



Evergy Inc. (EVRG)

Updated November 9th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	15.9%	Market Cap:	\$11.6 B
Fair Value Price:	\$67	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/21/2023
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	12/20/2023
Dividend Yield:	5.1%	5 Year Price Target	\$89	Years Of Dividend Growth:	19
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	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 \$11.6 billion and is significantly impacted by seasonality, as about one-third of its retail revenues is recorded in the third quarter.

In early November, Evergy reported (11/7/23) financial results for the third quarter of fiscal 2023. The company was hurt by unfavorable weather, lower weather-normalized demand and higher interest expense and depreciation. As a result, its adjusted earnings-per-share dipped -6% over the prior year's quarter, from \$2.00 to \$1.88, though they exceeded the analysts' consensus by \$0.04.

The business outlook of Evergy is positive, as the utility has proved resilient to rising interest rates and high inflation. Due to the unfavorable weather in the third quarter, management lowered its guidance for adjusted earnings-per-share in 2023 from \$3.55-\$3.75 to \$3.55-\$3.65 but reiterated its guidance for 6%-8% adjusted earnings-per-share growth off the level of \$3.30 until 2025. We have lowered our forecast for this year from \$3.65 to \$3.60.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.27	\$2.35	\$2.09	\$2.43	\$2.27	\$2.50	\$2.89	\$3.10	\$3.54	\$3.71	\$3.60	\$4.82
DPS	\$1.36	\$1.40	\$1.44	\$1.52	\$1.60	\$1.74	\$1.93	\$2.05	\$2.18	\$2.33	\$2.57	\$3.44
Shares¹	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.6	231.0	200.0

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
Avg. P/E	14.0	15.3	18.5	21.6	23.4	21.8	20.9	19.0	17.6	17.5	13.9	18.5
Avg. Yld.	4.3%	3.9%	3.7%	2.9%	3.0%	3.2%	3.2%	3.5%	3.5%	3.6%	5.1%	3.9%

¹ In millions.

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The surge of interest rates to a 16-year high exerts pressure on the valuation of utilities, as investors can find decent yields elsewhere. As a result, Evergy is currently trading at a 10-year low price-to-earnings ratio of 13.9, which is much lower than its historical 10-year average of 18.5. If Evergy trades at its 10-year average valuation level in five years, it will enjoy a 5.9% 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%	71%	71%

The subsidiaries of Evergy 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.

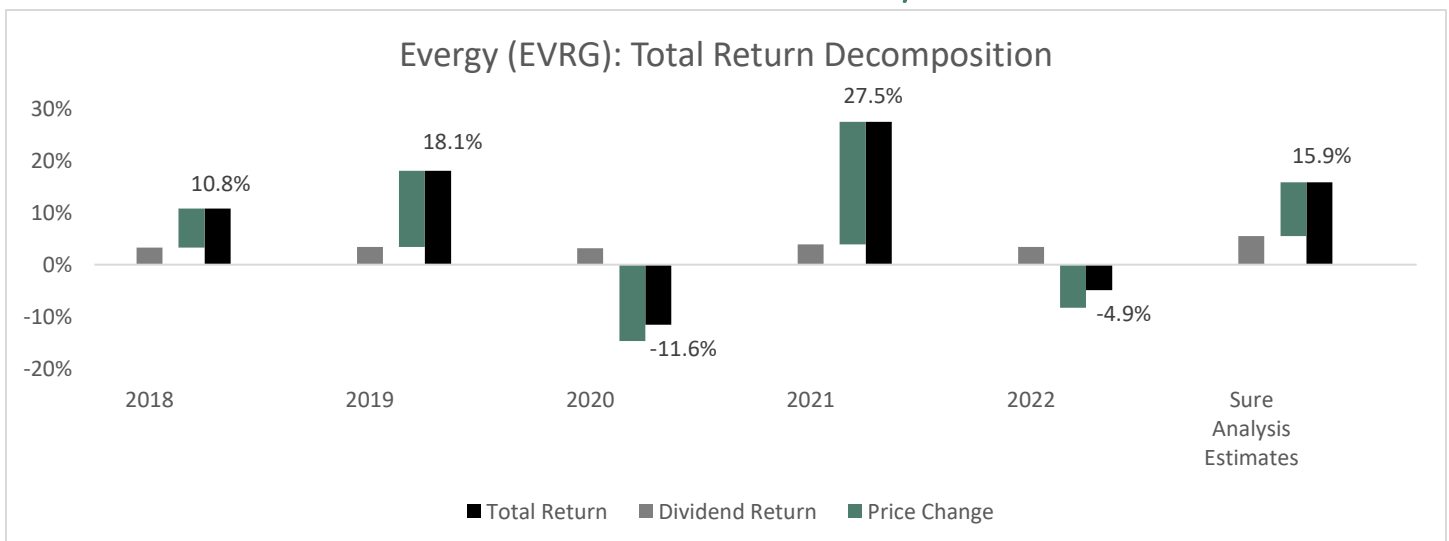
Another major advantage of utilities is their resilience to recessions. Even during the fiercest recessions, people do not cut electricity consumption. In fact, they spend more time at home and thus they increase their consumption. In the severe recession, which was caused by the pandemic, Evergy grew its adjusted earnings-per-share 7% in 2020, to an all-time high level. Moreover, thanks to its 5.1% dividend, its reasonable payout ratio of 71% and its expected dividend growth rate of 6%-8% per year until at least 2025, Evergy is a great candidate for income-oriented investors.

