

# Wisconsin Energy Corp.

## Let's Make a Deal

### As stock maintains a healthy premium, we cautiously look for Summer update

The 4Q14 update was largely constructive with confidence in the TEG merger the most important factor for shares in 2015, as deal making with regulators to close the deal remains in full swing. We remain somewhat cautious as WEC is trading at a full 1x-turn premium above the premium we embed in our valuation (17.2x vs 16.2x on 2017E). WEC remains a quality company with an above-average pro-forma growth rate but we believe that a 5% premium is more warranted than the ~10% at recent levels. The pro-forma 2015 guidance expected this Summer with the deal close will be critical as well as further details about upside available for the new WEC Energy Group. Overall, we see limited value, particularly off record implied sector multiples.

### Sounding the bell on transmission ROE resolution – who else is next?

WEC's adjusted FY14 EPS came in above the above the top-end of the range despite booking a charge for a lower midwest transmission ROE which also reduced 2015 guidance slightly. We estimate that using the New England zone of reasonableness trimmed less than \$0.02/sh from guidance, accounting for the guidance 'miss' relative to our expectations (\$2.67-\$2.77 actual range vs \$2.70-\$2.80 prior UBSe). For pro-forma TEG the potential earnings hit is greater but still less than \$0.04 and potentially less than \$0.02 at the high-end of the zone of reasonableness. While immaterial for WEC, we note that other exposed companies including ITC and AEE have yet to book reserves as of 3Q14 – we look to see if that changes with FY14 results.

### Presque Isle fetches \$1 in sale while distribution assets go for ~\$100Mn+

The gain on sale from the UP distribution assets will be returned to customers. WEC will treat the Presque Isle sale as an effective asset retirement and request collection of the \$200Mn unrecovered net book value.

### Valuation: Increasing price target \$2 to \$50 – shares have downside to our PT

We have rolled our valuation forward to 2017E with the balance of the methodology unchanged. We apply a 5% premium to WEC operating '17E EPS and a 5% discount to potential accretion from the TEG deal (TEG is worth ~\$1.50/sh) in our calculation.

## Equities

Americas  
Electric Utilities

**12-month rating** **Neutral**

**12m price target** **US\$50.00**  
*Prior: US\$48.00*

**Price** **US\$51.76**

**RIC:** WEC.N **BBG:** WEC US

### Trading data and key metrics

**52-wk range** US\$57.47-42.04

**Market cap.** US\$11.8bn

**Shares o/s** 227m (COM)

**Free float** 100%

**Avg. daily volume ('000)** 448

**Avg. daily value (m)** US\$23.5

**Common s/h equity (12/14E)** US\$4.41bn

**P/BV (12/14E)** 2.7x

**Net debt / EBITDA (12/14E)** 3.4x

### EPS (UBS, diluted) (US\$)

	12/14E			
	From	To	% ch	Cons.
<b>Q1</b>	0.91	0.91	0.00	0.91
<b>Q2</b>	0.58	0.58	0.00	0.58
<b>Q3</b>	0.56	0.56	0.00	0.56
<b>Q4E</b>	0.57	0.60	4.83	0.56
<b>12/14E</b>	2.62	2.65	1.04	2.61
<b>12/15E</b>	2.75	2.75	0.12	2.71
<b>12/16E</b>	2.85	2.89	1.56	2.86

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Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>Revenues</b>	4,486	4,246	4,519	4,997	4,738	4,822	4,910	5,000
<b>EBIT (UBS)</b>	887	1,000	1,032	1,109	1,115	1,156	1,184	1,225
<b>Net earnings (UBS)</b>	513	546	577	603	623	652	673	692
<b>EPS (UBS, diluted) (US\$)</b>	2.18	2.35	2.51	2.65	2.75	2.89	3.00	3.10
<b>DPS (US\$)</b>	1.04	1.20	1.45	1.56	1.79	1.94	2.00	2.06
<b>Net (debt) / cash</b>	(5,303)	(5,222)	(5,217)	(5,133)	(5,228)	(5,162)	(5,107)	(5,035)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
<b>EBIT margin %</b>	19.8	23.6	22.8	22.2	23.5	24.0	24.1	24.5
<b>ROIC (EBIT) %</b>	10.2	11.2	11.5	12.2	12.1	12.3	12.5	12.8
<b>EV/EBITDA (core) x</b>	10.3	10.1	10.4	11.2	11.0	10.7	10.5	10.2
<b>P/E (UBS, diluted) x</b>	14.3	15.8	16.5	19.5	18.8	17.9	17.2	16.7
<b>Equity FCF (UBS) yield %</b>	0.5	5.0	4.9	4.4	3.3	4.9	4.9	5.1
<b>Net dividend yield %</b>	3.3	3.2	3.5	3.0	3.5	3.7	3.9	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$51.76 on 11 Feb 2015 18:42 EST

