



Energy Inc. (EVRG)

Updated November 11th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	10.6%	Market Cap:	\$14.4 B
Fair Value Price:	\$70	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/21/2024
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.0%	Dividend Payment Date:	12/20/2024
Dividend Yield:	4.2%	5 Year Price Target	\$89	Years Of Dividend Growth:	20
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Energy is an electric utility that was formed with the merger of Great Plains Energy and Westar Energy in 2017 and is headquartered in Kansas City, Missouri. Through its subsidiaries Energy Kansas, Energy Metro and Energy Missouri West, the company serves approximately 1.5 million residential customers, nearly 200,000 commercial customers and 6,900 industrial customers and municipalities in Kansas and Missouri. Energy has a market capitalization of \$14.4 billion and is significantly impacted by seasonality, as about one-third of its retail revenues is recorded in the third quarter.

In early November, Energy reported (11/7/24) financial results for the third quarter of fiscal 2024. The company benefited from rate hikes and higher weather-normalized demand, partly offset by cooler summer weather and higher depreciation. As a result, its adjusted earnings-per-share grew 7% over the prior year's quarter, from \$1.88 to \$2.02, and beat the analysts' consensus by \$0.08.

The business outlook of Energy is positive, as the utility has proved resilient to high interest rates and high inflation. Due to unfavorable weather in the greater part of 2023, Energy incurred a -5% decrease in earnings-per-share last year, but it reaffirmed its positive guidance for 2024. It expects adjusted earnings-per-share of \$3.73-\$3.93 and reiterated its long-term guidance for 4%-6% adjusted earnings-per-share growth. It also expects earnings-per-share of \$3.92-\$4.12 in 2025.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.35	\$2.09	\$2.43	\$2.27	\$2.50	\$2.89	\$3.10	\$3.54	\$3.71	\$3.54	\$3.83	\$4.89
DPS	\$1.40	\$1.44	\$1.52	\$1.60	\$1.74	\$1.93	\$2.05	\$2.18	\$2.33	\$2.48	\$2.67	\$3.41
Shares¹	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.6	230.5	231.0	230.0

Energy has grown its earnings-per-share at a 4.7% average annual rate over the last decade. This mid-single digit growth rate is typical in the utility sector. However, Energy has enhanced its investments in growth projects lately and hence it is likely to accelerate its growth pattern in the upcoming years. The company expects to spend \$16.2 billion on capital expenses in 2025-2029 while it will also reduce its operational and maintenance expenses. It has reduced these expenses by -18% since 2018 and expects to reduce them by another -8% until the end of this year. Given also expected regulatory approval of 6% annual growth in rates until 2029, Energy expects to grow its earnings-per-share by 5%-6% per year starting in 2026. The utility also expects to grow its dividend in line with its earnings-per-share, at a 5%-6% annual rate, and maintain a dividend payout ratio of 60%-70%. We expect 5.0% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.3	18.5	21.6	23.4	21.8	20.9	19.0	17.6	17.5	16.1	16.4	18.2
Avg. Yld.	3.9%	3.7%	2.9%	3.0%	3.2%	3.2%	3.5%	3.5%	3.6%	4.4%	4.2%	3.8%

¹ In millions.

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The surge of interest rates to a nearly 23-year high exerts pressure on the valuation of utilities, as investors can find decent yields elsewhere. As a result, Energy is currently trading at a price-to-earnings ratio of 16.4, which is lower than its historical 5-year average of 18.2. If Energy trades at its 5-year average valuation level in five years, it will enjoy a 2.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	60%	69%	63%	70%	70%	67%	66%	62%	63%	70%	70%	70%

The subsidiaries of Energy operate on a fully regulated retail utility model in Missouri and Kansas and thus they do not face any competition in these markets. This typical utility model, which generates reliable and growing earnings, is undoubtedly a strong competitive advantage.

