



NorthWestern Corp. (NWE)

Updated February 14th, 2025, by Ian Bezek

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	13.0%	Market Cap:	\$3.2 B
Fair Value Price:	\$61	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/14/25
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	03/31/25
Dividend Yield:	5.1%	5 Year Price Target	\$82	Years Of Dividend Growth:	20
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

NorthWestern Corp. is a Sioux Falls, South Dakota based electricity and gas utility. It has 1,570 employees, and primarily serves the states of South Dakota and Montana. The company has been dramatically overhauling its energy generation fleet. While NorthWestern long relied on coal for the majority of its power production, that has now shifted with wind, solar, and hydroelectric accounting for approximately 55% of total combined power generation today. The company opened a small new power plant in 2022 and just completed a much larger new one which began commercial operations in August 2024. NorthWestern spent a total of \$310 million for that plant, and it came in on-time and on-budget. Northwestern believes this plant will help the company have adequate generation capacity to meet demand even at peak hours, improving the firm's overall efficiency.

On July 29th, 2024, the company announced the purchase of the Energy West natural gas utility distribution system, adding 33,000 additional customers.

On Feb. 13th, 2025, NorthWestern announced its Q4 2024 earnings. The results were below expectations, but that was in part due to unfavorable weather rather than operational issues. Adjusted earnings-per-share of \$1.13 fell from the \$1.38 reported in the same period last year. Revenues rose 5% year-over-year to \$351 million.

We are encouraged by the company's latest developments. The new Yellowstone plant is a key piece of infrastructure for the company's future and it is nice to see it becoming operational without any cost overruns. And tuck-in acquisitions such as the Energy West deal are likely to add value. That said, a delay in implementation of a rate review along with weakness in natural gas volumes slightly reduced the company's results in 2024 versus prior expectations. We believe 2025 should be a relatively solid year for the company and are projecting \$3.60 in EPS, which would be 6% growth.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.90	\$3.39	\$3.34	\$3.40	\$3.53	\$3.06	\$3.60	\$3.18	\$3.22	\$3.40	\$3.60	\$4.82
DPS	\$1.92	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.48	\$2.52	\$2.56	\$2.60	\$2.64	\$2.91
Shares¹	48	48	49	50	50	51	54	56	61	61	62	65

Since 2015, NorthWestern Corp. has grown its earnings-per-share by an average compound rate of just 1.8%. Meanwhile, it has grown its dividend by 3.4% per year on average over the same period. NorthWestern's earnings growth has slowed significantly in recent years, with current earnings merely in-line with where the company was back in 2019. The company's dividend hikes have also slowed down, with 2025's increase being by just one cent per quarter.

In light of more favorable recent developments, however, we are forecasting a more upbeat 6.0% intermediate-term earnings growth rate as the company appears to have reached a positive operational inflection point.

The company recently completed a heavy investment cycle with its new power facilities. This came unfortunately timed with a surge in interest rates, which increased financing costs. As such, it's understandable why NorthWestern has moved to smaller dividend increases than it has historically achieved. As part of its balance sheet management, the

¹ In millions.

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company has engaged in some share dilution recently, which further limits the potential pace of earnings and dividend growth. We believe the growth outlook has improved now that the Yellowstone plant is up and running.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2029
Avg. P/E	18.4	17.2	17.8	16.8	19.9	19.5	16.9	18.2	16.5	14.9	14.4	17.0
Avg. Yld.	3.6%	3.4%	3.5%	3.9%	3.3%	4.0%	4.1%	4.3%	4.8%	4.9%	5.1%	3.6%

NorthWestern has historically had a stable P/E ratio with its average not going above 20 or below ~15 over the past decade. Shares are right at the bottom of their historical valuation range today, which appears to be an opportunity. We see the company's long-term P/E multiple moving back up to around 17.

The company's dividend yield has generally run between the mid-3% to low 4% range. The current 5.1% dividend yield is a much higher than usual entry point for the stock. Offsetting the higher starting dividend yield, however, is the fact that dividend growth has decelerated over the past couple of years. And dividend growth may remain muted thanks to the company's recent investment cycle and related share dilution.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	66%	59%	63%	65%	65%	78%	69%	79%	80%	76%	73%	61%