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# Investment Thesis

## Wisconsin Energy Corp.

### Investment case

WEC continues to successfully act on its plan, with 4-6% targeted EPS growth, and has proposed projects, including Valley coal-to-gas conversion, Twin Rivers hydro rebuild, and gas expansion in Western WI. Going forward, the company will focus on smaller-scale infrastructure projects which should draw less scrutiny and be lower-risk. Government asset divestitures could be an additional catalyst in 2015, but the definite scale and form remains unknown aside from management's \$200-250m capex placeholder. The company could use its strong cash flows to pursue a transaction and/or increased dividend or repurchases. Share repurchases have also been a priority.

### Upside scenario

The success of the projects mentioned with few cost overruns will be key in achieving the upside scenario, as well as the strategic deployment of capital. The target dividend payout ratio is 60% in 2014 and has been approved at 65-70%, thereby supporting high-single-digit dividend increases from 2015-2017 (revisions were discussed with the pending Integrys deal). Our upside case has WEC trading at a 10% premium to an appreciated (+1x P/E turn) peer group, and we believe management's guidance tends to be on the conservative side, which could further support upside to \$56, which includes ~\$2/sh accretion on a potential Integrys deal

### Downside scenario

A weak area for WEC has been electric volumes, and weather-normalized electric sales are forecasted to be ~flat. If the company struggles, it could lose its premium (0%) in a contracting group (-1x P/E turn) and have downside to ~\$43 without the Integrys deal closing.

### Upcoming catalysts

March 3/4	UBS Power & Utilities Conference
Summer 2015	Closing of the TEG transaction (exp.)

12-month rating

Neutral

12m price target

US\$50.00

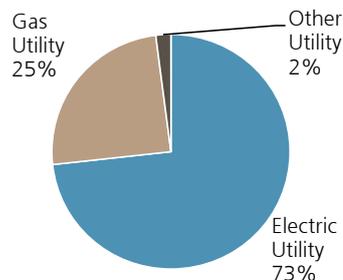
### Business description

Wisconsin Energy Corporation (WEC) is a diversified holding company that conducts its operations primarily in two operating segments: a utility energy segment consisting of electricity and gas (Wisconsin Electric) and a non-utility energy segment (We Power). The electric and gas utility segment is WEC's major business, serving over 1.1 million electric and 1.1 million gas customers in Wisconsin and Michigan's Upper Peninsula. We Power was formed to design, construct, and own new generating capacity under the Power the Future plan. WEC announced plans to acquire Integrys Energy Group.

### Industry outlook

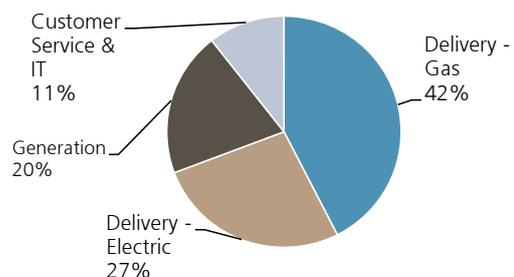
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slow mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates

### Operating Revenues by Segment (2015E)



Source: Company Filings and UBS estimates

### Capital Spending by Use (2015E)



Source: Company Filings and UBS estimates

## Expressing confidence in TEG timing

Management reaffirmed its expectation that the Integrys merger would close in 2H15 and pointed to the July 6<sup>th</sup> Illinois Commerce Commission (ICC) vote as the latest likely date at this time. Even if the merger close slips, the impact on FY15 accretion is not expected to be significant due to the nature of earnings for the gas business; we heard similar statements from TECO in 2014 around the timing for closing its seasonal New Mexico Gas Company (NMGC) merger.

Even if the TEG deal timing slips, losing the contribution of the gas distribution shoulder months will not too painful.

## Lifting our longer-dated EPS estimates

Our EPS estimates in 2016-2018 have been increased by 2-3% following a more detailed review of the outer years disclosures. Higher earnings for the Wisconsin utilities and American Transmission Company (ATC) have the negative effect of reducing our estimated accretion on the TEG deal slightly. We look to refine our estimates further when capital spending disclosures by year are provided later this month with the 10K filing/latest monthly presentation. The impact of the ~\$100Mn increase over the ten-year plan from previous disclosures is likely muted by the extension of bonus depreciation.

