Ameren Corporation (AEE)

Updated February 24th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	15.0%	**Market Cap:**	$19 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	03/12/24
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.0%	**Dividend Payment Date[1]:**	03/29/24
Dividend Yield:	3.7%	**5 Year Price Target**	$129	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	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 $19 billion company was founded in 1881 and has about 9,000 employees.

On February 22nd, 2024, Ameren Corporation released its fourth quarter and full year 2023 results for the period ending December 31st, 2023. For the quarter, the company reported net income of $159 million or $0.60 earnings per diluted share, compared to same quarter a year ago net income of $163 million or $0.63 earnings per diluted share. The reported earnings decrease of 4.7% year-over-year was primarily due to reduced electric retail sales by Ameren Missouri, which were significantly influenced by unusually mild winter conditions as opposed to the unusually cold temperatures experienced in the previous year's quarter. Additionally, an increase in interest expenses at Ameren Parent also negatively impacted the year-over-year bottom-line performance. For the full year 2023, AEE report earnings of $4.38 per diluted share, increasing 5.8% year over year.

Total revenues for the full year came in at $7.50 billion, a decrease from $7.96 billion the previous year. This decline was attributed to a reduction in energy efficiency performance incentives at Ameren Missouri and lower electricity and gas sales volumes due to milder weather conditions. Operating expenses saw a reduction to $5.94 billion, down from $6.44 billion year-over-year, contributing to a net income of $1.15 billion for the year, up from $1.07 billion in 2022. This performance reflects Ameren's strategic focus on infrastructure investments and efficient operations despite the challenges of lower sales and higher interest expenses.

Ameren has the goal to invest ~$21.9 billion in different projects for the 2024 to 2028 timeframe, which will support its net-zero carbon emission target by 2050. The company presented a positive outlook during the investor update[2]. Ameren expects diluted earnings per share to grow at a 6% to 8% compound annual rate from 2024 through 2028. Ameren has announced its earnings forecast for 2024, projecting that earnings per share will fall within a range of $4.52 to $4.72. Ameren aims to align future dividend growth with its long-term earnings per share (EPS) growth expectations, with a planned payout ratio between 55% and 65% of annual EPS, underlining its commitment to delivering value to shareholders with an attractive dividend.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.40	$2.38	$2.68	$2.77	$3.32	$3.35	$3.50	$3.84	$4.14	$4.38	***$4.60***	***$6.45***
DPS	$1.61	$1.66	$1.72	$1.78	$1.85	$1.92	$2.00	$2.20	$2.36	$2.52	***$2.68***	***$3.59***
Shares[3]	243	243	243	243	245	246	253	258	258	258	***263***	***267***

[1] Estimated date.

[2] 2023 Results and Guidance, Feb. 2024.

[3] In millions.

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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 6.5%.

We expect the company to grow its earnings-per-share by 7.0% per year on average over the next five years. The company has a good earnings track record and will benefit from gas and electricity rate hikes. This should compensate for 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 11 consecutive years. In February 2024, the quarterly dividend increased by 6.3% from $0.63 to $0.69 per share. Over the last five years, the average annual dividend growth rate is 6.9%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.7	17.5	18.3	20.6	18.3	22.1	22.2	21.4	21.5	17.5	***15.7***	***20.0***
Avg. Yld.	1.9%	4.0%	3.5%	3.1%	3.0%	2.6%	2.6%	2.7%	2.7%	3.3%	***3.7%***	***2.8%***

During the past decade shares of Ameren Corporation have traded with an average price-to-earnings ratio of about 19.6 times earnings and today, it stands at 15.7. We are using 20 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.7% and the raises in the last few years have contributed to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

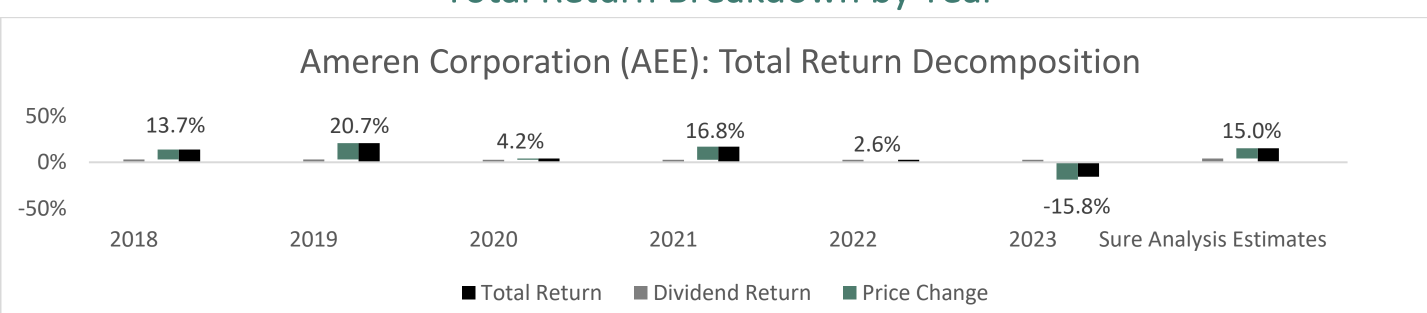
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	67%	70%	64%	64%	56%	57%	57%	57%	57%	58%	***58%***	***56%***

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[4] payout range of 55%-65%. 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[4] 2023 through 2028 is 8.2%.

Final Thoughts & Recommendation

Ameren Corporation is a quality 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 for 2050. We estimate a total return of 15.0% from a 3.7% yield, 7% EPS growth, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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[4] Fourth Quarter 2023 Earnings presentation

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Income Statement Metrics

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

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	21,042	22,289	23,640	24,699	25,945	27,215	28,933	32,030	35,735	37,900
Cash & Equivalents	30	5	292	9	10	16	16	139	8	10
Accounts Receivable	404	423	388	437	445	463	393	415	434	600
Inventories	526	524	538	527	522	483	494	521	592	667
Goodwill & Int. Ass.	411	411	411	411	411	411	411	411	411	411
Total Liabilities	14,356	15,434	16,552	17,454	18,619	19,442	20,732	22,950	25,906	27,270
Accounts Payable	806	711	777	805	902	817	874	958	1,095	1,159
Long-Term Debt	6,406	6,919	7,576	7,834	8,419	9,036	9,797	11,576	13,612	15,100
Shareholder's Equity	6,544	6,713	6,946	7,103	7,184	7,631	8,059	8,938	9,700	10,510
LTD/E Ratio	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
Return on Assets	1.3%	2.7%	2.7%	2.7%	2.1%	3.1%	2.9%	2.9%	2.9%	2.9%
Return on Equity	4.4%	8.8%	9.2%	9.3%	7.3%	11.0%	10.6%	10.2%	10.6%	10.6%
ROIC	2.2%	4.4%	4.4%	4.4%	3.4%	5.0%	4.8%	4.5%	4.5%	4.4%
Shares Out.	243	243	243	243	243	245	246	253	258	259.5
Revenue/Share	23.88	24.77	25.03	24.96	25.28	25.59	23.92	23.30	24.82	30.66
FCF/Share	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.