NorthWestern Corp. (NWE)

Updated November 4th, 2023, by Ian Bezek

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$3.1 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/14/23
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	12/29/23
Dividend Yield:	4.9%	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	18
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

NorthWestern Corp. is a Sioux Falls, South Dakota based electricity and gas utility. It has 1,530 employees, and primarily serves the states of South Dakota and Montana. The company's largest source of power generation is currently coal. However, it does produce 27% of its power from hydro and another 6% from wind in addition to contracting additional renewable electricity from other suppliers. In recent times, the company had 35% of its electricity from power purchases rather than its own generation capacity. However, reliance on contracted power will decline in future years because Northwestern has invested in new power plants. One, the 58-megawatt Huron plant in South Dakota, opened on time and under budget in 2022. Another larger 175-megawatt plant is supposed to come online in Montana by the end of the third quarter of 2024, and the company is in construction on that facility now.

On October 26th, 2023, NorthWestern announced its Q3 2023 earnings. The company's earnings came at a critical crossroads for the company. Results were mixed. Earnings per share of 49 cents increased from 44 cents year-over-year but fell well short of expectations. Revenues also declined 4% year-over-year and the company offered soft guidance for the final quarter of this year.

However, things are set to improve markedly in 2024. NorthWestern had not given out extensive guidance given its pending regulatory rate reviews. This quarter, though, NorthWestern unveiled 2024 guidance with it anticipating a double-digit jump in earnings per share as compared to this year. The company also offered a more constructive outlook for growth over the next five years. As a result, we have trimmed our earnings outlook for 2023, but raised our long-term growth rate assumptions, as NorthWestern appears to be at a favorable turning point in its operations.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.46	$2.99	$2.90	$3.39	$3.34	$3.40	$3.53	$3.06	$3.60	$3.18	***$3.10***	***$4.15***
DPS	$1.52	$1.60	$1.92	$2.00	$2.10	$2.20	$2.30	$2.40	$2.48	$2.52	***$2.56***	***$2.83***
Shares[1]	39	47	48	48	49	50	50	51	54	56	***61***	***63***

Since 2013, NorthWestern Corp. has grown its earnings-per-share by an average compound rate of 2.9%. Meanwhile, it has grown its dividend by 5.8% per year on average over the same period. NorthWestern's earnings growth has slowed significantly in recent years, with current earnings falling short of where NorthWestern was in the late 2010s. The company's dividend hikes have also slowed down, with the latest increase being by just one cent per quarter.

In light of management's favorable assessment of the rate review progress, we are now forecasting 6.0% intermediate-term earnings growth as the company's EPS turns upward once again starting in 2024.

The company is in a heavy investment cycle with its two new power facilities. This came unfortunately timed with a surge in interest rates, which increases the cost of the firm's debt service. In light of that, it's understandable why NorthWestern has moved to smaller dividend increases than it has historically achieved. As part of its balance sheet management, the company has engaged in some share dilution recently, which further limits the potential pace of earnings and dividend growth.

[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.

NorthWestern Corp. (NWE)

Updated November 4th, 2023, by Ian Bezek

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.9	16.2	18.4	17.2	17.8	16.8	19.9	19.5	16.9	18.2	***16.8***	***17.0***
Avg. Yld.	3.7%	3.3%	3.6%	3.4%	3.5%	3.9%	3.3%	4.0%	4.1%	4.3%	***4.9%***	***4.0%***

NorthWestern has historically had a stable P/E ratio with its average not going above 20 or below 15 over the past decade. Shares are currently right around their long-term median valuation. We see the company's long-term P/E multiple remaining within this range and settling at 17.

The company's dividend yield has generally run between the mid-3% to low 4% range. The current 4.9% dividend yield is a much higher than usual entry point for the stock. Offsetting the higher starting dividend yield, however, is the fact that dividend growth has significantly decelerated over the past couple of years. And dividend growth may remain muted thanks to the company's current investment cycle and related share dilution.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	54%	66%	59%	63%	65%	65%	78%	69%	79%	***83%***	***68%***

