

MGE Energy

Terminating Coverage of MGE Energy

Termination of Coverage: UNDERPERFORM | PO: 72.00 USD | Price: 76.50 USD

We maintain Underperform on MGE Energy

MGE Energy (MGEE) is a public utility holding company, primarily the Madison Gas and Electric (MGE) utility subsidiary. We view shares as relative expensive versus peers with a premium trading valuation that we do not see supported by the fundamentals. Although MGEE enjoys a constructive relationship with WI regulators that is supportive of its plans for adding renewables to rate base, along with a high equity layer and strong credit metrics, the shares to continue to screen as overvalued even when factoring in a 3.0x premium and rate base growth driven by renewable build-out through 2025.

Terminating coverage on MGE Energy

We terminate coverage of MGEE equity due to a reallocation of resources. Our final view of Underperform reflects our analysis as of the date of this research report, and investors should no longer rely on our rating, price objective, estimates or opinions on MGEE.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.92	3.07	3.22	3.42	3.61
EPS Change (YoY)	12.3%	5.1%	4.9%	6.2%	5.6%
Consensus EPS (Bloomberg)			3.31	3.68	4.00
DPS	1.52	1.59	1.67	1.76	1.85
Valuation (Dec)					
P/E	26.2x	24.9x	23.8x	22.4x	21.2x
Dividend Yield	2.0%	2.1%	2.2%	2.3%	2.4%
EV / EBITDA*	21.6x	18.8x	17.4x	16.2x	15.2x
Free Cash Flow Yield*	-0.6%	-0.8%	-0.9%	0.4%	0.4%

* For full definitions of *IQmethod*SM measures, see page 6.

14 March 2024

Equity

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Stock Data

Price	76.50 USD
Price Objective	72.00 USD
Date Established	17-Mar-2023
Investment Opinion	B-3-7
52-Week Range	61.94 USD - 83.27 USD
Mrkt Val (mn) / Shares Out (mn)	2,766 USD / 36.2
Free Float	99.7%
Average Daily Value (mn)	23.88 USD
BofA Ticker / Exchange	MGEE / NAS
Bloomberg / Reuters	MGEE US / MGEE.OQ
ROE (2023E)	10.5%
Net Dbt to Eqty (Dec-2022A)	64.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 14 March 2024 07:10AM EDT

iQprofileSM MGE Energy

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.8%	4.8%	4.8%	4.9%	4.9%
Return on Equity	10.6%	10.5%	10.5%	10.6%	10.6%
Operating Margin	19.3%	19.3%	19.6%	20.1%	20.4%
Free Cash Flow	(16)	(21)	(25)	12	11

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.4x	1.7x	1.8x	1.8x
Asset Replacement Ratio	2.0x	2.0x	2.3x	2.0x	2.0x
Tax Rate	3.7%	19.1%	17.4%	17.4%	17.4%
Net Debt-to-Equity Ratio	59.1%	64.6%	69.3%	70.6%	71.9%
Interest Cover	4.9x	5.2x	4.7x	4.8x	5.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	607	715	746	778	807
% Change	12.6%	17.8%	4.4%	4.4%	3.7%
Gross Profit	413	454	474	494	513
% Change	5.8%	9.9%	4.4%	4.4%	3.7%
EBITDA	194	223	241	259	275
% Change	5.5%	14.9%	7.8%	7.7%	6.2%
Net Interest & Other Income	(7)	(1)	(5)	(7)	(6)
Net Income (Adjusted)	106	111	116	124	131
% Change	14.4%	4.9%	5.0%	6.1%	5.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	106	111	116	124	131
Depreciation & Amortization	77	86	94	103	111
Change in Working Capital	(40)	(42)	0	0	0
Deferred Taxation Charge	5	23	12	13	14
Other Adjustments, Net	(10)	(24)	(30)	(19)	(19)
Capital Expenditure	(153)	(175)	(217)	(209)	(225)
Free Cash Flow	-16	-21	-25	12	11
% Change	49.0%	-36.1%	-15.6%	NM	-0.8%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(55)	(58)	(60)	(64)	(67)
Change in Debt	48	85	90	57	61

