



# NorthWestern Corp. (NWE)

Updated May 23<sup>rd</sup>, 2024, by Ian Bezek

## Key Metrics

<b>Current Price:</b>	\$51	<b>5 Year CAGR Estimate:</b>	12.9%	<b>Market Cap:</b>	\$3.2 B
<b>Fair Value Price:</b>	\$60	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	06/14/24
<b>% Fair Value:</b>	86%	<b>5 Year Valuation Multiple Estimate:</b>	3.1%	<b>Dividend Payment Date:</b>	06/28/24
<b>Dividend Yield:</b>	5.1%	<b>5 Year Price Target</b>	\$80	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

NorthWestern Corp. is a Sioux Falls, South Dakota based electricity and gas utility. It has 1,570 employees, and primarily serves the states of South Dakota and Montana. The company has been dramatically overhauling its energy generation fleet. While NorthWestern long relied on coal for the majority of its power production, that has now shifted with wind, solar, and hydroelectric accounting for approximately 55% of total combined power generation today. The company opened a small new power plant in 2022 and has a larger new generation asset under construction now. The Yellowstone natural gas plant in Montana is almost complete and is expected to open in Q3 of this year. NorthWestern estimates a \$315 million total cost for this plant, with almost all of that being accounted for already. Once open, this facility should significantly improve NorthWestern's generation capacity and profitability.

On April 26<sup>th</sup>, 2024, NorthWestern announced its Q1 2024 earnings. The results were a mixed bag and didn't change our overall outlook. Earnings per share of \$1.09 increased from \$1.05 year-over-year, but missed expectations. Revenues rose 4% year-over-year to \$475 million. Management maintained its prior earnings and capital expenditure guidance for the year. Notably, the company also said it won't require more share dilution to carry out its budgeted investment plans.

The company has been building several new plants to expand and modernize its generation fleet. NorthWestern also benefits from a recently announced new rate agreement with regulators, which will provide the company with significant revenue increases tied to the company's new generation capacity. While this quarter didn't move the needle, NorthWestern's prior full-year 2024 guidance was favorable and offers an upbeat tone for the rest of the year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.99	\$2.90	\$3.39	\$3.34	\$3.40	\$3.53	\$3.06	\$3.60	\$3.18	\$3.22	<b>\$3.50</b>	<b>\$4.68</b>
<b>DPS</b>	\$1.60	\$1.92	\$2.00	\$2.10	\$2.20	\$2.30	\$2.40	\$2.48	\$2.52	\$2.56	<b>\$2.60</b>	<b>\$2.87</b>
<b>Shares<sup>1</sup></b>	47	48	48	49	50	50	51	54	56	61	<b>62</b>	<b>65</b>

Since 2014, NorthWestern Corp. has grown its earnings-per-share by an average compound rate of just 0.8%. Meanwhile, it has grown its dividend by 5.4% per year on average over the same period. NorthWestern's earnings growth has slowed significantly in recent years, with current earnings falling short of where NorthWestern was in the late 2010s. The company's dividend hikes have also slowed down, with the increase announced in February 2024 being by just one cent per quarter.

In light of management's announcement of a favorable rate review, we are forecasting more upbeat 6.0% intermediate-term earnings growth as the company's EPS turns upward once again starting in 2024.

The company is in a heavy investment cycle with its new power facilities. This came unfortunately timed with a surge in interest rates, which increases the cost of the firm's debt service. As such, it's understandable why NorthWestern has moved to smaller dividend increases than it has historically achieved. As part of its balance sheet management, the company has engaged in some share dilution recently, which further limits the potential pace of earnings and dividend growth. We believe the growth outlook will improve once the company's current capital cycle finishes.

<sup>1</sup> 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	16.2	18.4	17.2	17.8	16.8	19.9	19.5	16.9	18.2	16.5	14.6	17.0
Avg. Yld.	3.3%	3.6%	3.4%	3.5%	3.9%	3.3%	4.0%	4.1%	4.3%	4.8%	5.1%	3.6%

NorthWestern has historically had a stable P/E ratio with its average not going above 20 or below 15 over the past decade. Shares are right at the bottom of their historical valuation range today, which appears to be an opportunity. We see the company's long-term P/E multiple moving back up to around 17.

The company's dividend yield has generally run between the mid-3% to low 4% range. The current 5.1% dividend yield is a much higher than usual entry point for the stock. Offsetting the higher starting dividend yield, however, is the fact that dividend growth has significantly decelerated over the past couple of years. And dividend growth may remain muted thanks to the company's current investment cycle and related share dilution.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54%	66%	59%	63%	65%	65%	78%	69%	79%	80%	74%	61%

