



Black Hills Corporation (BKH)

Updated May 11th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	10.9%	Market Cap:	\$3.9B
Fair Value Price:	\$66	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/16/24
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	06/01/24
Dividend Yield:	4.6%	5 Year Price Target	\$81	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Black Hills Corporation is an electric utility that provides electricity and natural gas to customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota, and Wyoming. Black Hills was founded in 1941, and the company is headquartered in Rapid City, South Dakota. Black Hills Corporation has increased its dividend for more than 50 years in a row, which makes it a Dividend King thanks to five decades of dividend raises.

Black Hills Corporation reported its first quarter earnings results on May 8. The company generated revenues of \$730 million during the quarter, which was 21% less than the revenues that Black Hills Corporation was able to generate during the previous year's quarter. The decline in the company's revenues went hand in hand with a decline in the company's fuel and purchased power costs, however.

Black Hills Corporation generated earnings-per-share of \$1.87 during the first quarter, which was above the consensus analyst estimate. Earnings-per-share were up by 8% versus the previous year's quarter. Q4 and Q1 are seasonally stronger quarters due to higher natural gas demand for heating, which was again showcased by the above-average profitability during the first quarter. Black Hills Corporation forecasts earnings-per-share of \$3.80 to \$4.00 for the current fiscal year. The company earned \$3.91 in fiscal 2023, which means that the current guidance implies flat earnings compared to the previous year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.89	\$2.83	\$3.13	\$3.36	\$3.54	\$3.53	\$3.73	\$3.74	\$3.97	\$3.91	\$3.90	\$4.74
DPS	\$1.56	\$1.62	\$1.68	\$1.81	\$1.93	\$2.05	\$2.17	\$2.31	\$2.40	\$2.52	\$2.60	\$3.32
Shares¹	45	51	53	54	58	61	63	64	65	68	69	75

Black Hills' profitability has been rather volatile over the last decade. Overall, earnings-per-share grew by 14% annually in the 2011-to-2020 time frame. This is a strong growth rate for a utility.

The swings in Black Hills' profits are primarily based on the impact that weather conditions have on the demand for electricity, for cooling in summer, and natural gas, for heating in winter. Black Hills' growth over the coming years depends on several factors. This includes rate reviews, which drive revenues and profits per kWh. Another factor is the expansion of the company's existing assets via new utility infrastructure. Black Hills regularly adds new projects to its growth investment backlog, which currently stands at \$2.7 billion for the 2020-2024 time frame. Black Hills' planned growth investments include new electric transmission lines and new natural gas pipelines to service its customers.

Rate reviews will allow Black Hills to recover investments into its existing systems, thereby more or less guaranteeing increasing revenues, which should lead to rising profits down the road. In 2018, Black Hills exited its oil business, since then the company is less impacted by changes in commodity prices. The increased focus on its core utility business is a positive for Black Hills, as this allows for more consistent and reliable growth. We forecast a mid-single digit earnings-per-share growth rate in the long run, but there could be some ups and downs over the years.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.0	16.1	22.3	19.7	17.8	22.4	16.1	19.0	17.6	14.1	14.6	17.0
Avg. Yld.	2.8%	3.5%	2.9%	2.7%	3.3%	2.6%	3.6%	3.3%	3.6%	4.6%	4.6%	4.1%

Black Hills Corporation trades for 14 to 15 times this year’s expected net profits right now. Black Hills’ valuation has moved in a very wide range throughout the past. The company was valued at less than 10 times profits during the midst of the financial crisis, but at as much as 20+ times earnings in other years. Shares trade below our fair value estimate right now, and the dividend is at an attractive above-average level today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54.0%	57.2%	53.7%	53.9%	54.5%	58.1%	58.2%	61.8%	63.0%	64.5%	66.7%	69.9%

