Avista Corp. (AVA)

Updated February 28th, 2024, by Tiago Dias

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$2.4 B
Fair Value Price:	$35	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/22/2024
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	03/15/2024
Dividend Yield:	5.8%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	21
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Avista Corp. (AVA) is an electric and natural gas utility operating primarily in the states of Washington, Idaho, Oregon, and Alaska. In addition to its regulated utility business, the company also operates other businesses, including venture funds, real estate investments, and other investments. Founded in 1889, this $2.4 billion market cap company has raised its dividend every year for the past 20 years.

Avista reported Q4 and full year 2023 earnings on February 21st, 2024. For the quarter, the company reported EPS of $1.08, compared to the $1.05 earnings per share the company reported in the same period in 2022. For the full year the company reported $2.24 in earnings per share, a step up compared to the $2.12 reported in the prior year. Avista declared a $0.475 dividend payable to shareholders in March.

The company initiated its 2024 earnings guidance with a consolidated range of $2.36 to $2.56 per share, with a clear warning that they expect a heavy negative impact of the regulatory energy recovery mechanism "ERM" for the first quarter of 2024, though this should balance out throughout the year.

During 2023, the company issued $250 million of long-term debt to fund the significant amounts of capital expenditures and other investments through out the year. For 2024 the firm expects to continue to invest heavily in capital expenditures to maintain and improve its business.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.84	$1.89	$2.15	$1.95	$2.07	$2.97	$1.90	$2.10	$2.12	$2.24	***$2.36***	***$2.74***
DPS	$1.27	$1.32	$1.37	$1.43	$1.49	$1.55	$1.62	$1.69	$1.76	$1.84	***$1.90***	***$2.20***
Shares	62	62	64	65	66	67	69	72	74	74	***74.0***	***77.0***

Utility companies are often seen as stable businesses with low volatility in their dividends, at the expense of limited growth opportunities. Avista Corp. is no different from its peers, and its dividend has steadily and slowly grown over the past decade. Unfortunately, this stability has also come at a great cost, and its revenue has been flat over this period, with earnings growth coming primarily from increased margins.

As a mature company in a mature industry, we don't expect this situation to change, and while the rate increases that are currently being negotiated may bump up the revenue a little bit, we expect that much of those increased revenues will be balanced out by higher costs, both in commodities and in labor. Additionally, environmental concerns will likely continue to add downward pressure in terms of overall electricity and natural gas consumption, and the company will also continue to issue shares which will also depress earnings per share.

For these reasons we estimate only 3% annual growth over the next 5 years, and estimate earnings of $2.74 per share in 2029, with a dividend per share of $2.20. This is a more conservative estimate than the company's own expectations, but one that we believe is more in line with the company's historical norms and prospects.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	17.3	17.6	18.8	23.4	24.5	15.0	21.2	20.2	20.0	18.0	***14.0***	***15.0***
Avg. Yld.	4.0%	4.0%	3.4%	3.1%	2.9%	3.5%	4.0%	4.0%	4.2%	4.6%	***5.8%***	***5.4%***

Avista has traded hands with an average P/E ratio of about 19 times earnings in the last decade. While it's possible that this premium will continue to be paid, such a situation would not be justified by the company's fundamentals, and as such we expect the company's valuation to be re-rated to the lower end of its historical range by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	69%	70%	64%	73%	72%	52%	85%	80%	83%	82%	***81%***	***81%***

