**WEC Energy Group | Ticker: WEC| Initiate 1.5% Position** **March 2024**

**Company Overview**

WEC Energy Group is one of the nation's leading energy companies with subsidiaries serving nearly 4.7 million customers in Wisconsin, Illinois, Michigan, and Minnesota. The company maintains majority ownership in the federally regulated American Transmission Co. Their scale and geographic proximity allow for operating efficiencies across 71,700 miles of electric distribution and transmission lines, 7,700 megawatts of power capacity, and 52,000 miles of natural gas distribution and transmission pipeline. In addition, WE Power designs, builds, and owns electric generating plants, and WEC Infrastructure LLC owns a growing fleet of renewable generation facilities in states ranging from South Dakota to Texas.

**Positives**

WEC Energy group is a well-run utility with a focus on returning capital to shareholders primarily through dividends. The company boasts an experienced management team that should be able to capitalize on opportunities. WEC has historically produced a dependable EPS growth track record. The company is forecasting between 6.5% to 7% EPS growth through 2028. This growth compares well to its industry.

**Expanding Transmission Business:**

There is a growing need to expand the United States electrical grid capacity. Electrical usage continues to grow as society embraces electric vehicles (EVs) on the road. It isn't just EVs, but it is also the amount of data we consume. Data center growth continues to expand, and the recent surge of AI use increases electric energy needs. WEC recognizes this need and is growing their electric transmission and power generation businesses to meet these growing demands.

**2024-2028 Capital Plan:**

WEC has a robust 5-year capital plan of $23.7 billion. This plan is spread across their business but includes an investment of $7 billion in renewables, quadrupling their carbon-free generation, which not only satisfies current regulations but should continue to exceed future government requirements. The company has a stated goal of being net carbon neutral in the 2050s (this includes a planned exit from coal by 2032). Currently roughly 30% of the electricity supply is fueled by coal, 40% natural gas, 20% nuclear, and 10% renewables. The estimate is that by 2030, less than 2% is fueled by coal (emergency fuel), over 40% natural gas, just over 20% nuclear, and over 30% renewables.

**Liquified Natural Gas (LNG) Expansion:**

Another exciting element is the company's expansion into LNG onsite storage. All in, the company expects to invest over $1 billion to add to their LNG onsite storage capacity. This adds to their fuel reliability over winter months.

**Investments in Technology:**

WEC is partnering with several firms and leading a pilot project to test a long-duration battery for energy storage. The company calls it a "green battery" because it uses environmentally friendly materials and proprietary technology. The company is hoping it will store and discharge energy up to twice as long as typical lithium-ion batteries and plan on sharing test results in 2024.

**Financial and Management Strength:**

WEC has industry leading management and that is reflected in high levels of ROE (Return on Equity) and ROIC (Return on Invested Capital). The company boasts 20 years of exceeding their own financial performance guidance generating healthy levels of free and operating cash flow.

## Negatives & Risks

Like most utilities, WEC Energy Group is impacted by a rising interest rate environment, as they would be forced to borrow at higher rates, thus impacting earnings and cash flows. We believe this risk is somewhat mitigated by the strong cash flow generation lessening (but not eliminating) the need to borrow more capital. The Fed for the last 6 months has kept Fed Funds at the current rate with the market expecting rate cuts in late 2024. We believe interest rate risk is not as prevalent as it has been over the last couple of years. Utilities are a highly regulated industry with the ever-present risk of unexpected regulations that could be harmful to the business.

## Dividend Characteristics

In January, the company raised their dividend by 7%. The company has 21 years of increasing dividends representing top decile dividend growth in the industry. With a strong history of dividend increases and robust operating cash flow, we believe the company will continue to reward investors with an increasing dividend stream of income for the foreseeable future.

## Conclusion

WEC Energy Group is a well-run, well capitalized, diverse utility trading at an attractive valuation. The need to expand our electric grid is the opportunity in front of most utilities, and we feel that WEC will be a prime contributor to this growing need. The expansion of LNG, renewables, and new technologies make them an attractive addition to the Morgan Dempsey Large Cap Value portfolio.

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**Current & Historical Valuations**

| Valuation Matric | Current | 5-Year High | 5-Year Low | Average | Vs. Industry |
|---|---|---|---|---|---|
| Trailing PE | 19.4 | 30.6 | 17.4 | 23.3 | 1 |
| Forward PE | 16.5 | 28.9 | 15.3 | 21.7 | 1.1 |
| Price to Book Value | 2.2 | 3.4 | 2.0 | 2.7 | 1.2 |
| Price to Cash Flow | 8.6 | 16.9 | 8.4 | 12.7 | 1.1 |
| Price to Sales | 2.9 | 4.7 | 2.6 | 3.6 | 1.3 |
| Enterprise Value to EBITDA | 12.0 | 18 | 12 | 15.6 | .9 |
| Enterprise Value to Sales | 4.8 | 5.9 | 4.2 | 5.2 | 1.1 |
| Dividend Yield | 4.1 | 4.2 | 2.2 | 2.9 | 1.1 |

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**Definitions**
**PE (Price-to-Earnings Ratio):** PE is a financial metric that measures the valuation of a company by comparing its stock price to its earnings per share. It indicates how much investors are willing to pay for each dollar of a company's earnings. Trailing refers to the past 12 months and forward is on expected next 12 months of earnings.

**Book Value:** Book value is the net asset value of a company, calculated by subtracting its total liabilities from its total assets. It represents the theoretical value of a company's equity if all its assets were sold, and its debts were paid off.

**Cash Flow:** Cash flow refers to the money that flows in and out of a business. It's the difference between the cash generated from operating activities and the cash used for investing and financing activities. Positive cash flow indicates a healthy financial position.

**Enterprise Value to EBITDA (EV/EBITDA):** EV/EBITDA is a financial ratio used to assess a company's overall value in relation to its earnings before interest, taxes, depreciation, and amortization (EBITDA). It provides a more comprehensive view of a company's value, accounting for its debt and other financial factors.