

WEC Energy Group (WEC)

\$95.26 (As of 07/31/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/25/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

WEC Energy's shares have outperformed the industry in the past year. The company continues to record customer wins in electric and natural gas space, which are likely to boost its sales volume. It also expects long-term earnings growth in the range of 5-7% per year and projects capital investment to be nearly \$15 billion over the 2020-2024 period. Also, it inked a deal to acquire 85% ownership in Tatanka Ridge Wind Farm. Moreover, it carries strong investment-grade credit ratings, which allow it to enjoy superior creditworthiness in the respective market. It is also focused on reducing carbon emissions by nearly 80%, below the 2005-levels by 2050. However, rigid state, local and federal governmental regulations may affect WEC Energy's ability to recover costs. Its dependence on its subsidiaries' financial footing is a concern too.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$109.53 - \$68.01
20 Day Average Volume (sh)	1,295,350
Market Cap	\$30.0 B
YTD Price Change	3.3%
Beta	0.17
Dividend / Div Yld	\$2.53 / 2.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 30% (177 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.3%
Last Sales Surprise	-12.8%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	08/04/2020
Earnings ESP	1.0%
P/E TTM	25.9
P/E F1	25.5
PEG F1	4.3
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,676 E
2020	2,109 A	1,603 E	1,654 E	2,018 E	7,384 E
2019	2,377 A	1,590 A	1,608 A	1,948 A	7,523 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.00 E
2020	\$1.43 A	\$0.69 E	\$0.75 E	\$0.88 E	\$3.75 E
2019	\$1.33 A	\$0.74 A	\$0.74 A	\$0.77 A	\$3.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/31/2020. The reports text is as of 08/03/2020.

Overview

WEC Energy Group is a diversified holding company, engaged in the generation and distribution of electricity in southeastern, east central and northern Wisconsin, as well as in the upper peninsula of Michigan.

The company also distributes natural gas; owns, develops and operates coal, oil, gas and renewable fuel-based electricity generating facilities; and invests in other energy-related entities. It also develops and invests in real estate.

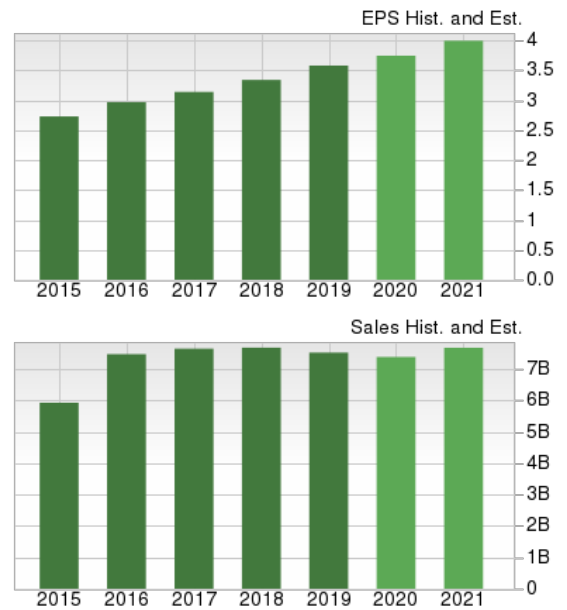
WEC Energy was founded in 1981 and is headquartered in Milwaukee, WI.

On Jun 29, 2015, Wisconsin Energy Corporation announced that it has completed the acquisition of Integrys Energy, forming WEC Energy Group. The major operating headquarters of the combined entity are in Milwaukee, Green Bay and Chicago.

In June 2017, the company completed the acquisition of Bluewater Natural Gas Holding — an operator of underground natural gas storage facility in Michigan.

Currently, the company provides electricity and natural gas to 4.5 million customers (1.6 million electric and 2.9 million gas customers) in Wisconsin, Illinois, Michigan and Minnesota through its customer facing brands — We Energies, Wisconsin Public Service, Peoples Gas, North Shore Gas, Michigan Gas Utilities and Minnesota Energy Resources.

The company's other major subsidiary is We Power. Post completion of the acquisition WEC Energy Group has a 60% ownership interest in ATC. The company has 70,600 miles of electric distribution lines and 49,500 miles of gas distribution lines. The company has an asset base of \$35 billion.