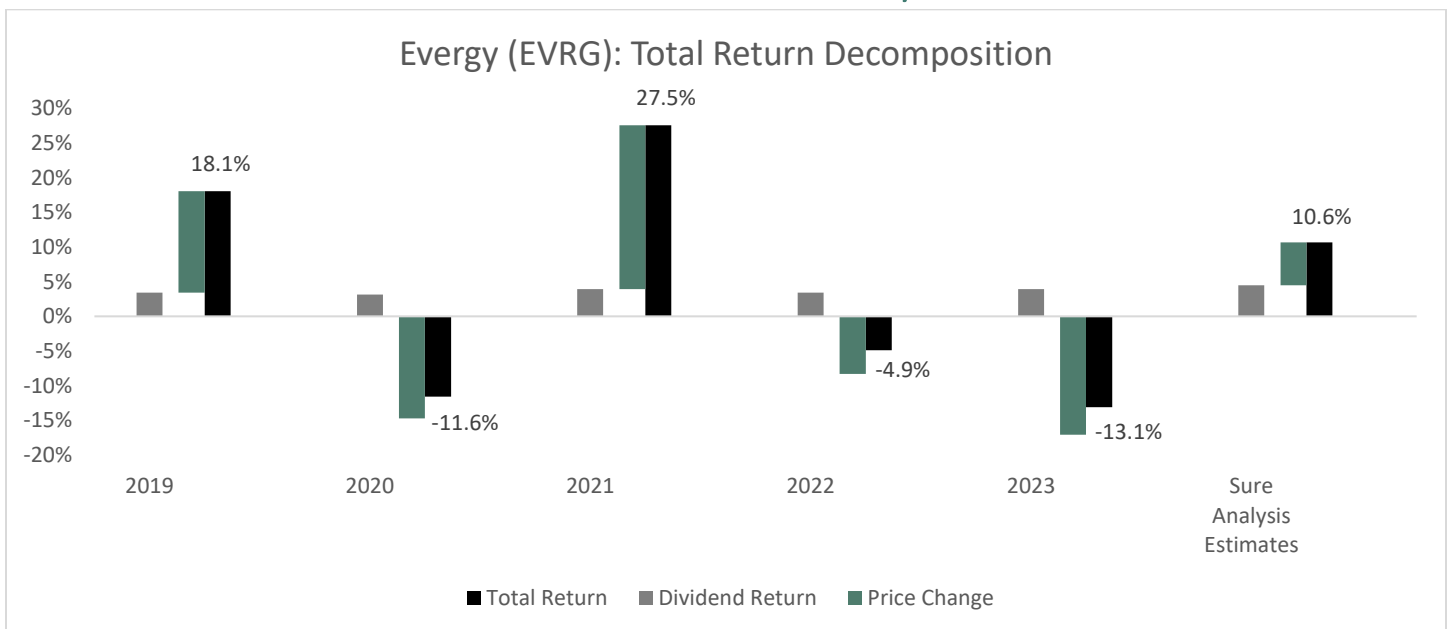
Another major advantage of utilities is their resilience to recessions. Even during the fiercest recessions, people do not cut electricity consumption. In fact, they spend more time at home and thus they increase their consumption. In the severe recession, which was caused by the pandemic, Energy grew its adjusted earnings-per-share 7% in 2020, to an all-time high level. Moreover, thanks to its 4.2% dividend, its reasonable payout ratio of 70% and its expected dividend growth rate of 4%-6% per year until at least 2029, Energy is a great candidate for income-oriented investors.

The only material risk factor for Energy is an environment of higher interest rates. Treasury yields have surged in the last three years due to high inflation and the resultant interest rate hikes implemented by the Fed. If bond yields rise significantly from current levels, which is unlikely, they will render the dividend yield of Energy less attractive and hence they will exert pressure on its stock price.

Final Thoughts & Recommendation

Energy has proved resilient to the pandemic and the highly inflationary environment prevailing now and has promising growth prospects ahead. It is also trading with a cheap valuation, which is likely to highly reward investors whenever interest rates moderate. Energy has rallied 26% in 12 months but it could still offer a 10.6% average annual return over the next five years thanks to 5.0% earnings-per-share growth, its 4.2% dividend and a 2.0% annualized valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,602	2,459	2,562	2,571	4,276	5,148	4,913	5,587	5,859	5,508
Gross Profit	1,310	1,339	1,233	1,218	1,822	2,413	2,388	2,632	2,630	2,766
Gross Margin	50.4%	54.4%	48.1%	47.4%	42.6%	46.9%	48.6%	47.1%	44.9%	50.2%
SG&A Exp.	250	250	---	---	---	---	---	---	---	---
D&A Exp.	312	338	365	404	662	913	938	948	985	1,139
Operating Profit	633	621	702	679	934	1,186	1,144	1,355	1,302	1,282
Operating Margin	24.3%	25.3%	27.4%	26.4%	21.8%	23.0%	23.3%	24.3%	22.2%	23.3%
Net Profit	313	292	347	324	536	670	618	880	753	731
Net Margin	12.0%	11.9%	13.5%	12.6%	12.5%	13.0%	12.6%	15.7%	12.9%	13.3%
Free Cash Flow	(27)	16	(283)	148	428	539	194	(621)	(365)	(354)
Income Tax	151	152	185	151	59	97	102	117	48	16

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,289	10,706	11,487	11,624	25,598	25,976	27,115	28,521	29,490	30,976
Cash & Equivalents	5	3	3	3	160	23	145	26	25	28
Accounts Receivable	267	258	289	165	17	7	5	14	9	3
Inventories	247	301	300	294	511	482	505	567	673	776
Goodwill & Int. Ass.	---	---	---	---	2,339	2,337	2,337	2,337	2,337	2,337
Total Liabilities	6,988	7,034	7,654	7,764	15,607	17,431	18,396	19,279	19,997	21,291
Accounts Payable	219	221	221	204	452	529	654	640	601	617
Long-Term Debt	3,639	3,581	4,018	4,073	8,527	9,950	10,321	11,166	12,036	13,147
Shareholder's Equity	3,295	3,657	3,806	3,908	10,028	8,572	8,733	9,244	9,484	9,663
D/E Ratio	1.10	0.98	1.06	1.04	0.85	1.16	1.18	1.21	1.27	1.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.2%	2.8%	3.1%	2.8%	2.9%	2.6%	2.3%	3.2%	2.6%	2.4%
Return on Equity	9.9%	8.4%	9.3%	8.4%	7.7%	7.2%	7.1%	9.8%	8.0%	7.6%
ROIC	4.6%	4.1%	4.6%	4.1%	4.1%	3.6%	3.3%	4.5%	3.6%	3.3%
Shares Out.	132.8	139.3	142.5	142.6	214.1	239.9	227.5	230.3	230.3	230.5
Revenue/Share	19.59	17.66	17.98	18.03	19.97	21.46	21.60	24.33	25.44	23.90
FCF/Share	(0.20)	0.11	(1.99)	1.04	2.00	2.25	0.85	(2.70)	(1.58)	(1.53)

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

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