



Otter Tail Corporation (OTTR)

Updated May 7th, 2025 by Samuel Smith

Key Metrics

Current Price:	\$76.6	5 Year CAGR Estimate:	10.2%	Market Cap:	\$3.2 B
Fair Value Price:	\$92.3	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/15/25
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	06/10/25
Dividend Yield:	2.7%	5 Year Price Target	\$113	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Sector:	Utilities	Rating:	Hold

Overview & Current Events

Otter Tail Corporation goes back to 1907 with its electric utility, which was founded in Fergus Falls, MN. The company eventually expanded into metal fabrication and plastics manufacturing and today, it generates over \$1 billion in annual revenue split between utility, manufacturing and plastics operations. Otter Tail has a \$3.2 billion market capitalization.

On May 5, 2025, Otter Tail Corporation reported its financial results for the first quarter ended March 31, 2025. The company achieved diluted earnings per share of \$1.62, surpassing analyst expectations of \$1.54, though this represented an 8% decrease from the \$1.77 reported in the same period of the previous year. Total operating revenues were \$337.4 million, slightly below the prior year's \$347.1 million and under the projected \$349.7 million. Net income for the quarter was \$68.1 million, down from \$74.3 million year-over-year. The Electric segment experienced a 5.8% increase in operating revenues to \$149.7 million, driven by higher fuel recovery revenues and favorable weather conditions, leading to a 10% rise in net income to \$24.7 million. Conversely, the Manufacturing segment saw a 17.8% decline in operating revenues to \$81.7 million, primarily due to decreased sales volumes in key markets such as recreational vehicles and agriculture, resulting in a 70.9% drop in net income to \$1.5 million. The Plastics segment reported a marginal decrease in operating revenues by \$0.3 million, attributed to an 11% decline in sales prices, although sales volumes increased by 13%. Otter Tail maintained a strong liquidity position with \$607 million available as of March 31, 2025, and declared a quarterly dividend of \$0.525 per share, marking a 12% increase from the previous year. The company reaffirmed its 2025 diluted earnings per share guidance range of \$5.68 to \$6.08, anticipating a consolidated return on equity between 13.8% and 14.6%. Management expressed confidence in its long-term strategy, emphasizing investments in renewable generation and large transmission projects, and projecting a compounded annual growth rate in rate base of 9% from 2025 to 2029, aiming for earnings-per-share growth of 6% to 8% over the long term.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.56	\$1.60	\$1.86	\$2.06	\$2.15	\$2.34	\$4.23	\$6.78	\$7.00	\$7.17	\$6.15	\$7.50
DPS	\$1.23	\$1.25	\$1.28	\$1.34	\$1.40	\$1.48	\$1.56	\$1.65	\$1.75	\$1.87	\$2.10	\$2.60
Shares¹	38.0	39.4	39.6	39.7	40.2	41.5	41.6	41.6	41.7	41.8	41.9	42.0

Otter Tail's earnings-per-share history has been fairly strong in the last decade, as earnings bottomed in 2010 and have grown every year since. We see earnings per share increasing at a 4% annualized pace going forward. The company's manufacturing and plastics businesses have benefited from higher order rates as well as a lower income tax rate, while seeing gross margins tick higher over time.

The higher operating expenses seen in prior quarters are uncharacteristic for Otter Tail, so we don't see any long-term impairment just yet. We see all of these factors as continuing until further notice and as a result, earnings should decline steadily in the coming years. Otter Tail's full rate case in South Dakota is still pending, but the company has a favorable relationship with its regulators, so we are optimistic that Otter Tail will continue to receive the rate increases it needs to grow revenue.

¹ 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.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.2	20.2	22.1	22.2	24.2	17.4	17.5	8.1	13.4	13.0	12.5	15.0
Avg. Yld.	4.2%	4.3%	3.9%	3.1%	2.9%	2.7%	3.6%	2.5%	2.8%	2.8%	2.7%	2.3%

The stock’s price-to-earnings multiple has moved significantly lower in recent years after being artificially inflated due to low earnings-per-share from 2008 to 2011. However, today’s multiple of 12.5 is below its recent historical norm of 20 and below our fair value estimate of 15. We think shares will return to a multiple of roughly 15 over time, producing a tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

