Payable</b>	806	711	777	805	902	817	874	958	1,095	1,159
<b>Long-Term Debt</b>	6,406	6,919	7,576	7,834	8,419	9,036	9,797	11,576	13,612	15,100
<b>Shareholder's Equity</b>	6,544	6,713	6,946	7,103	7,184	7,631	8,059	8,938	9,700	10,510
<b>LTD/E Ratio</b>	0.98	1.03	1.09	1.10	1.17	1.18	1.22	1.30	1.40	1.44

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.3%	2.7%	2.7%	2.7%	2.1%	3.1%	2.9%	2.9%	2.9%	2.9%
<b>Return on Equity</b>	4.4%	8.8%	9.2%	9.3%	7.3%	11.0%	10.6%	10.2%	10.6%	10.6%
<b>ROIC</b>	2.2%	4.4%	4.4%	4.4%	3.4%	5.0%	4.8%	4.5%	4.5%	4.4%
<b>Shares Out.</b>	243	243	243	243	243	245	246	253	258	259.5
<b>Revenue/Share</b>	23.88	24.77	25.03	24.96	25.28	25.59	23.92	23.30	24.82	30.66
<b>FCF/Share</b>	1.10	(1.20)	0.25	(0.06)	(0.32)	(0.68)	(1.10)	(6.32)	(7.23)	(4.30)

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

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