

WEC Energy Group (WEC)

\$92.20 (As of 04/08/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/25/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Shares of WEC Energy have outperformed the industry in the past 12 months. It continues to record increase in electric and natural gas customer base, which are likely to boost its sales volume. The company expects long-term earnings growth in the range of 5-7% per year. It projected total capital expenditure to be nearly \$15 billion over the 2020-2024 period. Through the 'Delivering the Future' initiative, the company is focusing on strengthening distribution lines and infrastructure. The company is also focused on reducing carbon emissions by approximately 80% below 2005 levels by 2050. However, significant state, local and federal governmental regulations may affect WEC Energy's ability to recover costs. Its dependence on financial performance of subsidiaries is a concern.

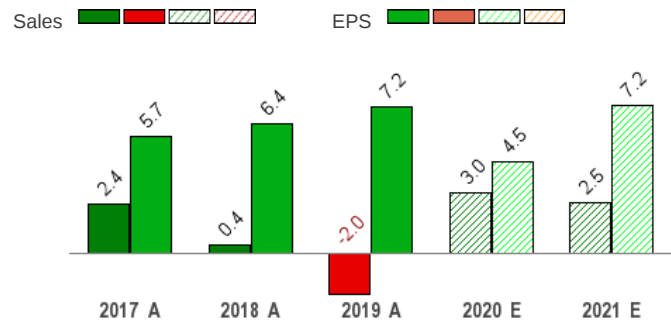
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$109.53 - \$68.01
20 Day Average Volume (sh)	2,971,581
Market Cap	\$29.1 B
YTD Price Change	-0.0%
Beta	0.21
Dividend / Div Yld	\$2.53 / 2.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 20% (50 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	-7.8%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	25.8
P/E F1	24.7
PEG F1	4.2
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,944 E
2020	2,419 E	1,642 E	1,668 E	2,024 E	7,752 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					\$4.01 E
2020	\$1.32 E	\$0.75 E	\$0.78 E	\$0.88 E	\$3.74 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 04/08/2020. The reports text is as of 04/09/2020.

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.

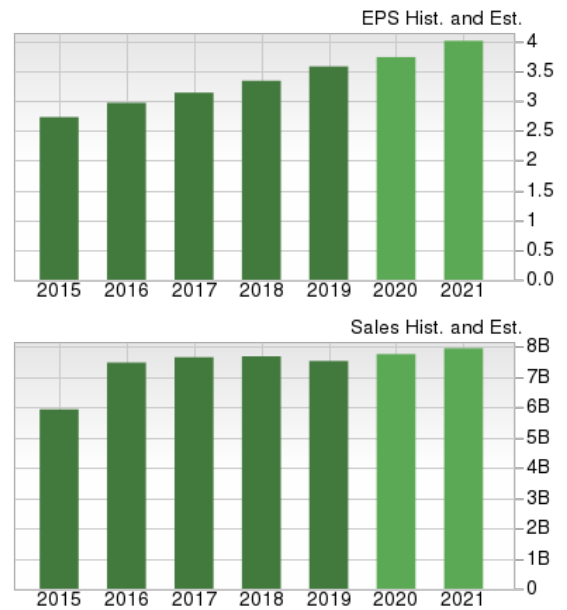
WEC Energy was founded in 1981 and is headquartered in Milwaukee, WI.

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 19.9% in the past 12 months against the industry's decline of 7.6%. 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.

The economic condition in WEC Energy's service territories is improving at a steady pace. The company continues to see positive news on the economic developments in upcoming times. For example, the decision of Foxconn to develop a production plant in Wisconsin is underway. Foxconn is expected to invest \$10 billion in this high-tech manufacturing campus. The operations are expected to begin in 2020.

Based on improving economic condition, the company 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. It resulted in higher demand from residential as well as industrial and commercial customers. 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.