Reasons To Buy:

- ▲ Shares of WEC Energy have returned 12.4% in the past 12 months against the industry's decline of 0.9%. Owing to efficient management and proper execution of its plans, WEC Energy delivered strong results and surpassed its earnings guidance in the past 16 years.

Due to the coronavirus outbreak, the global economy is facing a crisis. However, the company's first-quarter business faced minimal impact of the outbreak. It started a strong year and is well positioned to deal with uncertainties ahead. Even the major economic development projects are on track.

The company continues to expect positive news on the economic developments in the upcoming days. For example, the construction of a high-tech campus by Foxconn in south of Milwaukee is underway. Foxconn is expected to invest \$10 billion in this high-tech manufacturing campus. The operations are expected to begin in 2020. The Gen 6 fabrication plant for LCD panels is fully enclosed and the internal build out is underway. Smart manufacturing facility is also on track to begin in the fourth quarter of this year.

- ▲ Based on improving condition in the company's service area, it continues to witness an uptick in customer growth. At the end of 2019, the company had an additional 10,000 electric and 14,000 natural gas customers compared with the year-ago quarter's level. At the end of the first quarter, the company had an additional 10,000 electric and 12,000 natural gas customers compared with the year-ago quarter's level. The company expects both electric and natural gas sales to improve in the range of 1.2-1.5%, respectively, by the 2022-2024-time frame.

For 2020 to 2024-time frame, the company plans to invest \$15 billion. Of the total investments, the company will spend \$5.7 billion on Gas Distribution, \$2.8 billion on Electric Distribution, \$2.2 billion on Generation, \$1.8 billion on Energy infrastructure, \$1.3 billion on ATC Investment and \$1.2 billion on Technology. The company expects long-term earnings growth in the range of 5-7% per year.

- ▲ WEC Energy, under its "Delivering" the Future initiative is focusing on Natural Gas System Modernization Program, Technology Enhancements, Electric Redesign and Electric Resilience projects. The company's Modernization and Reliability project includes modernization of the electric distribution system and burying or upgrading lines. The company is also working to upgrade and strengthen its natural gas distribution system. It expects to spend \$2.8 billion over the next five years on electric delivery and plans for installing 2,200 miles of underground circuits to replace worrying overhead lines. It plans for \$280-300 million annual average investment on natural gas system modernization program. WEC Energy is focusing on its Advanced Metering Infrastructure (AMI) program across four states it serves and plans to spend \$1.2 billion through 2020-2024.

Moreover, the company is working to maintain reliable and affordable service for its customers. It is seeking approval for two LNG facilities to address demand for additional natural gas supply in Wisconsin. If approved, the construction will begin in summer of 2021 and will be in service by late 2023. Total investments for the project are expected to be \$370 million.

- ▲ WEC Energy is also focused on reducing carbon emissions by approximately 80% below 2005 levels by 2050. In 2019, the company met and exceeded its 2030 goal of reducing carbon emissions by 40% below 2005 levels. The company also set a plan to reduce methane emissions by approximately 30% below 2011 levels by 2030. It is also evaluating its longer-term carbon reduction goals. In line with this, the company has retired 40% of coal generation since 2014.

The company is investing in cost-effective zero-carbon generation like solar and wind. Three solar projects each with 100 megawatt (MW) capacity are expected to be completed by 2020 and 2021. The company is also investing nearly \$1.38 billion on five wind projects.

- ▲ The utility company has been consistently hiking dividends. In Jan 2020, the company hiked annual dividend rate to \$2.53 that reflects an increase of 7.2% and thereby increasing shareholders' value. WEC Energy projects annual dividends to grow in tandem with its earnings and a payout ratio of 65-70%. The company projected dividend growth in line with earnings growth of 5-7% per year. The company's current dividend yield is pegged at 2.76%, better than the Zacks S&P 500 composite's average yield of 1.96%.

- ▲ In the first quarter of 2020, the company's Long-term debt amounted to \$11,194.7 million down from \$11,211 million at the end of 2019. Its times interest earned ratio at the end of first quarter improved to 3.6 from prior-year quarter's level of 3.5. The strong ratio indicates that the firm will be able to meet debt obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainties stemming from the COVID-19 outbreak, improving times interest earned ratio of the company is reassuring for investors.

Moreover, WEC Energy carries strong investment-grade credit ratings, ranging between A and A-, which allows it to enjoy superior credit worthiness in the market. This, in turn, allows the company access to cheaper sources of funds for its investment projects.

