



FirstEnergy Corp. (FE)

Updated February 9th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	6.5%	Market Cap:	\$21.4 B
Fair Value Price:	\$30	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	02/06/2024
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Dividend Payment Date:	03/01/2024
Dividend Yield:	4.4%	5 Year Price Target	\$41	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating	Hold

Overview & Current Events

FirstEnergy Corp, through its subsidiaries, generates, transmits, and distributes electricity in the United States. The company operates through Regulated Distribution and Regulated Transmission segments. It owns and manages hydroelectric, coal-fired, nuclear, and natural gas, as well as renewable power generating facilities. Its 10 electric distribution companies form one of the nation's largest investor-owned electric systems, serving customers in Ohio, Pennsylvania, New Jersey, West Virginia, Maryland, and New York. The \$20.7 billion company serves approximately six million customers.

On February 8th, 2024, FirstEnergy announced its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues came in at \$3.2 billion, down 1% year-over-year, while adjusted EPS totaled \$0.62, compared to \$0.50 last year.

On a weather-adjusted basis, distribution deliveries increased just over 1% in 2023 compared to the fourth quarter of 2022. Weather-adjusted sales to residential customers decreased slightly, while deliveries to commercial and industrial customers increased 2%.

For the year, adjusted EPS came in at \$2.56, up from \$2.41 in fiscal 2022. GAAP EPS were \$1.96.

Management introduced its FY2024 outlook, which projects adjusted EPS between \$2.61 and \$2.81. We have applied the midpoint of this range in our estimates. All past entries in the table reflect GAAP results as filed with the SEC.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.71	\$1.37	(\$14.50)	(\$3.88)	\$1.99	\$1.70	\$1.99	\$2.35	\$0.71	\$1.96	\$2.71	\$3.71
DPS	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.53	\$1.56	\$1.56	\$1.56	\$1.58	\$1.64	\$2.41
Shares¹	420	422	426	444	492	535	543	545	571	574	574	630.0

FirstEnergy has a volatile history of EPS generation amid some past unsuccessful investments. Its involvement with coal, whose demand is decreasing, and the bankruptcy case involving its ex-subsidiaries, among other reasons, have not allowed for a steady and growing profitability.

However, management's updated plan has turned around the company over the past few years, which has led to double-digit EPS growth.

Management's long-term operating EPS growth outlook forecasts annualized growth between 6% and 8%. Therefore, we retain our medium-term EPS CAGR estimate at 6.5%. It's slightly lower than the midpoint of management's guidance to be prudent.

Despite the lack of dividend growth last year, and this year's 5.1% dividend hike, we have our medium-term DPS CAGR estimate at 8%. This is to reflect FirstEnergy's updated policy that targets a dividend payout ratio of 70% of operating earnings, up from the prior range of 55% to 65% previously. Thus, dividend increases that outpace earnings growth are to take place if management indeed aims to reach higher payout ratio than today.

¹ Share count is 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.



FirstEnergy Corp. (FE)

Updated February 9th, 2024 by Nikolaos Sismanis

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	45.7	29.9	---	---	31	21.0	15.0	17.0	---	18.9	13.8	11.0
Avg. Yld.	2.6%	5.4%	6.9%	4.7%	4.4%	4.8%	5.2%	3.9%	4.1%	4.3%	4.4%	5.9%

In line with the company's volatile earnings, FirstEnergy's valuation has fluctuated wildly. Shares are currently trading at 13.8 times the midpoint of this year's adjusted EPS guidance. While this multiple is lower than the stock's historical average, the recent multiple compression reflects the notably higher interest rates that persist these days. In fact, we believe the stock's valuation could see lower levels as the stock's dividend yield may still not be high enough to attract investor interest.