- ▲ The company expects long-term earnings growth in the range of 5-7% per year. On December 2019, Public Service Commission of Wisconsin approved rate settlements. New rates become effective from Jan 1, 2020. This is likely to boost the bottom line.

WEC Energy updated its five year capital spending plans. 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.

- ▲ 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 by replacing 2,000 miles of pipes and projects \$280-300 million annual average investment. 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. 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. 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 \$1.27 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 2.88%, better than the Zacks S&P 500 composite's average yield of 2.31%.

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 Q4 Earnings Beat Estimates, Revenues Miss

WEC Energy delivered fourth-quarter 2019 adjusted earnings per share of 77 cents, which beat the Zacks Consensus Estimate of 72 cents by 6.94%. The bottom line increased from the year-ago quarter's tally of 65 cents by 18.5%.

In 2019, the company generated earnings of \$3.58 per share compared with adjusted earnings of \$3.34 per share in 2018.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-7.83%
EPS Surprise	6.94%
Quarterly EPS	0.77
Annual EPS (TTM)	3.58

Revenues

Total revenues amounted to \$1,947.5 million, which missed the Zacks Consensus Estimate of \$2,113 million by 7.83%. The reported figure declined from \$2,076.8 million in the year-ago quarter.

The company generated \$7,523.1 million revenues in 2019, down 2.03% from \$7,679.5 million in 2018.

Highlights of the Release

Residential use of electricity in 2019 fell 2.5% year over year. Electricity consumption by small commercial and industrial customers declined 2.5% year on year. Electricity used by large commercial and industrial customers, excluding iron ore mines, dropped 3.5% on a year-over-year basis. On a weather-normal basis, retail deliveries of electricity, excluding the iron ore mine, inched down 1.7%.

Natural gas deliveries in Wisconsin, excluding gas used for power generation, moved up 2.6% during 2019. On a weather-normal basis, natural gas deliveries improved 1.8%.

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.

Financial Position

As of Dec 31, 2019, WEC Energy had cash and cash equivalents of \$37.5 million compared with \$84.5 million as of Dec 31, 2018.

As of Dec 31, 2019, the company had long-term debt of \$11.2 billion, up almost 12.2% from 2018-end level.

The company's net cash provided by operating activities at the end of 2019 was \$2.3 billion compared with \$2.4 billion in the year-ago period.

Capital expenditure at the end of 2019 was \$2.3 billion, up from \$2.1 billion a year ago.

Guidance

The company reaffirmed 2020 earnings per share guidance in the range of \$3.71-\$3.75. The projection is in line with its long-term objective of achieving earnings growth rate of 5-7% on an annual basis. The midpoint of the current guidance is \$3.73, which is lower than the Zacks Consensus Estimate of \$3.74.

Recent News

WEC Energy to increase ownership interest in three Midwest wind farms -Feb 19, 2020

WEC Energy recently announced that it has agreed to increase its ownership interest from 80% to 90% for an additional 75 megawatts of capacities, in its three Midwest windfarms: Blooming Grove Wind Farm, Thunderhead Wind Energy Center and the Upstream Wind Energy Center, with total investment of \$118 million.

Valuation

WEC Energy shares are down 0.1% in the year to date period, and up 19.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 16.5% and 18.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.6% and 22.3%, respectively.

The S&P 500 index is down 17.3% in the year to date period and 8% in the past year.

The stock is currently trading at 24.17X of forward 12 months earnings, which compares to 12.22X for the Zacks sub-industry, 11.56X for the Zacks sector and 16.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.63X and as low as 16.1X, with a 5-year median of 19.68X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 25.72X 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	24.17	12.22	11.56	16.99
	5-Year High	27.63	15.53	15.39	19.34
	5-Year Low	16.1	11.12	11.38	15.19
	5-Year Median	19.68	13.23	13.82	17.44
P/S F12M	Current	3.63	2.19	2.44	2.94
	5-Year High	4.13	2.45	3.29	3.44
	5-Year Low	1.66	1.54	1.75	2.54
	5-Year Median	2.52	1.87	2.03	3
P/B TTM	Current	2.85	1.44	2.99	3.54
	5-Year High	3.23	1.87	4.04	4.55
	5-Year Low	1.68	1.17	2.02	2.84
	5-Year Median	2.18	1.56	2.59	3.63

