

WEC Energy Group (WEC)

\$98.23 (As of 01/22/20)

Price Target (6-12 Months): **\$104.00**

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:D

Value: D

Growth: D

Momentum: D

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 volume. It 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. It projects annual dividends to grow in sync with its earnings at a payout ratio of 65-70%. Through the "Delivering the Future" initiative, the company is focusing on Natural Gas System Modernization Program, Technology Enhancements, Electric Redesign and Electric Resilience projects. However, a significant portion of its electricity is generated from coal-fired units. Some coal units might be subject to emission regulation, rendering them uneconomical. Its dependence on financial performance of subsidiaries is a concern.

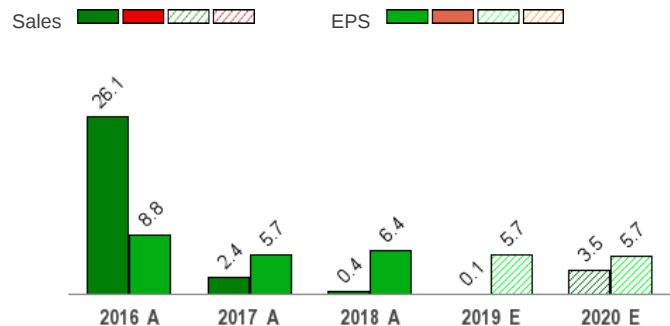
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.92 - \$69.76
20 Day Average Volume (sh)	1,231,913
Market Cap	\$31.0 B
YTD Price Change	6.5%
Beta	-0.01
Dividend / Div Yld	\$2.53 / 2.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 38% (158 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.4%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	26.3
PEG F1	4.5
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,961 E
2019	2,377 A	1,590 A	1,608 A	2,113 E	7,689 E
2018	2,287 A	1,673 A	1,644 A	2,077 A	7,680 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.28 E	\$0.76 E	\$0.77 E	\$0.92 E	\$3.73 E
2019	\$1.33 A	\$0.74 A	\$0.74 A	\$0.72 E	\$3.53 E
2018	\$1.23 A	\$0.73 A	\$0.74 A	\$0.65 A	\$3.34 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 01/22/2020. The reports text is as of 01/23/2020.

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.

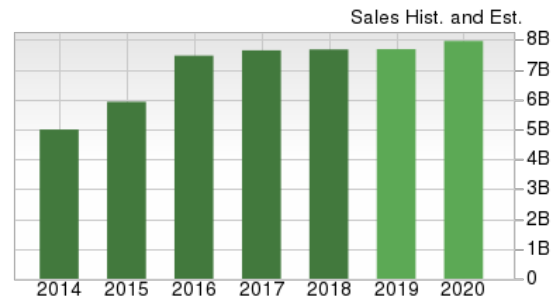
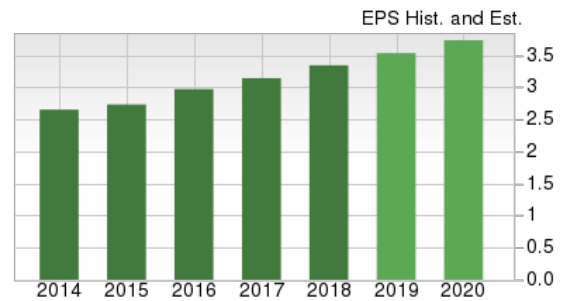
On Jun 29, 2015, Wisconsin Energy Corporation announced that it has completed the acquisition of Integrys Energy, forming WEC Energy Group. The major operating headquarters of the combined entity are in Milwaukee, Green Bay and Chicago.

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 70,100 miles of electric distribution lines and 49,000 miles of gas distribution lines. The company has an asset base of \$19.8 billion.

In 2018, Total Utility Operations contributed \$7,632.9 million, Non-Utility Energy Infrastructure contributed \$468.4 million and Corporate and Other contributed \$8.7 million to total revenues. Reconciling Eliminations impacted revenues by \$430.5 million.



Reasons To Buy:

- ▲ Shares of WEC Energy have returned 36% in the past 12 months compared with the industry's rise of 22.1%. Owing to efficient management and proper execution of its plans, WEC Energy delivered strong results and surpassed its earnings guidance in the past 14 years.

The economic condition in WEC Energy's service territories is improving at a steady pace. Unemployment in Wisconsin remained near record lows compared with the state. 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. Moreover, the company is also focused on powering industry leaders in their region. Amazon is investing \$200 million for expansion in this region, which is expected to be opened in the first quarter of 2020 and further boost demand for WEC Energy.