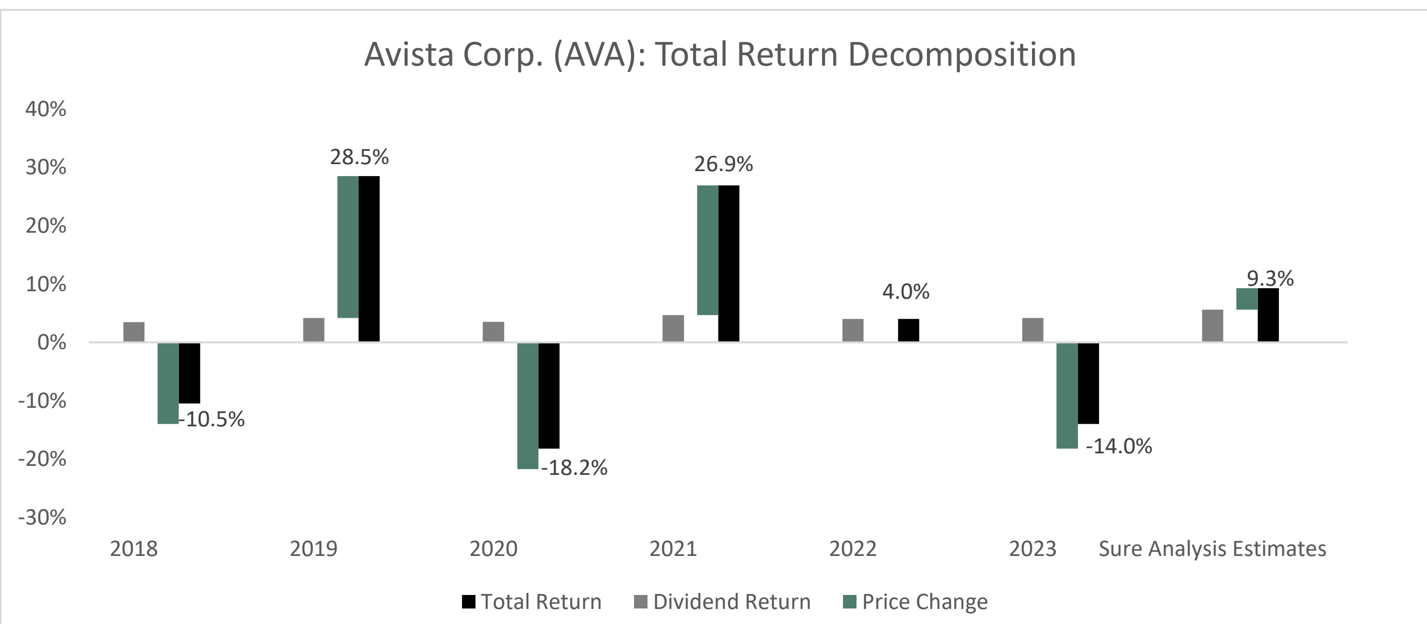
The core competitive advantage is also the thing that prevented its revenue growth over the past decade, Avista is a regulated utility. Regulated utilities receive government backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the same time, however, the stringent regulations they operate under make it difficult to grow the business, and operate it in an efficient manner, and any price increases are subject to political pressures.

So far, the company has been successful in its settlements with regulators, and there is every expectation that the ongoing rate plans that are being negotiated will also be successful, but such things always introduce additional risks that investors should be aware of.

Final Thoughts & Recommendation

Despite an attractive 5.8% dividend yield, we are forecasting total return potential of just 9.3% per annum, driven by the yield and 3% growth, offset by the possibility of a small valuation headwind. As a result, the shares earn a hold 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	1,442	1,473	1,485	1,442	1,446	1,397	1,346	1,322	1,439	1,710
Gross Profit	752	794	828	891	921	902	906	923	942	974
Gross Margin	52.2%	53.9%	55.8%	61.8%	63.7%	64.6%	67.3%	69.9%	65.5%	57.0%
D&A Exp.	133	138	148	165	176	187	206	224	232	253
Operating Profit	231	253	253	300	307	265	230	233	228	190
Op. Margin	16.0%	17.2%	17.1%	20.8%	21.2%	19.0%	17.1%	17.6%	15.9%	11.1%
Net Profit	111	192	123	137	116	136	197	129	147	155
Net Margin	7.7%	13.0%	8.3%	9.5%	8.0%	9.8%	14.6%	9.8%	10.2%	9.1%
Free Cash Flow	(61)	(65)	(18)	(48)	(2)	(62)	(44)	(73)	(173)	(328)
Income Tax	58	72	67	78	83	26	31	7	12	-17

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,362	4,701	4,907	5,310	5,515	5,783	6,082	6,402	6,854	7,417
Cash & Equivalents	99	22	10	9	16	15	10	14	22	13
Acc. Receivable	221	172	169	180	186	166	167	164	203	256
Inventories	45	66	54	53	58	64	67	67	85	108
Goodwill & Int.	116	58	58	58	58	58	52	52	52	52
Total Liabilities	3,044	3,218	3,378	3,661	3,784	4,009	4,143	4,372	4,699	5,083
Accounts Payable	182	113	114	116	107	108	110	107	133	203
Long-Term Debt	1,559	1,645	1,730	1,854	1,926	2,105	2,133	2,263	2,484	2,809
Total Equity	1,298	1,484	1,529	1,649	1,730	1,773	1,939	2,030	2,155	2,335
LTD/E Ratio	1.20	1.11	1.13	1.12	1.11	1.19	1.10	1.12	1.15	1.20

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.6%	4.2%	2.6%	2.7%	2.1%	2.4%	3.3%	2.1%	2.2%	2.2%
Return on Equity	8.7%	13.8%	8.2%	8.6%	6.9%	7.8%	10.6%	6.5%	7.0%	6.9%
ROIC	4.0%	6.4%	3.9%	4.1%	3.2%	3.6%	5.0%	3.1%	3.3%	3.2%
Shares Out.	60	62	62	64	65	66	67	69	72	73
Revenue/Share	24.03	23.79	23.68	22.57	22.31	21.18	20.29	19.41	20.53	23.40
FCF/Share	(1.01)	(1.05)	(0.28)	(0.76)	(0.03)	(0.95)	(0.67)	(1.08)	(2.46)	(4.48)

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