Our estimate for 1Q15 EPS is **\$0.84**, down \$0.07 from the \$0.91 posted in the polar vortex 1Q14. 1Q15 guidance is \$0.79-\$0.81 (the same as provided with 1Q14).

Figure 1: Updated Wisconsin Electric Stand-Alone EPS Estimates

	2013A	2014E	2015E	2016E	2017E	2018E
UBSe	\$2.51	\$2.65	\$2.75	\$2.89	\$3.00	\$3.10
Growth Rate	7.1%	5.4%	3.9%	5.2%	3.8%	3.3%
UBSe (Prior)	\$2.51	\$2.62	\$2.75	\$2.85	\$2.94	\$3.00
Consensus		\$2.61	\$2.71	\$2.86	\$3.03	\$3.15
<b>EPS Guidance</b>		<b>\$2.60-\$2.64</b>	<b>\$2.67-\$2.77</b>		<b>4-6% EPS Growth</b>	
Dividend	\$1.45	\$1.56	\$1.79	\$1.94	\$2.00	\$2.06
Dividend Growth		8.0%	14.6%	8.4%	3.0%	3.0%
Payout Ratio	57%	59%	65%	67%	66%	66%
<b>Dividend Guidance</b>		<b>60% payout in 2014, 14%-15% growth in 2015 and 65%-70% payout in 2017</b>				

Source: Company Filings, FactSet, and UBS Estimates

## Quantifying the transmission impact of a lower ROE

As mentioned previously, we believe about ~\$0.02/sh is embedded into the 2015 guidance. Our rough estimation presented below is slightly greater than the guidance provided in the second quarter of ~\$0.03 pro-forma for Integrys.

Transmission ROE risk is minimal for WEC, or even WEC+TEG in 2015.

Figure 2: 2015 ROE Transmission Sensitivities based on New England Zone

2015 Transmission ROE Sensitivities	Base	Low	High	Pro-Forma	Low	High
Wholesale Transmission Ratebase (\$Mn)	815	815	815	1,629	1,629	1,629
ROE	12.20%	10.57%	11.75%	12.20%	10.57%	11.75%
Equity Ratio	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Net Income (\$Mn)	50	43	48	99	86	96
Delta	-	(7)	(2)	-	(13)	(4)
Per Share	\$0.00	-\$0.03	-\$0.01	\$0.00	-\$0.06	-\$0.02
<b>Largely immaterial impact both for standalone WEC and pro-forma</b>						

Source: Company Filings and UBS Estimates

## Tightening the model assumptions

The delta between our simplified mini-model and full model is an average of \$3Mn per year from 2013-2020E, or ~1¢/sh. Overall what stands out below is the weight average authorized ROE of 11%. While WEC had its latest WI rate case last year, we see greater exposure in other jurisdictions, namely transmission (which will reduce soon).

Figure 3: WEC Ratebase Mini Model

WEC Ratebase Mini Model (UBSe)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
<b>Based on 2015 Forward Test Year</b>			<b>7,088</b>					
RETAIL Utilities	6,600	6,843	7,196	7,549	7,712	7,904	8,086	8,281
Capex	668	778	778	588	617	607	620	590
Depreciation	(425)	(425)	(425)	(425)	(425)	(425)	(425)	(425)
<b>Based on 2015 Forward Test Year</b>			<b>2,800</b>					
Power The Future	2,700	2,733	2,766	2,799	2,832	2,865	2,897	2,930
Capex	100	100	100	100	100	100	100	100
Depreciation	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)
		<i>Annual Increase</i>	56	68	94			
<b>Implied Rate Base Growth 2015-2017</b>		<b>812</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>73</b>	<i>3Yr Avg Inc. (UBSe)</i>	
Wholesale Transmission	700	758	815	883	977	1,065	1,108	1,151
Capex	86	86	101	129	127	86	86	86
Depreciation	(28)	(30)	(33)	(35)	(39)	(43)	(44)	(46)
<b>Total Ratebase Forecast</b>	<b>10,000</b>	<b>10,334</b>	<b>10,776</b>	<b>11,231</b>	<b>11,520</b>	<b>11,833</b>	<b>12,092</b>	<b>12,362</b>
<b>Weighted Average ROE</b>	<b>11.2%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>
<b>Weighted Average Equity Ratio</b>	<b>51.2%</b>	<b>51.5%</b>	<b>51.5%</b>	<b>51.4%</b>	<b>51.4%</b>	<b>51.4%</b>	<b>51.4%</b>	<b>51.4%</b>
<b>Earnings Mini Model</b>	<b>573</b>	<b>608</b>	<b>631</b>	<b>657</b>	<b>676</b>	<b>695</b>	<b>711</b>	<b>726</b>
<b>Earnings From Model</b>	<b>577</b>	<b>603</b>	<b>623</b>	<b>652</b>	<b>673</b>	<b>692</b>	<b>706</b>	<b>728</b>
<b>Earnings Delta</b>	<b>(4)</b>	<b>5</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>(1)</b>