WEC Energy's ongoing investments in infrastructure projects, a gradual improvement in the economy and its "Delivering" the Future initiative will drive growth.

Reasons To Sell:

- ▼ The company's operations are subject to significant state, local and federal governmental regulation, including regulation by the various utility commissions in the states where they serve customers. These regulations may affect WEC Energy's ability to recover costs from utility customers as well as cause it to incur substantial compliance and other costs. Moreover, a significant portion of the company's electricity is generated from coal. The emission rules are becoming stricter and the company might incur significant costs to comply with these environmental requirements, including costs associated with the installation of pollution control equipment, environmental monitoring, emission fees and permits at its facilities.
- ▼ WEC Energy, as a holding company, depends on the performance of its subsidiaries to meet financial obligations. These subsidiaries have their own financial obligations to fulfill and might not be able to pay dividend or other desired amounts, compromising WEC Energy's ability to meet its financial obligations.

Dependency upon subsidiaries, significant government regulation and adherence of the same could hurt margins.

Last Earnings Report

WEC Energy Q1 Earnings Beat Estimates, Revenues Miss

WEC Energy delivered first-quarter 2020 adjusted earnings per share of \$1.43, which beat the Zacks Consensus Estimate of \$1.32 by 8.33%. The bottom line increased 7.5% from the year-ago quarter's tally of \$1.33.

Revenues

Total revenues amounted to \$2,109 million, which missed the Zacks Consensus Estimate of \$2,418 million by 12.7%. The reported figure declined 11.3% from \$2,377 million in the year-ago quarter.

Highlights of the Release

Residential use of electricity in the first quarter fell 4.6% year over year. Electricity consumption by small commercial and industrial customers declined 2.6% year on year. Electricity used by large commercial and industrial customers, excluding iron ore mines, dropped 3.1% on a year-over-year basis. On a weather-normal basis, retail deliveries of electricity, excluding the iron ore mine, inched down 2%.

Natural gas deliveries in Wisconsin, excluding gas used for power generation, dropped 10.6% from the year-ago quarter's reported figure. On a weather-normal basis, natural gas deliveries fell 1.1%.

At the end of the first quarter, the company had an additional 10,000 electric and 12,000 natural gas customers compared with the year-ago quarter's level.

As of Mar 31, 2020, WEC Energy had cash and cash equivalents of \$15.4 million compared with \$37.5 million as of Dec 31, 2019.

As of Mar 31, 2019, the company had long-term debt of \$3,870 million, compared with \$3,769.3 million as of Dec 31, 2019.

The company's net cash provided by operating activities at the end of the first quarter was \$690.5 million compared with \$735.7 million at the end of the first quarter of 2019.

Capital expenditure at the end of the quarter was \$496.1 million compared with \$358.8 million at the end of the year-ago quarter.

Guidance

The company reaffirmed 2020 earnings per share guidance in the range of \$3.71-\$3.75. The midpoint of the current guidance is \$3.73, which is in line with the Zacks Consensus Estimate.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	-12.78%
EPS Surprise	8.33%
Quarterly EPS	1.43
Annual EPS (TTM)	3.68

Recent News

WEC Energy to Buy 85% Stake in Tatanka Ridge Wind Farm for \$235M- July 28, 2020

WEC Energy inked a deal to acquire an 85% ownership interest in Tatanka Ridge Wind Farm, which is under construction in Deuel County, South Dakota for an estimated investment of \$235 million. Commercial operation is likely to begin by early 2021.

The Tatanka Ridge site is expected to have 56 wind turbines with a combined capacity of 155 MW. The project will have long-term offtake agreements for total energy produced with a multinational investment grade company and a well-established electric cooperative that serves utilities in multiple states.

Valuation

WEC Energy shares are up 4.7% in the year to date period, and 12.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 10.1% and 10.7% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 0.9% and sector is down 3%

The S&P 500 index is up 2.7% in the year to date period and 17.6% in the past year.

The stock is currently trading at 24.47X of forward 12 months earnings, which compares to 14.07X for the Zacks sub-industry, 13.05X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.63X and as low as 16.33X, with a 5-year median of 19.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 25.69X of forward 12 months earnings.