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 253)



Top Peers

Ameren Corporation (AEE)	Neutral
DTE Energy Company (DTE)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
Public Service Enterprise Group Incorporated (PEG)	Neutral
Xcel Energy Inc. (XEL)	Neutral
Avangrid, Inc. (AGR)	Underperform

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	WEC Neutral	X Industry	S&P 500	AEE Neutral	ES Neutral	XEL Neutral
VGM Score	C	-	-	C	D	B
Market Cap	29.08 B	7.20 B	19.05 B	18.75 B	27.53 B	32.95 B
# of Analysts	4	2	13	5	6	5
Dividend Yield	2.74%	3.31%	2.23%	2.60%	2.72%	2.74%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.05	0.06	0.00	0.00	0.01
EV/EBITDA	14.99	9.76	11.47	11.07	14.73	12.00
PEG Ratio	4.44	3.52	2.00	3.73	3.76	3.73
Price/Book (P/B)	2.84	1.45	2.56	2.28	2.14	2.49
Price/Cash Flow (P/CF)	14.11	7.94	10.14	9.70	12.30	10.05
P/E (F1)	26.09	17.33	16.97	21.98	22.85	22.46
Price/Sales (P/S)	3.87	1.87	2.01	3.17	3.23	2.86
Earnings Yield	4.06%	5.64%	5.81%	4.55%	4.38%	4.46%
Debt/Equity	1.10	1.06	0.70	1.09	1.09	1.31
Cash Flow (\$/share)	6.53	4.27	7.01	7.84	6.78	6.25
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	6.88%	4.77%	10.92%	8.19%	5.00%	5.90%
Proj. EPS Growth (F1/F0)	4.40%	3.45%	-0.64%	3.22%	5.75%	5.91%
Curr. Cash Flow Growth	8.12%	3.84%	5.93%	2.50%	3.84%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	15.13%	5.53%	8.55%	6.59%	8.38%	8.62%
Current Ratio	0.66	0.83	1.24	0.57	0.67	0.68
Debt/Capital	52.23%	51.32%	42.36%	52.09%	52.44%	56.80%
Net Margin	15.08%	10.79%	11.64%	14.01%	10.66%	11.90%
Return on Equity	11.18%	9.80%	16.74%	10.29%	9.21%	10.74%
Sales/Assets	0.22	0.23	0.54	0.21	0.21	0.23
Proj. Sales Growth (F1/F0)	3.05%	0.00%	0.61%	4.12%	6.34%	7.95%
Momentum Score	B	-	-	B	B	C
Daily Price Chg	5.06%	3.52%	4.33%	6.26%	4.47%	6.03%
1 Week Price Chg	-4.29%	-4.82%	-4.40%	-7.39%	-7.29%	-1.55%
4 Week Price Chg	-5.39%	-5.98%	-1.70%	-6.01%	-5.06%	-6.02%
12 Week Price Chg	-3.11%	-14.98%	-20.64%	-2.80%	-4.55%	-2.59%
52 Week Price Chg	19.83%	-8.61%	-12.97%	6.31%	18.55%	13.46%
20 Day Average Volume	2,971,581	827,925	4,016,075	2,496,365	3,195,914	5,804,156
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.13%	-0.15%	-5.64%	-0.63%	0.14%	-0.07%
(F1) EPS Est 12 week change	0.20%	-0.54%	-7.49%	-0.54%	0.18%	0.39%
(Q1) EPS Est Mthly Chg	-1.32%	-0.52%	-9.90%	1.73%	-1.15%	3.78%

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	B
Momentum Score	B
VGM Score	C

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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