Source: Company Filings and UBS Estimates

## Valuation: Increasing Our Price Target \$2 to \$50

Our valuation is ~\$2/sh higher at \$50 which is primarily a consequence of rolling to 2017E which we increased as noted above. Our upside/downside skews more towards the negative but we caution that disclosures about O&M savings targets and pro-forma guidance expected with the deal closing could drive upside to numbers given a historically conservative management.

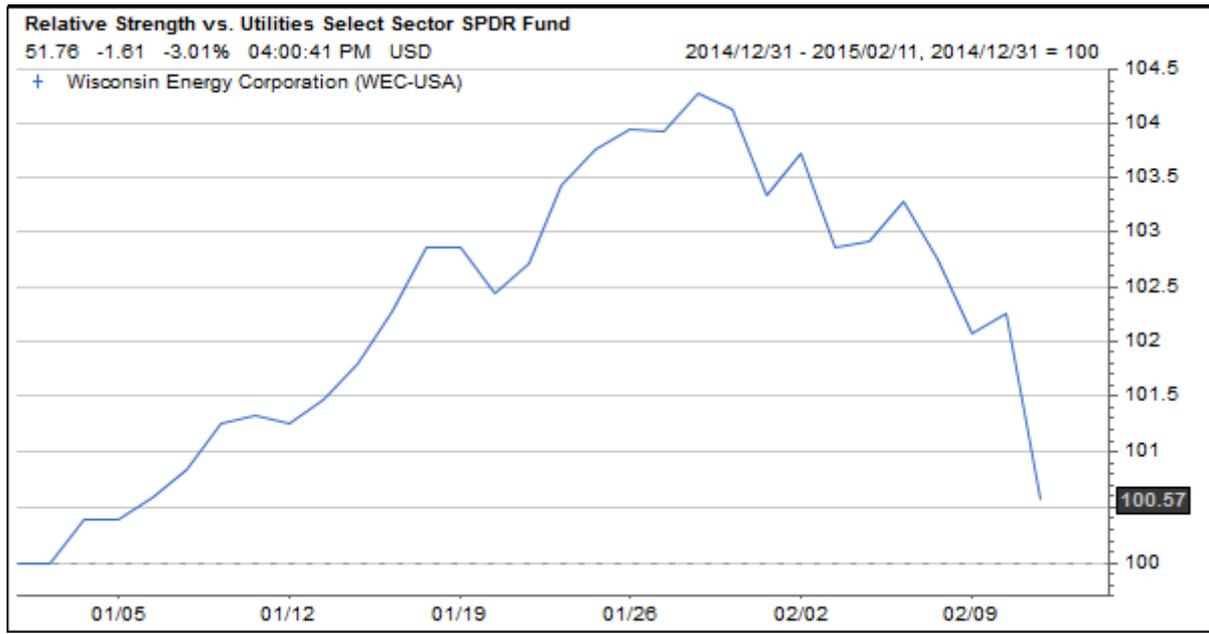
**Figure 4: Updated Wisconsin Energy Valuation**