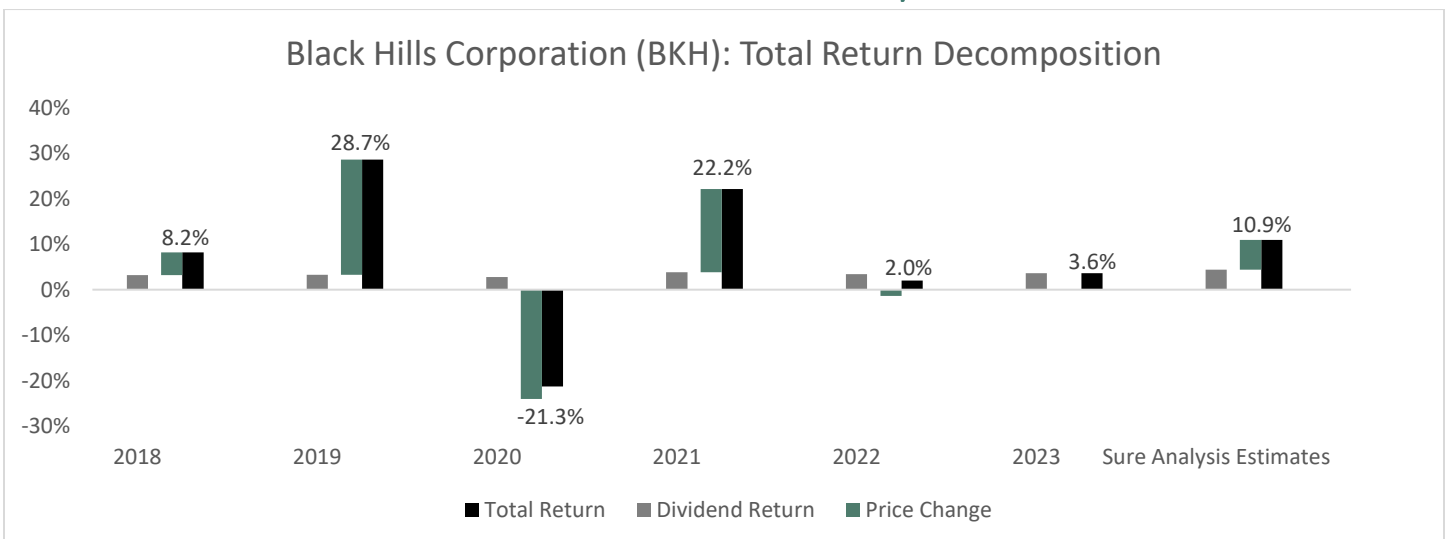
Overall, Black Hills Corporation’s dividend payout ratio declined between 2010 and 2019, due to a modest dividend growth rate. Today, the company pays out roughly 67% of its net profits in the form of dividends. It should be noted that Black Hills Corporation was not able to cover its dividend with net profits during 2008, when profits took a hit. The same thing happened during 2011. The company nevertheless raised its dividend during those years, and its decades-long dividend growth track record gives investors assurance that a dividend cut is unlikely from this utility company.

Demand for electricity and gas is not very cyclical, although it is dependent upon weather conditions to some degree. Thus, Black Hills should remain profitable under most circumstances. The fact that customers tend to stick with their provider means that Black Hills operates a relatively stable business model. The company should also be able to weather future recessions well, which creates appeal for more conservative investors.

Final Thoughts & Recommendation

Black Hills is a relatively small utility company, but it has a compelling dividend growth track record, having raised its dividend annually for more than five decades in a row. We believe that it is likely that the company will continue to grow its earnings and its dividend reliably over the coming years. The company’s shares trade below our fair value estimate right now and we forecast compelling returns going forward. We rate the stock a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,394	1,261	1,539	1,680	1,754	1,735	1,697	1,949	2,552	2,331
Gross Profit	453	481	613	662	647	668	709	706	773	796
Gross Margin	32.5%	38.1%	39.8%	39.4%	36.9%	38.5%	41.8%	36.2%	30.3%	34.2%
Operating Profit	264	300	336	417	397	406	428	409	455	473
Operating Margin	18.9%	23.8%	21.8%	24.8%	22.6%	23.4%	25.2%	21.0%	17.8%	20.3%
Net Profit	131	(32)	73	177	258	199	228	237	258	262
Net Margin	9.4%	-2.5%	4.7%	10.5%	14.7%	11.5%	13.4%	12.1%	10.1%	11.2%
Free Cash Flow	(83)	158	(134)	102	31	(313)	(226)	(742)	(20)	389
Income Tax	67	79	59	73	(24)	30	33	7	25	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,246	4,627	6,542	6,659	6,963	7,558	8,089	9,132	9,618	9,620
Cash & Equivalents	21	441	14	15	21	10	6	9	21	87
Accounts Receivable	119	80	137	126	147	145	147	181	268	199
Inventories	91	87	104	113	117	117	117	151	207	161
Goodwill & Int. Ass.	357	363	1,308	1,307	1,314	1,313	1,311	1,310	1,309	1,308
Total Liabilities	2,892	3,161	4,812	4,839	4,676	5,094	5,426	6,245	6,528	6,315
Accounts Payable	124	90	152	161	211	194	183	218	310	186
Long-Term Debt	1,618	1,930	3,314	3,326	3,142	3,495	3,771	4,547	4,668	4,401
Shareholder's Equity	1,354	1,466	1,615	1,709	2,182	2,362	2,561	2,787	2,995	3,215
LTD/E Ratio	1.19	1.32	2.05	1.95	1.44	1.48	1.47	1.63	1.56	1.37

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.2%	-0.7%	1.3%	2.7%	3.8%	2.7%	2.9%	2.7%	2.8%	2.7%
Return on Equity	9.9%	-2.3%	4.6%	10.0%	12.6%	8.4%	8.9%	8.5%	8.6%	8.2%
ROIC	4.6%	-1.0%	1.7%	3.5%	4.9%	3.5%	3.7%	3.4%	3.4%	3.4%
Shares Out.	45	51	53	54	58	61	63	64	65	68
Revenue/Share	31.25	27.85	28.89	30.48	31.62	28.54	27.18	30.79	39.26	34.74
FCF/Share	(1.87)	3.49	(2.52)	1.86	0.56	(5.15)	(3.61)	(11.72)	(0.30)	5.79

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

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