WEC Energy Group, Inc. (WEC)

Updated February 2nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	$82	**5 Year CAGR Estimate:**	11.8%	**Market Cap:**	$26 B
Fair Value Price:	$92	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/13/24
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Dividend Payment Date:**	03/01/24
Dividend Yield:	4.1%	**5 Year Price Target**	$123	**Years Of Dividend Growth:**	21
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Formerly known as Wisconsin Energy, WEC Energy Group, Inc. provides electric, gas & steam service to customers in Wisconsin and gas service to customers in Illinois, Minnesota and Michigan. In total, WEC Energy Group provides services to 1.6 million customers. The company has also made nearly $600 million in investments into non-utility wind projects over the past two years. As a nonutility, WEC Energy Group's return on investment can exceed that of a regulated utility. WEC Energy Group has a five-year capital plan that includes investment of 1,800 megawatts of wind, solar and battery storage that will be added to the company's regulated asset base in Wisconsin. The company has annual revenues of nearly $10 billion.

On December 20th, 2023, WEC Energy Group announced a 7.1% increase in its quarterly dividend to $0.835.

On February 1st, 2024, WEC Energy Group announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue declined 13.3% to $2.22 billion, which was $510 million less than expected. Net income of $348.3 million, or $1.10 per share, compared favorably to net income of $252.7 million, or $0.80 per share, in the prior year, and was $0.02 above estimates. For the year, revenue was down 7.3% to $8.9 billion while net income of $1.3 billion, or $4.22 per share, compared to $1.4 billion, or $4.45 per share, in 2022.

For the year, weather normalized deliveries were down 1%. Retail deliveries of electricity decreased 2.6%, with residential electricity usage down 3.6%. Electricity usage by small commercial and industrial customers declined 1.1% while large commercial and industrial customers usage was lower by 3.2% from the prior year.
WEC Energy Group provided 2024 earnings guidance as well, with the company expecting earnings-per-share in a range of $4.80 to $4.90 for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.59	$2.34	$2.96	$3.14	$3.34	$3.58	$3.80	$4.12	$4.45	$4.22	***$4.85***	***$6.49***
DPS	$1.56	$1.74	$1.98	$2.08	$2.21	$2.36	$2.53	$2.71	$2.91	$3.12	***$3.34***	***$4.47***
Shares[1]	226	316	316	316	316	317	317	315	316	316	***316***	***316***

WEC Energy Group compounded earnings-per-share by a rate of 5.6% per year since 2014 and 6.3% per year since 2019. Profitability has increased even as the share count has increased by 38% over that time frame. Given the consistency over the medium- and long-term, we expect that WEC Energy Group will be able to increase earnings-per-share by 6% annually through 2029, primarily attributable to increases in revenue and returns from nonutility investments. The dividend has compounded at a rate of 7.2% over the last five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.7	21.3	19.9	20.0	19.6	23.5	24.9	23.6	20.7	19.9	***16.9***	***19.0***
Avg. Yld.	3.4%	3.5%	3.4%	3.3%	3.4%	2.8%	2.7%	2.8%	3.1%	3.7%	***4.1%***	***3.6%***

[1] Share count in millions

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Shares of WEC Energy Group have decreased $2, or 2.4%, since our November 6th, 2023 update. Based off the current share price and the company's expected earnings-per-share for 2024, WEC Energy Group trades with a price-to-earnings ratio of 16.9. We reaffirm our five-year target valuation of 19 to better reflect the average earnings multiple for the last decade. If the stock were to reach to this valuation by 2029 then valuation would be a 2.4% tailwind to annual returns over this period.

WEC Energy Group has a dividend yield of 4.1% currently, which is above the stock's 10-year average yield of 3.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