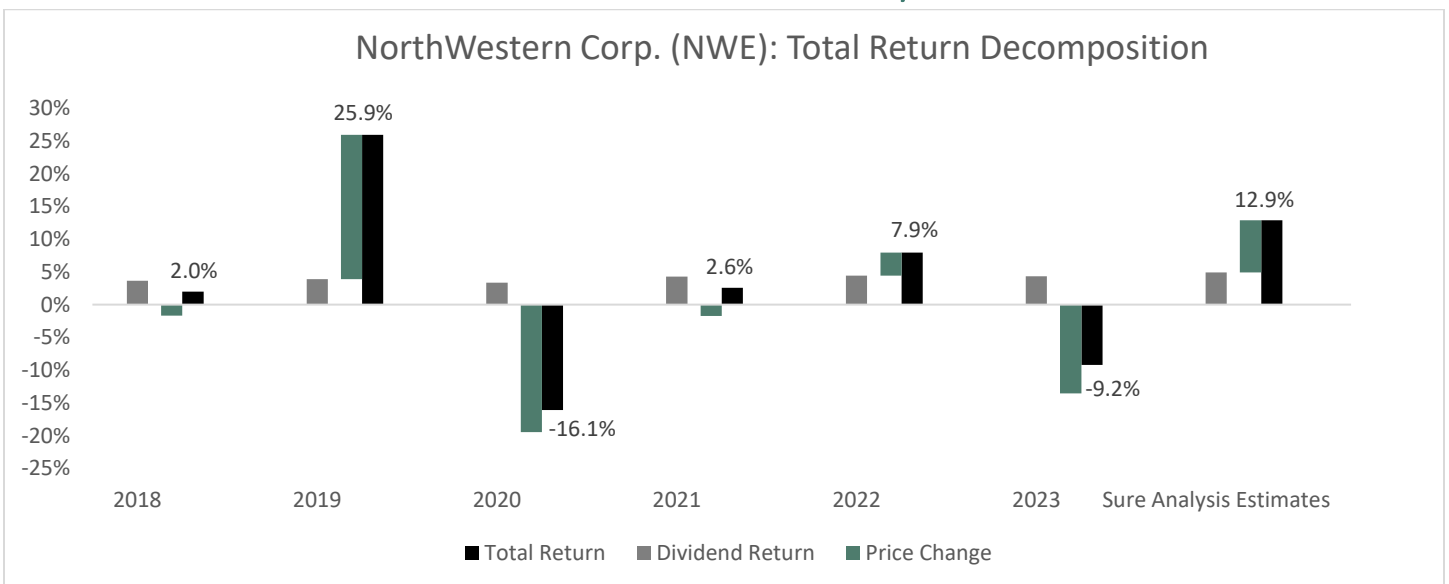
NorthWestern is somewhat on the small side as far as publicly traded utilities go and could face some geographical risk if anything happens to curb power demand in key states such as South Dakota and Montana. However, utilities, as an industry, are highly resilient and tend to fare relatively well during economic duress.

NorthWestern aims to have its dividend payout ratio be between 60% and 70%. However, it has now moved significantly above this based on the past few years' earnings. We expect that earnings will grow more quickly than dividends through 2029 as NorthWestern seeks to get its payout ratio back down to something below 70%.

## Final Thoughts & Recommendation

NorthWestern shares fell over the past year and are now well below our fair value estimate. Between the high starting yield and 6% forecast annualized growth rate, we believe shares can deliver favorable returns going forward. Our outlook calls for 12.9% annualized returns from today's price; shares earn a buy rating today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,205	1,214	1,257	1,306	1,192	1,258	1,199	1,372	1,478	1,422
<b>Gross Profit</b>	722	841	856	895	919	940	892	947	986	781
<b>Gross Margin</b>	59.9%	69.3%	68.1%	68.6%	77.1%	74.7%	74.5%	69.0%	66.7%	54.9%
<b>SG&amp;A Exp.</b>	306	297	294	295	307	109	94	102	114	117
<b>Operating Profit</b>	178	266	255	272	266	277	236	276	263	300
<b>Operating Margin</b>	14.8%	21.9%	20.3%	20.8%	22.3%	22.0%	19.7%	20.1%	17.8%	21.1%
<b>Net Profit</b>	121	151	164	163	197	202	155	187	183	194
<b>Net Margin</b>	10.0%	12.5%	13.1%	12.5%	16.5%	16.1%	12.9%	13.6%	12.4%	13.6%
<b>Free Cash Flow</b>	(20)	56	(1)	46	98	(19)	(54)	(214)	(208)	(78)
<b>Income Tax</b>	(10)	30	(8)	13	(19)	(20)	(11)	3	(0.6)	7.5

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,974	5,265	5,499	5,421	5,644	6,083	6,389	6,780	7,318	
<b>Cash &amp; Equivalents</b>	20	12	5	8	8	5	6	3	8,489	7,601
<b>Acc. Receivable</b>	163	154	160	182	162	167	168	199	245	212
<b>Inventories</b>	55	53	49	52	51	54	61	81	107	115
<b>Total Liabilities</b>	355	358	358	358	358	358	358	358	4,653	4,851
<b>Accounts Payable</b>	3,496	3,665	3,823	3,622	3,702	4,044	4,310	4,441	202	124
<b>Long-Term Debt</b>	82	75	79	85	87	97	100	115	2,619	2,785
<b>Total Equity</b>	1,930	1,998	2,094	2,113	2,102	2,233	2,415	2,541	2,665	2,785
<b>LTD/E Ratio</b>	1,478	1,600	1,676	1,799	1,942	2,039	2,079	2,340	0.98	1.00

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.8%	3.0%	3.1%	3.0%	3.6%	3.4%	2.5%	2.8%	2.6%	2.6%
<b>Return on Equity</b>	9.6%	9.8%	10.0%	9.4%	10.5%	10.2%	7.5%	8.5%	7.3%	7.1%
<b>ROIC</b>	4.2%	4.3%	4.5%	4.2%	5.0%	4.9%	3.5%	4.0%	3.6%	3.6%
<b>Shares Out.</b>	46.9	48.2	48.3	49.4	50.3	50.4	50.6	54.1	56.3	60.4
<b>Revenue/Share</b>	29.85	25.46	25.94	26.83	23.73	24.94	23.71	26.54	26.25	23.56
<b>FCF/Share</b>	(0.50)	1.18	(0.02)	0.95	1.95	(0.38)	(1.06)	(4.15)	(3.69)	(1.29)

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

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