<b>Wisconsin Energy Corp. Valuation: P/E Derived on 2017 EPS</b>					
<b>Downside Case</b>		<b>Base Case</b>		<b>Upside Case</b>	
<b>Valuation</b>		<b>Price Target</b>		<b>Valuation</b>	
2017 EPS	3.00	2017 EPS	3.00	2017 EPS	3.00
P/E Multiple	14.5x	P/E Multiple	15.5x	P/E Multiple	16.5x
Premium	0%	Premium	5%	Premium	10%
<b>Value</b>	<b>\$43.56</b>	<b>Value</b>	<b>\$48.90</b>	<b>Value</b>	<b>\$54.53</b>
<i>*Base Case Price Target Rounded</i>					
<b>Integrys Deal Accretion</b>					
2017 EPS Accretion -					
UBSe	0.10	Accretion	0.10	Accretion	0.10
P/E Multiple	14.5x	P/E Multiple	15.5x	P/E Multiple	16.5x
Discount	-10%	Discount	-5%	Premium	0%
<b>Value</b>	<b>\$1.36</b>	<b>Value</b>	<b>\$1.53</b>	<b>Value</b>	<b>\$1.72</b>
<b>Valuation</b>	<b>\$44.92</b>	<b>Valuation</b>	<b>\$50.43</b>	<b>Valuation</b>	<b>\$56.25</b>
<b>Upside/(Downside)</b>	<b>-13%</b>	<b>Upside/(Downside)</b>	<b>-3%</b>	<b>Upside/(Downside)</b>	<b>9%</b>
<b>Implied Multiple: UBSe 2017 EPS &amp; UBS Price Target</b>					<b>16.2x</b>
<b>Premium/(Discount) to Peers</b>					<b>0.7x</b>
<b>Implied Multiple: Consensus 2017 EPS &amp; Market Price</b>					<b>17.1x</b>
<b>Premium/(Discount) to Peers</b>					<b>1.6x</b>

Source: Company Filings, FactSet, and UBS Estimates

Shares have retreated 6.4% in the past week, declining 200bp more than the utilities group over that period as the premium has reigned in. Even after the slide, shares are still trading at a 1.6x premium to the group on consensus (~10%) ; we believe that a 0.75x premium is more warranted (~5%).