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	17	12	12	12	12
Trade Receivables	62	67	81	84	87
Other Current Assets	120	165	168	172	175
Property, Plant & Equipment	1,879	1,971	2,099	2,211	2,330
Other Non-Current Assets	294	303	318	334	349
Total Assets	2,372	2,518	2,679	2,812	2,953
Short-Term Debt	10	125	125	125	125
Other Current Liabilities	107	100	103	106	108
Long-Term Debt	614	585	676	733	793
Other Non-Current Liabilities	612	626	638	651	665
Total Liabilities	1,344	1,436	1,541	1,614	1,691
Total Equity	1,027	1,082	1,138	1,198	1,261
Total Equity & Liabilities	2,372	2,518	2,679	2,812	2,953

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Electric Utilities

Company Description

MGE Energy (MGEE) is a public utility holding company. Its principal subsidiary, Madison Gas and Electric, operates in seven south-central and western WI counties. MGEE also operates a nonregulated power segment through ownership interests in the Elm Road Generating Station and the West Campus Cogeneration Facility that are leased to MGEE. In addition MGEE owns a 3.6% interest in the American Transmission Company (ATC) which owns and operates FERC-regulated transmission assets in Wisconsin.

Investment Rationale

We rate MGEE Underperform. Constructive relationship with WI regulators that is supportive of its plans for adding renewables to rate base, along with a high equity layer and strong credit metrics. LT EPS growth rate is modest at 4% even when factoring in rate base growth driven by renewable build out. Shares of MGEE continue to screen as overvalued even when factoring in a 3.0x premium for constructive WI regulatory environment.

Stock Data

Average Daily Volume

333,867



Price objective basis & risk

MGE Energy (MGEE)

Our \$72 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group 2025E multiples (15.8x/16.1x for electric/gas respectively) with a 3.0x premium on WI regulated gas and electric to reflect the constructive regulatory mechanism, and a 4.0x premium on Transmission assets. We note that both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector. We apply +3.0x utility premiums to the non-regulated Elm Road and West Campus assets as these are leased under long-term contractual arrangements. Downside risks: MGEE, like all utility stocks, is sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to secure further renewable rate base investments, adverse regulatory outcomes, a deteriorating regulatory environment, or adverse weather leading to less consumption of electricity and gas. Upside risks are acceleration of renewable gen investment, legacy coal asset early retirement, and enactment of further pro-renewable state policies.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RVW	New Fortress Energy	NFE	NFE US	Julien Dumoulin-Smith



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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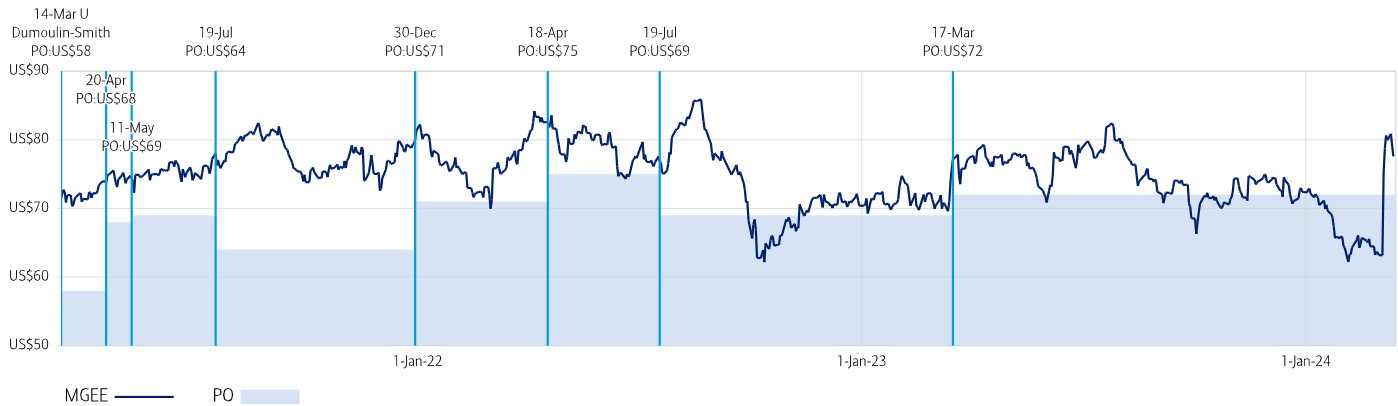
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Disclosures

Important Disclosures

MGE Energy (MGEE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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