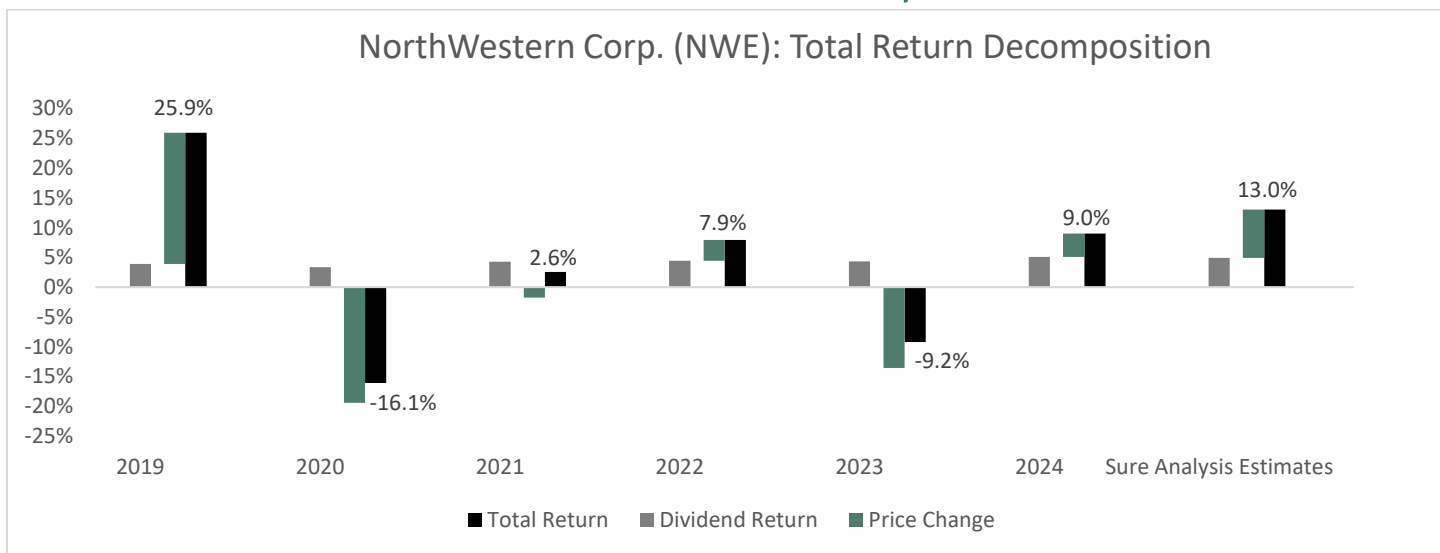
NorthWestern is somewhat on the small side as far as publicly traded utilities go and could face some geographical risk if anything happens to curb power demand in key states such as South Dakota and Montana. However, utilities, as an industry, are highly resilient and tend to fare relatively well during economic duress.

NorthWestern aims to have its dividend payout ratio be between 60% and 70%. However, it has now moved above this based on the past few years' earnings. We expect that earnings will grow more quickly than dividends through 2030 as NorthWestern seeks to get its payout ratio back down to something below 70%.

Final Thoughts & Recommendation

NorthWestern shares have lagged the market over the past year and trade below our fair value estimate. Between the high starting yield and 6% forecast annualized growth rate, we believe shares can deliver favorable returns going forward. Our outlook calls for 13.0% annualized returns from today's price; shares earn a buy rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,205	1,214	1,257	1,306	1,192	1,258	1,199	1,372	1,478	1,422
Gross Profit	722	841	856	895	919	940	892	947	986	781
Gross Margin	59.9%	69.3%	68.1%	68.6%	77.1%	74.7%	74.5%	69.0%	66.7%	54.9%
SG&A Exp.	306	297	294	295	307	109	94	102	114	117
Operating Profit	178	266	255	272	266	277	236	276	263	300
Operating Margin	14.8%	21.9%	20.3%	20.8%	22.3%	22.0%	19.7%	20.1%	17.8%	21.1%
Net Profit	121	151	164	163	197	202	155	187	183	194
Net Margin	10.0%	12.5%	13.1%	12.5%	16.5%	16.1%	12.9%	13.6%	12.4%	13.6%
Free Cash Flow	(20)	56	(1)	46	98	(19)	(54)	(214)	(208)	(78)
Income Tax	(10)	30	(8)	13	(19)	(20)	(11)	3	(0.6)	7.5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,974	5,265	5,499	5,421	5,644	6,083	6,389	6,780	7,318	7,194
Cash & Equivalents	20	12	5	8	8	5	6	3	8,489	7,601
Acc. Receivable	163	154	160	182	162	167	168	199	245	212
Inventories	55	53	49	52	51	54	61	81	107	115
Total Liabilities	355	358	358	358	358	358	358	358	4,653	4,851
Accounts Payable	3,496	3,665	3,823	3,622	3,702	4,044	4,310	4,441	202	124
Long-Term Debt	82	75	79	85	87	97	100	115	2,619	2,785
Total Equity	1,930	1,998	2,094	2,113	2,102	2,233	2,415	2,541	2,665	2,785
LTD/E Ratio	1,478	1,600	1,676	1,799	1,942	2,039	2,079	2,340	0.98	1.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.8%	3.0%	3.1%	3.0%	3.6%	3.4%	2.5%	2.8%	2.6%	2.6%
Return on Equity	9.6%	9.8%	10.0%	9.4%	10.5%	10.2%	7.5%	8.5%	7.3%	7.1%
ROIC	4.2%	4.3%	4.5%	4.2%	5.0%	4.9%	3.5%	4.0%	3.6%	3.6%
Shares Out.	46.9	48.2	48.3	49.4	50.3	50.4	50.6	54.1	56.3	60.4
Revenue/Share	29.85	25.46	25.94	26.83	23.73	24.94	23.71	26.54	26.25	23.56
FCF/Share	(0.50)	1.18	(0.02)	0.95	1.95	(0.38)	(1.06)	(4.15)	(3.69)	(1.29)

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

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