Safety, Quality, Competitive Advantage, & Recession Resiliency

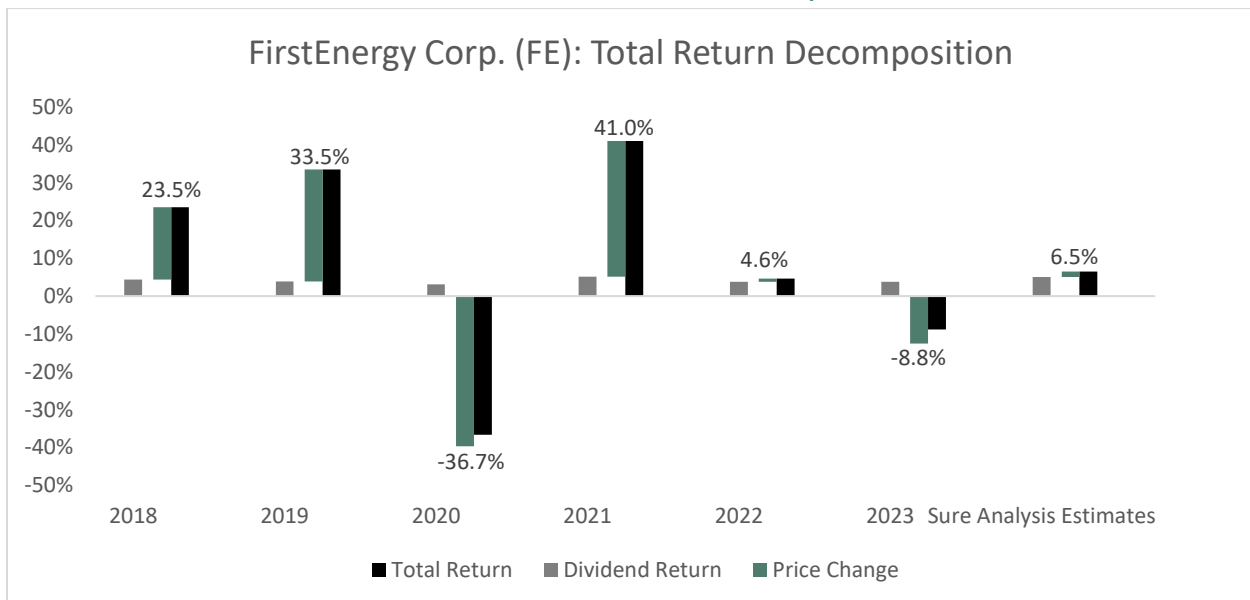
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	203%	105%	---	---	72%	90%	78%	66%	---	81%	61%	65%

FirstEnergy's dividend should be safe, as management has provided an optimistic EPS growth outlook and plans to resume dividend growth soon. Further, the company has a quality asset base, despite failing to provide investors with consistent returns in the past. First Energy also features a well-laddered debt maturity profile, while its liquidity remains strong, at \$4.6 billion, and the debt-to-cap covenant is at a comfortable 75%. Future projects will likely require further funds. However, the company's scheduled equity raise already took place in 2022, which should result in predictable financing going forward. Overall, FirstEnergy is a financially healthy and flexible company with geographical diversity and operations in constructive regulatory jurisdictions, which add to its moat.

Final Thoughts & Recommendation

FirstEnergy investors have seen little to no capital gains over the past 25 years. However, management seems to be executing a solid plan, pointing to earnings and dividend growth over the medium-term. Based on our projected growth of 6.5%, the 4.4% yield, and the 4.4% annualized valuation headwind, we project annualized returns of 6.5% through 2029. We rate shares a hold.

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.



FirstEnergy Corp. (FE)

Updated February 9th, 2024 by Nikolaos Sismanis

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	15049	15026	10700	10928	11261	11035	10790	11130	12460
Gross Profit	8053	8748	6819	7505	7614	7611	7720	7687	7866
Gross Margin	53.5%	58.2%	63.7%	68.7%	67.6%	69.0%	71.5%	69.1%	63.1%
SG&A Exp.	835	242	102	102	144	674	477	(382)	(72)
D&A Exp.	1592	1826	1974	1700	1384	1217	1199	1601	1317
Operating Profit	1062	2334	1995	2326	2358	1836	1685	2229	1982
Operating Margin	7.1%	15.5%	18.6%	21.3%	20.9%	16.6%	15.6%	20.0%	15.9%
Net Profit	299	578	(6177)	(1724)	1348	912	1079	1283	406
Net Margin	2.0%	3.8%	-57.7%	-15.8%	12.0%	8.3%	10.0%	11.5%	3.3%
Free Cash Flow	(832)	566	316	967	(1265)	(198)	(1234)	366	(73)
Income Tax	(42)	315	527	1715	490	213	126	320	1000

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	51648	52094	43148	42257	40063	42301	44460	45430	46110
Cash & Equivalents	85	131	199	588	367	627	1734	1462	160
Accounts Receivable	914	836	833	754	686	564	1203	1033	1318
Inventories	817	785	564	236	252	281	317	260	421
Goodwill & Int. Ass.	6418	6418	5618	5618	5618	5698	5691	5618	5618
Total Liabilities	39226	39672	36907	38332	33249	35326	37230	36760	35460
Accounts Payable	1279	1075	1043	827	965	918	827	943	1503
Long-Term Debt	21779	21973	22552	19545	19504	20998	24460	23840	21650
Shareholder's Equity	12420	12421	6241	3925	6743	6975	7237	8675	10170
LTD/E Ratio	1.75	1.77	3.61	4.98	2.86	3.01	3.38	2.75	2.13

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.6%	1.1%	-13.0%	-4.0%	3.3%	2.2%	2.5%	2.9%	0.9%
Return on Equity	2.4%	4.7%	-66.2%	-33.9%	25.3%	13.3%	15.2%	16.1%	4.3%
ROIC	0.9%	1.7%	-19.6%	-6.6%	5.4%	3.4%	3.6%	4.0%	1.3%
Shares Out.	420	422	426	444	492	535	543	546	572
Revenue/Share	35.75	35.44	25.12	24.61	22.80	20.36	19.87	20.39	21.78
FCF/Share	(1.98)	1.33	0.74	2.18	(2.56)	(0.37)	(2.27)	0.67	(0.13)

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.