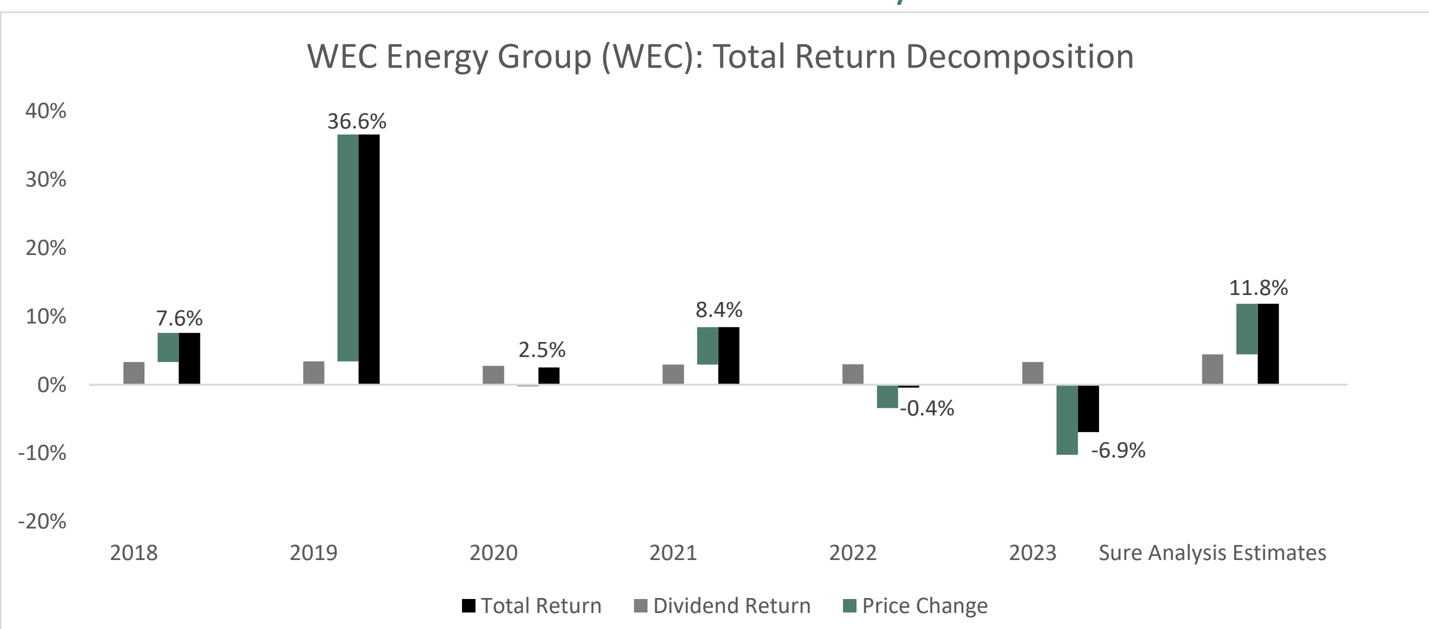
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	60%	74%	67%	66%	66%	66%	67%	66%	65%	74%	***69%***	***69%***

The expected dividend payout ratio for 2024 is 69%, which is reasonable for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%. Earnings-per-share increased during the last recession, growing nearly 13% from 2007 to 2009. As a utility company, WEC Energy Group is likely to remain profitable during recessions as customers usually prioritize their gas and electric bills. The company can recover spending to update infrastructure through the customers it serves. WEC Energy Group's expansion into renewable energy, like wind farms, could help the company to grow at a higher than expected rate due to the potential of higher return on investments. Low unemployment and colder temperatures in its service areas should also help the company improve its financial metrics.

Final Thoughts & Recommendation

After fourth quarter results, WEC Energy Group is expected to offer a total annual return of 11.8% through 2029, up from our previous estimate of a 10.1% return. Our projected return stems from an annual earnings growth rate of 6%, a starting yield of 4.1%, and a low single-digit tailwind from multiple expansion. WEC Energy's last few quarters have been mixed, but management expects to see a record year for the company in 2024. Shares are also trading below our target multiple, making the stock more appealing on a valuation basis. We have increased our five-year price target $6 to $123 and continue to rate shares of WEC Energy Group as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,997	5,926	7,472	7,649	7,680	7,523	7,242	8,316	9,597	8,893
Gross Profit	1,625	1,977	2,654	2,770	2,511	2,660	2,890	3,000	3,301	3,601
Gross Margin	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%	39.9%	36.1%	34.4%	40.5%
D&A Exp.	417	584	763	799	846	926	976	1,074	1,123	1,264
Operating Profit	1,112	1,251	1,696	1,776	1,468	1,531	1,706	1,715	1,924	2,087
Operating Margin	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%	23.6%	20.6%	20.0%	23.5%
Net Profit	590	640	940	1,205	1,061	1,135	1,201	1,302	1,409	1,333
Net Margin	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%	16.6%	15.7%	14.7%	15.0%
Free Cash Flow	438	27	680	119	330	85	(43)	(220)	(273)	526
Income Tax	362	434	567	384	170	125	228	200	323	205

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	14,905	29,355	30,123	31,591	33,476	34,952	37,028	38,989	41,872	43,940
Cash & Equivalents	62	50	38	39	85	38	25	16	29	43
Accounts Receivable	643	1,029	1,242	1,351	1,281	1,177	1,203	1,506	1,818	1,503
Inventories	401	687	588	539	548	550	529	636	807	775
Goodwill & Int. Ass.	442	3,024	3,046	3,054	3,053	3,053	3,053	3,053	3,053	3,053
Total Liabilities	10,455	20,670	21,163	22,099	23,633	24,697	26,366	27,875	30,256	31,868
Accounts Payable	363	815	862	860	876	908	881	1,006	1,198	897
Long-Term Debt	5,212	10,377	10,176	11,033	11,799	12,689	14,227	15,460	17,111	18,798
Shareholder's Equity	4,450	8,655	8,930	9,461	9,789	10,113	10,470	10,913	11,377	11,724
LTD/E Ratio	1.17	1.19	1.14	1.16	1.20	1.25	1.36	1.41	1.50	1.60

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%	3.3%	3.4%	3.5%	3.1%
Return on Equity	13.5%	9.8%	10.7%	13.1%	11.0%	11.4%	11.7%	12.2%	12.6%	11.5%
ROIC	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%	5.0%	5.1%	5.1%	4.5%
Shares Out.	226	316	316	316	316	317	317	315	316	316
Revenue/Share	21.97	21.73	23.58	24.11	24.23	23.75	22.88	26.29	30.36	28.15
FCF/Share	1.92	0.10	2.15	0.38	1.04	0.27	(0.14)	(0.70)	(0.86)	1.66

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