Based on improving economic condition, the company continues to witness an uptick in customer growth. At the end of the third quarter, the company had an additional 10,000 electric and 21,000 natural gas customers, up from the year-ago quarter's levels. 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, with more than 99% of the bottom line being derived from regulated operations. On Oct 31, 2019, Public Service Commission of Wisconsin approved rate settlements. The company expects to receive final written order by end of 2019, with new rates expected to become effective from Jan 1, 2020. This is likely to boost the bottom line.

WEC Energy updated its five year capital spending plans. For 2019 to 2023 time frame the company was planning to invest \$14.11 billion but now it projects total capital expenditure to be nearly \$15 billion over the 2020-2024 time frame. 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. WEC Energy is focusing on its Advanced Metering Infrastructure (AMI) program across four states it serves.

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 to reduce carbon emissions by approximately 40% below 2005 levels by 2030 and 80% by 2050. 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 \$925 million on four wind projects which have approximate capacity of 729 MW.

- ▲ The utility company has been consistently hiking dividends. In Jan 2019, the company hiked annual dividend rate to \$2.36 that reflects an increase of 6.8% 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's current dividend yield is pegged at 2.4%, better than the Zacks S&P 500 composite's average yield of 1.77%.

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:

- ▼ A significant portion of WEC Energy's electricity is generated from coal. Even though contribution from coal is declining in the generation mix, coal still accounted for 44.7% of total electricity produced in 2018. Contribution from coal is expected to fall to 35.9% 2019. The company is presently working to lower its production 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 fulfil 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 Q3 Earnings Top Estimates, Revenues Miss

WEC Energy delivered third-quarter 2019 adjusted earnings of 74 cents per share, which beat the Zacks Consensus Estimate of 73 cents by 1.4%. The bottom line was flat on a year-over-year basis.

Revenues

Total revenues of \$1,608 million missed the Zacks Consensus Estimate of \$1,665 million by 3.4%. Also, the figure declined from \$1,643.7 million reported in the year-ago quarter.

Highlights of the Release

Residential use of electricity in the third quarter fell 3.8% year over year. Electricity consumption by small commercial and industrial customers declined 3.4% year on year. Electricity utilized by large commercial and industrial customers fell 4.3% on a year-over-year basis. Excluding iron ore mines, electricity utilized by large commercial and industrial customers declined 5.6%. Demand for electricity was affected by milder-than-normal weather in service territories. Moreover, destructive July storms that included nine tornadoes made extensive damage to the company's distribution network.

WEC Energy witnessed an increase in customer base in the reported quarter. At the end of September 2019, the company had an additional 10,000 electric and 21,000 natural gas customers compared with the year-ago quarter's level.

Total operating expenses dipped 3.3% year over year to \$1,297.1 million.

Operating income in the reported quarter rose 2.7% from the prior-year quarter's tally to \$310.9 million.

Total interest expenses in the reported quarter rose 12.3% from the prior-year quarter's figure to \$125.8 million.

Financial Position

As of Sep 30, 2019, WEC Energy had cash and cash equivalents of \$20 million compared with \$84.5 million as of Dec 31, 2018.

As of Sep 30, 2019, the company had long-term debt of \$10,897.3 million, up from \$9,994 million at the end of 2018.

Net cash generated by the company's operating activities in the first nine months of 2019 was \$1,840.7 million compared with \$2,008.2 million in the year-ago period.

Capital expenditure in the first nine months of 2019 was \$1,511.5 million, up from \$1,490.5 million in the year-ago period.

Guidance

Previously, the company projected its 2019 earnings per share (EPS) guidance in the range of \$3.50-\$3.53. Currently, 2019 EPS is expected in the range of \$3.51-\$3.53. The midpoint of the current guidance is \$3.52, which is lower than the Zacks Consensus Estimate of \$3.53.

Quarter Ending 09/2019

Report Date	Nov 06, 2019
Sales Surprise	-3.43%
EPS Surprise	1.37%
Quarterly EPS	0.74
Annual EPS (TTM)	3.46

Recent News

WEC Energy to Reward Shareholders With 7.2% Dividend Hike- Dec 5, 2019

WEC Energy Group's (WEC) board of directors announced that it is planning to hike the quarterly dividend to 63.25 cents per share from the present level of 59 cents. The new quarterly dividend will be paid out on Mar 1, 2020 to its shareholders of record as of Feb 14, 2020. The company's current annual dividend yield is 2.8% compared with the Zacks S&P 500 composite's average yield of 1.8%

Valuation

WEC Energy shares are up 14.4% in the last six months period, and up 36% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 11.9% and 8.5% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 22.1% and sector is up 3.5%, respectively.