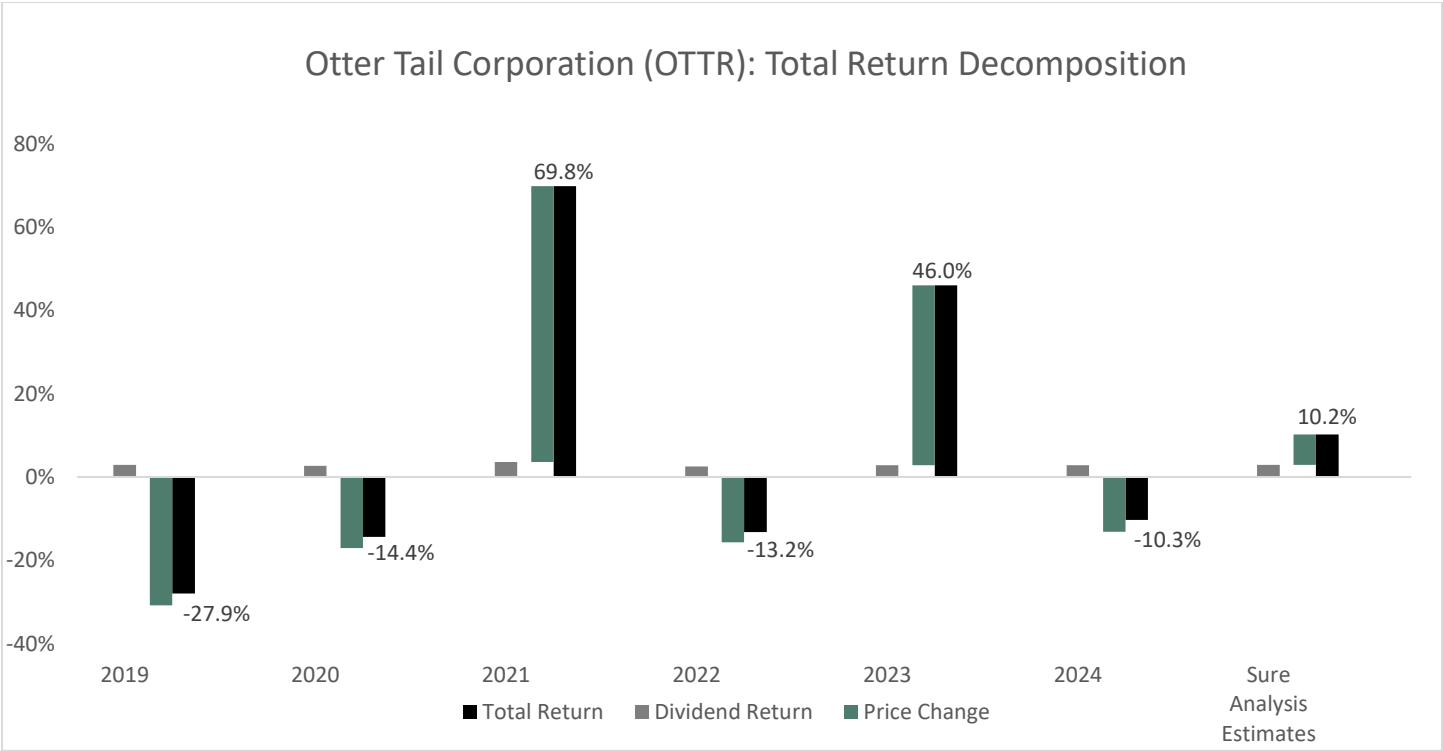
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	79%	78%	69%	65%	65%	63%	37%	24%	25%	26%	34%	35%

Otter Tail’s payout ratio is generally around two-thirds of earnings and we don’t expect that will change longer-term. However, bumper earnings this year has the payout ratio much lower temporarily. The company continues to boost its payout at roughly the same rate as earnings, so the dividend is quite safe and should continue to move higher over time. Otter Tail’s competitive advantage of having a diversified business model is also its disadvantage during recessions. The non-utility businesses are providing strong growth today but during the last recession, earnings fell much more than expected for a pure utility. That will likely happen next time there is a downturn, so investors should keep this in mind.

Final Thoughts & Recommendation

We see Otter Tail as a stock that offers a 10.2% annualized total return potential moving forward along with a safe 2.7% dividend yield that will grow slowly but steadily over time. As a result, it looks like a decent investment at the moment, making it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	780	804	849	916	920	890	1,197	1,460	1,349	1,331
Gross Profit	223	243	261	271	280	302	424	570	565	583
Gross Margin	28.6%	30.2%	30.8%	29.6%	30.4%	33.9%	35.4%	39.1%	41.9%	43.8%
D&A Exp.	60	73	73	75	78	82	91	93	98	107
Operating Profit	109	117	132	129	135	148	250	390	378	380
Operating Margin	14.0%	14.5%	15.6%	14.1%	14.7%	16.6%	20.9%	26.7%	28.0%	28.6%
Net Profit	59	62	72	82	87	96	177	284	294	302
Net Margin	7.6%	7.8%	8.5%	9.0%	9.4%	10.8%	14.8%	19.5%	21.8%	22.7%
Free Cash Flow	(43)	2	41	38	(22)	(160)	59	218	117	94
Income Tax	22	20	27	15	17	20	36	73	69	65

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,819	1,912	2,004	2,053	2,274	2,578	2,755	2,902	3,243	3,652
Cash & Equivalents	-	-	16	1	21	1	2	119	230	295
Accounts Receivable	63	68	68	75	79	87	142	112	129	112
Inventories	85	84	88	106	98	92	148	146	150	149
Goodwill & Int. Ass.	55	53	51	50	49	48	47	46	44	43
Total Liabilities	1,214	1,242	1,307	1,324	1,492	1,707	1,764	1,684	1,800	1,984
Accounts Payable	89	89	85	96	121	121	135	104	94	114
Long-Term Debt	577	581	603	609	696	846	855	832	905	1,013
Shareholder's Equity	605	670	697	729	781	871	991	1,217	1,443	1,668
LTD/E Ratio	0.95	0.87	0.87	0.84	0.89	0.97	0.86	0.68	0.63	0.61

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.3%	3.3%	3.7%	4.1%	4.0%	4.0%	6.6%	10.0%	9.6%	8.8%
Return on Equity	10.1%	9.8%	10.6%	11.6%	11.5%	11.6%	19.0%	25.7%	22.1%	19.4%
ROIC	5.2%	5.1%	5.7%	6.2%	6.2%	6.0%	9.9%	14.6%	13.4%	12.0%
Shares Out.	38.0	39.4	39.6	39.7	40.2	41.5	41.6	41.6	41.7	41.8
Revenue/Share	20.70	20.75	21.37	22.97	23.01	21.76	28.62	34.82	32.09	31.63
FCF/Share	(1.13)	0.05	1.02	0.95	(0.56)	(3.90)	1.42	5.20	2.79	2.24

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

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