The table below shows summary valuation data for WEC

Valuation Multiples -WEC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.47	14.07	13.05	22.64
	5-Year High	27.63	15.52	15.31	22.64
	5-Year Low	16.33	11.11	11.38	15.25
	5-Year Median	19.92	13.25	13.78	17.55
P/S F12M	Current	3.98	2.34	2.73	3.59
	5-Year High	4.13	2.45	3.29	3.59
	5-Year Low	1.66	1.54	1.75	2.53
	5-Year Median	2.59	1.9	2.06	3.04
P/B TTM	Current	2.87	5	3.73	4.47
	5-Year High	3.23	2.04	4.16	4.56
	5-Year Low	1.74	1.27	2.01	2.83
	5-Year Median	2.19	1.57	2.62	3.72

As of 7/31/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
China Resources Power Holdings Co. (CRPJY)	Outperform	2
Ameren Corporation (AEE)	Neutral	3
Brookfield Infrastructure Partners LP (BIP)	Neutral	5
CMS Energy Corporation (CMS)	Neutral	2
DTE Energy Company (DTE)	Neutral	3
Eversource Energy (ES)	Neutral	3
Fortis Inc. (FTS)	Neutral	3
PPL Corporation (PPL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	WEC	X Industry	S&P 500	AEE	CMS	PPL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	F	-	-	C	F	B
Market Cap	30.05 B	8.68 B	22.59 B	19.81 B	18.37 B	20.46 B
# of Analysts	4	3	14	5	5	3
Dividend Yield	2.66%	3.46%	1.83%	2.47%	2.54%	6.24%
Value Score	D	-	-	C	C	B
Cash/Price	0.00	0.07	0.07	0.00	0.05	0.05
EV/EBITDA	15.35	9.81	12.94	11.67	12.85	9.08
PEG Ratio	4.25	3.57	3.04	3.43	3.47	NA
Price/Book (P/B)	2.87	1.60	3.17	2.41	3.52	1.54
Price/Cash Flow (P/CF)	14.58	8.08	12.51	10.24	10.72	6.24
P/E (F1)	25.47	17.85	21.87	23.18	24.24	10.98
Price/Sales (P/S)	4.14	1.89	2.44	3.42	2.76	2.64
Earnings Yield	3.93%	5.53%	4.31%	4.31%	4.13%	9.09%
Debt/Equity	1.07	1.03	0.75	1.14	2.42	1.56
Cash Flow (\$/share)	6.53	4.21	6.94	7.84	5.99	4.27
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	6.84%	5.07%	10.85%	7.69%	6.95%	1.65%
Proj. EPS Growth (F1/F0)	4.61%	0.63%	-7.75%	3.34%	6.35%	-1.09%
Curr. Cash Flow Growth	8.12%	6.30%	5.39%	2.50%	6.78%	7.26%
Hist. Cash Flow Growth (3-5 yrs)	15.13%	6.08%	8.55%	6.59%	7.74%	3.35%
Current Ratio	0.65	0.86	1.31	0.62	0.96	0.56
Debt/Capital	51.64%	50.57%	44.32%	53.27%	70.72%	60.95%
Net Margin	16.09%	10.46%	10.44%	13.51%	10.68%	23.68%
Return on Equity	11.40%	9.16%	14.73%	9.62%	14.68%	14.46%
Sales/Assets	0.21	0.22	0.52	0.20	0.25	0.17
Proj. Sales Growth (F1/F0)	-1.85%	0.00%	-1.95%	1.36%	-1.05%	3.39%
Momentum Score	F	-	-	B	F	C
Daily Price Chg	0.23%	-0.12%	-0.92%	-0.75%	-0.06%	1.11%
1 Week Price Chg	3.38%	0.30%	0.37%	0.99%	2.87%	-1.12%
4 Week Price Chg	5.64%	4.09%	3.81%	9.57%	6.43%	1.68%
12 Week Price Chg	11.90%	10.17%	11.93%	15.20%	17.68%	9.59%
52 Week Price Chg	9.27%	-11.35%	-1.92%	4.70%	8.80%	-10.43%
20 Day Average Volume	1,295,350	340,025	1,887,986	1,247,716	1,653,029	4,270,806
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.47%	0.00%	0.38%	0.93%	0.61%	0.14%
(F1) EPS Est 12 week change	0.47%	-0.34%	-0.07%	0.42%	0.18%	-0.07%
(Q1) EPS Est Mthly Chg	-1.96%	0.00%	0.16%	2.44%	-2.83%	2.54%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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