The S&P 500 index is up 10.7% in the last six months period and up 24.9% in the past year.

The stock is currently trading at 26.2X of forward 12 months earnings, which compares to 15.15X for the Zacks sub-industry, 14.08X for the Zacks sector and 19.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.52X and as low as 16.1X, with a 5-year median of 19.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 27.8X 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	26.2	15.15	14.08	19.14
	5-Year High	26.52	15.15	15.33	19.34
	5-Year Low	16.1	11.19	12.61	15.17
	5-Year Median	19.53	13.09	13.7	17.44
P/S F12M	Current	3.87	2.36	3.01	3.56
	5-Year High	3.91	2.36	3.26	3.56
	5-Year Low	1.66	1.5	1.7	2.54
	5-Year Median	2.46	1.83	1.95	3
P/B TTM	Current	3.05	1.93	4.2	4.54
	5-Year High	3.05	1.93	4.2	4.55
	5-Year Low	1.68	1.32	2.01	2.85
	5-Year Median	2.18	1.55	2.55	3.61

As of 1/22/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (158 out of 255)



Top Peers

Ameren Corporation (AEE)	Neutral
Avangrid, Inc. (AGR)	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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	WEC Neutral	X Industry	S&P 500	AEE Neutral	ES Neutral	XEL Neutral
VGM Score	D	-	-	C	D	D
Market Cap	30.99 B	9.41 B	24.65 B	19.66 B	29.12 B	34.72 B
# of Analysts	3	2	13	5	6	6
Dividend Yield	2.40%	2.68%	1.77%	2.48%	2.38%	2.45%
Value Score	D	-	-	C	D	C
Cash/Price	0.00	0.04	0.04	0.00	0.00	0.03
EV/EBITDA	16.62	11.56	13.98	11.26	14.67	12.92
PEG Ratio	4.48	4.06	2.05	3.73	4.29	4.18
Price/Book (P/B)	3.05	1.85	3.38	2.39	2.40	2.64
Price/Cash Flow (P/CF)	16.26	9.40	13.60	10.38	13.49	11.19
P/E (F1)	26.34	20.13	19.07	23.09	24.78	23.80
Price/Sales (P/S)	4.05	2.38	2.69	3.27	3.42	2.99
Earnings Yield	3.80%	4.93%	5.24%	4.33%	4.04%	4.20%
Debt/Equity	1.07	1.07	0.72	1.05	1.11	1.28
Cash Flow (\$/share)	6.04	4.03	6.94	7.70	6.67	5.92
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	6.85%	4.47%	10.60%	8.26%	5.10%	5.63%
Proj. EPS Growth (F1/F0)	5.74%	5.47%	7.53%	5.49%	5.07%	6.65%
Curr. Cash Flow Growth	6.17%	7.23%	13.90%	12.97%	14.10%	9.42%
Hist. Cash Flow Growth (3-5 yrs)	14.39%	4.93%	9.00%	8.12%	4.95%	8.08%
Current Ratio	0.63	0.81	1.22	0.65	0.59	0.72
Debt/Capital	51.69%	51.69%	42.99%	51.33%	52.87%	56.14%
Net Margin	14.32%	9.73%	11.21%	13.34%	10.46%	11.15%
Return on Equity	10.91%	9.28%	17.16%	10.10%	9.28%	10.35%
Sales/Assets	0.23	0.24	0.55	0.22	0.22	0.24
Proj. Sales Growth (F1/F0)	3.54%	3.21%	4.08%	3.85%	5.76%	5.02%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	0.57%	0.17%	-0.04%	-0.15%	0.17%	0.32%
1 Week Price Chg	4.19%	3.10%	2.29%	3.56%	5.12%	4.36%
4 Week Price Chg	7.21%	4.08%	2.05%	5.49%	7.13%	5.33%
12 Week Price Chg	4.73%	4.51%	6.92%	3.00%	8.06%	4.56%
52 Week Price Chg	36.81%	18.42%	21.50%	17.34%	31.70%	29.49%
20 Day Average Volume	1,231,913	261,386	1,518,423	1,291,538	1,741,942	2,485,334
(F1) EPS Est 1 week change	-0.07%	0.00%	0.00%	-0.43%	-0.32%	-0.12%
(F1) EPS Est 4 week change	0.07%	0.00%	0.00%	-0.34%	-0.32%	-0.18%
(F1) EPS Est 12 week change	-0.86%	-0.19%	-0.23%	-1.03%	-0.44%	-0.24%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.22%	2.67%	-2.89%

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	D
VGM Score	D

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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