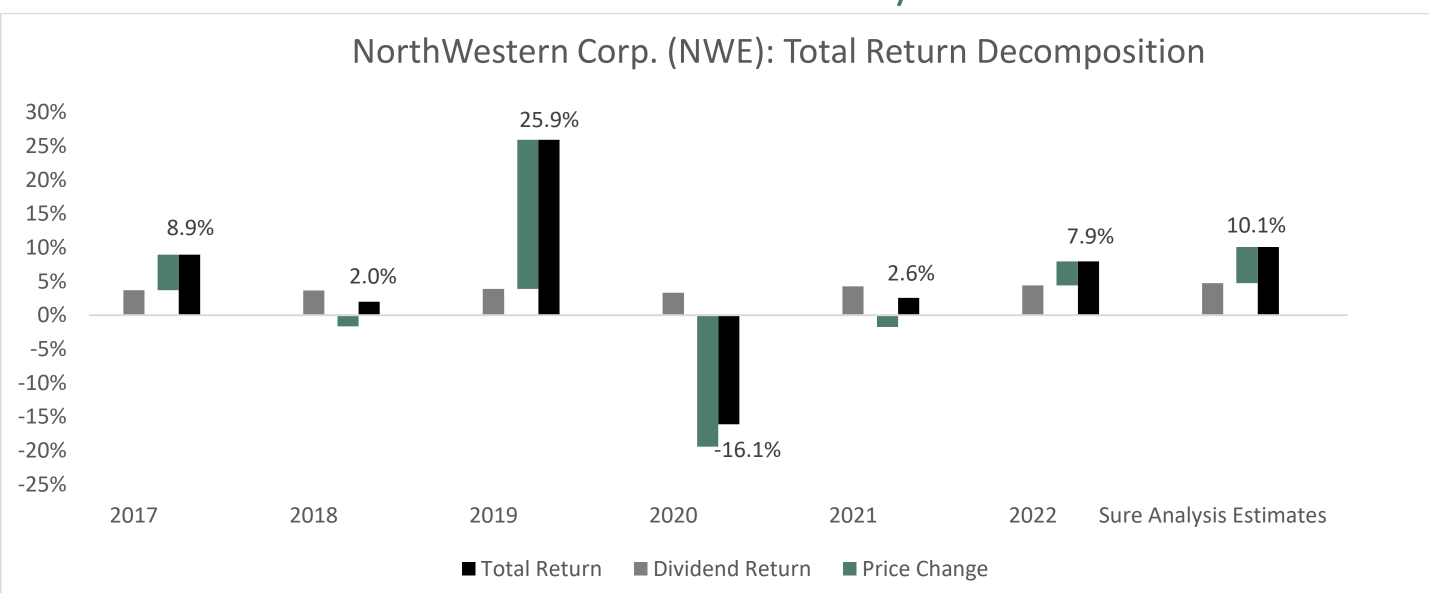
NorthWestern is somewhat on the small side as far as publicly traded utilities go and could face some geographical risk if anything happens to curb power demand in key states such as South Dakota and Montana. However, utilities, as an industry, are highly resilient and tend to fare relatively well during economic duress.

NorthWestern aims to have its dividend payout ratio be between 60% and 70%. However, it has now moved significantly above this based on this year's projected earnings. We expect that earnings will grow more quickly than dividends through 2028 as NorthWestern seeks to get its payout ratio back down to something below 70%.

Final Thoughts & Recommendation

NorthWestern shares are now in line with our fair value estimate. However, between the high starting yield and 6% forecast annualized growth rate, we believe shares can deliver favorable returns going forward. Our outlook calls for 10.1% annualized returns from today's price; shares earn a buy rating today.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

NorthWestern Corp. (NWE)

Updated November 4th, 2023, by Ian Bezek

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,155	1,205	1,214	1,257	1,306	1,192	1,258	1,199	1,372	1,478
Gross Profit	675	722	841	856	895	919	940	892	947	986
Gross Margin	58.5%	59.9%	69.3%	68.1%	68.6%	77.1%	74.7%	74.5%	69.0%	66.7%
SG&A Exp.	286	306	297	294	295	307	109	94	102	114
Operating Profit	171	178	266	255	272	266	277	236	276	263
Operating Margin	14.8%	14.8%	21.9%	20.3%	20.8%	22.3%	22.0%	19.7%	20.1%	17.8%
Net Profit	94	121	151	164	163	197	202	155	187	183
Net Margin	8.1%	10.0%	12.5%	13.1%	12.5%	16.5%	16.1%	12.9%	13.6%	12.4%
Free Cash Flow	(37)	(20)	56	(1)	46	98	(19)	(54)	(214)	(208)
Income Tax	14	(10)	30	(8)	13	(19)	(20)	(11)	3	(0.6)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,715	4,974	5,265	5,499	5,421	5,644	6,083	6,389	6,780	7,318
Cash & Equivalents	17	20	12	5	8	8	5	6	3	8,489
Acc. Receivable	175	163	154	160	182	162	167	168	199	245
Inventories	56	55	53	49	52	51	54	61	81	107
Total Liabilities	355	355	358	358	358	358	358	358	358	4,653
Accounts Payable	2,685	3,496	3,665	3,823	3,622	3,702	4,044	4,310	4,441	202
Long-Term Debt	93	82	75	79	85	87	97	100	115	2,619
Total Equity	1,296	1,930	1,998	2,094	2,113	2,102	2,233	2,415	2,541	2,665
LTD/E Ratio	1,031	1,478	1,600	1,676	1,799	1,942	2,039	2,079	2,340	0.98

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.6%	2.8%	3.0%	3.1%	3.0%	3.6%	3.4%	2.5%	2.8%	2.6%
Return on Equity	9.6%	9.6%	9.8%	10.0%	9.4%	10.5%	10.2%	7.5%	8.5%	7.3%
ROIC	4.2%	4.2%	4.3%	4.5%	4.2%	5.0%	4.9%	3.5%	4.0%	3.6%
Shares Out.	38.7	46.9	48.2	48.3	49.4	50.3	50.4	50.6	54.1	56.3
Revenue/Share	30.27	29.85	25.46	25.94	26.83	23.73	24.94	23.71	26.54	26.25
FCF/Share	(0.96)	(0.50)	1.18	(0.02)	0.95	1.95	(0.38)	(1.06)	(4.15)	(3.69)

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