The only material risk factor for Evergy is an environment of higher interest rates. Treasury yields have rallied to a 16-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 Evergy less attractive and hence they will exert pressure on its stock price. On the other hand, Evergy 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

Evergy 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. Evergy could offer a 15.9% average annual return over the next five years thanks to 6.0% earnings-per-share growth, its 5.1% dividend and a 5.9% annualized valuation tailwind. It thus receives a strong 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
Revenue	2,371	2,602	2,459	2,562	2,571	4,276	5,148	4,913	5,587	5,859
Gross Profit	1,198	1,310	1,339	1,233	1,218	1,822	2,413	2,388	2,632	2,630
Gross Margin	50.5%	50.4%	54.4%	48.1%	47.4%	42.6%	46.9%	48.6%	47.1%	44.9%
SG&A Exp.	224	250	250	---	---	---	---	---	---	---
D&A Exp.	295	312	338	365	404	662	913	938	948	985
Operating Profit	579	633	621	702	679	934	1,186	1,144	1,355	1,302
Operating Margin	24.4%	24.3%	25.3%	27.4%	26.4%	21.8%	23.0%	23.3%	24.3%	22.2%
Net Profit	293	313	292	347	324	536	670	618	880	753
Net Margin	12.3%	12.0%	11.9%	13.5%	12.6%	12.5%	13.0%	12.6%	15.7%	12.9%
Free Cash Flow	(77)	(27)	16	(283)	148	428	539	194	(621)	(365)
Income Tax	124	151	152	185	151	59	97	102	117	48

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,597	10,289	10,706	11,487	11,624	25,598	25,976	27,115	28,521	29,490
Cash & Equivalents	4	5	3	3	3	160	23	145	26	25
Accounts Receivable	250	267	258	289	165	17	7	5	14	9
Inventories	240	247	301	300	294	511	482	505	567	673
Goodwill & Int. Ass.	---	---	---	---	---	2,339	2,337	2,337	2,337	2,337
Total Liabilities	6,529	6,988	7,034	7,654	7,764	15,607	17,431	18,396	19,279	19,997
Accounts Payable	233	219	221	221	204	452	529	654	640	601
Long-Term Debt	3,576	3,639	3,581	4,018	4,073	8,527	9,950	10,321	11,166	12,036
Shareholder's Equity	3,063	3,295	3,657	3,806	3,908	10,028	8,572	8,733	9,244	9,484
D/E Ratio	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
Return on Assets	3.1%	3.2%	2.8%	3.1%	2.8%	2.9%	2.6%	2.3%	3.2%	2.6%
Return on Equity	9.8%	9.9%	8.4%	9.3%	8.4%	7.7%	7.2%	7.1%	9.8%	8.0%
ROIC	4.5%	4.6%	4.1%	4.6%	4.1%	4.1%	3.6%	3.3%	4.5%	3.6%
Shares Out.	128.3	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.3
Revenue/Share	18.48	19.59	17.66	17.98	18.03	19.97	21.46	21.60	24.33	25.44
FCF/Share	(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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