Figure 5: WEC Relative Performance YTD 2015



Source: FactSet

## Wisconsin Energy Corp. (WEC.N)

Income statement (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
<b>Revenues</b>	<b>4,486</b>	<b>4,246</b>	<b>4,519</b>	<b>4,997</b>	<b>10.6</b>	<b>4,738</b>	<b>-5.2</b>	<b>4,822</b>	<b>4,910</b>	<b>5,000</b>
Gross profit	2,588	2,602	2,692	2,738	1.7	2,849	4.1	2,899	2,955	3,012
<b>EBITDA (UBS)</b>	<b>1,218</b>	<b>1,365</b>	<b>1,420</b>	<b>1,518</b>	<b>6.9</b>	<b>1,540</b>	<b>1.5</b>	<b>1,576</b>	<b>1,610</b>	<b>1,653</b>
Depreciation & amortization	(330)	(364)	(388)	(409)	5.3	(425)	4.0	(420)	(427)	(428)
<b>EBIT (UBS)</b>	<b>887</b>	<b>1,000</b>	<b>1,032</b>	<b>1,109</b>	<b>7.5</b>	<b>1,115</b>	<b>0.5</b>	<b>1,156</b>	<b>1,184</b>	<b>1,225</b>
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(236)	(248)	(252)	(241)	4.2	(273)	-12.8	(270)	(273)	(286)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>652</b>	<b>752</b>	<b>780</b>	<b>868</b>	<b>11.3</b>	<b>843</b>	<b>-2.9</b>	<b>885</b>	<b>910</b>	<b>939</b>
Tax	(264)	(306)	(338)	(362)	-7.0	(343)	5.2	(359)	(362)	(372)
<b>Profit after tax</b>	<b>388</b>	<b>446</b>	<b>442</b>	<b>506</b>	<b>14.5</b>	<b>500</b>	<b>-1.2</b>	<b>527</b>	<b>548</b>	<b>567</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	125	101	135	97	-28.5	123	27.1	125	125	125
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>513</b>	<b>546</b>	<b>577</b>	<b>603</b>	<b>4.4</b>	<b>623</b>	<b>3.3</b>	<b>652</b>	<b>673</b>	<b>692</b>
<b>Net earnings (UBS)</b>	<b>513</b>	<b>546</b>	<b>577</b>	<b>603</b>	<b>4.4</b>	<b>623</b>	<b>3.3</b>	<b>652</b>	<b>673</b>	<b>692</b>
Tax rate (%)	40.5	40.7	43.3	41.7	-3.8	40.7	-2.4	40.5	39.8	39.7
<b>Per share (US\$)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
EPS (UBS, diluted)	2.18	2.35	2.51	2.65	5.4	2.75	3.9	2.89	3.00	3.10
EPS (local GAAP, diluted)	2.18	2.35	2.51	2.65	5.4	2.75	3.9	2.89	3.00	3.10
EPS (UBS, basic)	2.18	2.36	2.51	2.65	5.4	2.75	3.9	2.89	3.00	3.10
Net DPS (US\$)	1.04	1.20	1.45	1.56	8.0	1.79	14.6	1.94	2.00	2.06
Cash EPS (UBS, diluted) <sup>1</sup>	3.58	3.91	4.20	4.45	5.8	4.63	4.1	4.76	4.91	5.02
Book value per share	16.87	17.94	18.55	19.36	4.4	20.10	3.8	20.82	21.61	22.43
Average shares (diluted)	235.40	232.78	229.68	227.53	-0.9	226.35	-0.5	225.18	224.01	222.84
<b>Balance sheet (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Cash and equivalents	14	38	26	51	95.2	106	109.1	223	327	449
Other current assets	1,412	1,276	1,525	1,606	5.3	1,558	-3.0	1,569	1,583	1,595
<b>Total current assets</b>	<b>1,426</b>	<b>1,314</b>	<b>1,551</b>	<b>1,657</b>	<b>6.8</b>	<b>1,664</b>	<b>0.4</b>	<b>1,792</b>	<b>1,910</b>	<b>2,045</b>
Net tangible fixed assets	10,160	10,572	10,907	11,166	2.4	11,519	3.2	11,686	11,877	12,056
Net intangible fixed assets	1,882	1,985	1,873	1,673	-10.7	1,573	-6.0	1,473	1,373	1,273
Investments / other assets	393	414	439	439	0.0	439	0.0	439	439	439
<b>Total assets</b>	<b>13,862</b>	<b>14,285</b>	<b>14,769</b>	<b>14,934</b>	<b>1.1</b>	<b>15,194</b>	<b>1.7</b>	<b>15,390</b>	<b>15,598</b>	<b>15,813</b>
Trade payables & other ST liabilities	662	637	617	667	8.2	634	-5.0	639	647	653
Short term debt	703	807	880	637	-27.54	737	15.69	737	537	537
<b>Total current liabilities</b>	<b>1,365</b>	<b>1,443</b>	<b>1,496</b>	<b>1,305</b>	<b>-12.8</b>	<b>1,371</b>	<b>5.1</b>	<b>1,377</b>	<b>1,184</b>	<b>1,190</b>
Long term debt	4,614	4,454	4,363	4,547	4.2	4,597	1.1	4,647	4,897	4,947
Other long term liabilities	3,890	4,222	4,646	4,646	0.0	4,646	0.0	4,646	4,646	4,646
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>9,868</b>	<b>10,120</b>	<b>10,506</b>	<b>10,498</b>	<b>-0.1</b>	<b>10,614</b>	<b>1.1</b>	<b>10,670</b>	<b>10,727</b>	<b>10,784</b>
Common s/h equity	3,963	4,135	4,233	4,406	4.1	4,549	3.2	4,689	4,840	4,999
Minority interests	30	30	30	30	0.0	30	0.0	30	30	30
<b>Total liabilities &amp; equity</b>	<b>13,862</b>	<b>14,285</b>	<b>14,769</b>	<b>14,934</b>	<b>1.1</b>	<b>15,194</b>	<b>1.7</b>	<b>15,390</b>	<b>15,598</b>	<b>15,813</b>
<b>Cash flow (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>% ch</b>	<b>12/15E</b>	<b>% ch</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net income (before pref divs)	513	546	577	603	4.4	623	3.3	652	673	692
Depreciation & amortization	330	364	388	409	5.3	425	4.0	420	427	428
Net change in working capital	(22)	4	(59)	(30)	48.9	15	-	(6)	(6)	(7)
Other operating	153	252	313	200	-36.0	100	-50.0	100	100	100
<b>Operating cash flow</b>	<b>974</b>	<b>1,166</b>	<b>1,219</b>	<b>1,181</b>	<b>-3.1</b>	<b>1,163</b>	<b>-1.6</b>	<b>1,166</b>	<b>1,194</b>	<b>1,213</b>
Tangible capital expenditure	(831)	(707)	(687)	(668)	2.8	(778)	-16.5	(588)	(617)	(607)
Intangible capital expenditure	(103)	(31)	(61)	0	-	0	-	0	0	0
Net (acquisitions) / disposals	42	9	3	0	-	0	-	0	0	0
Other investing	0	0	0	0	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>(892)</b>	<b>(730)</b>	<b>(746)</b>	<b>(668)</b>	<b>10.4</b>	<b>(778)</b>	<b>-16.5</b>	<b>(588)</b>	<b>(617)</b>	<b>(607)</b>
Equity dividends paid	(242)	(276)	(329)	(355)	-7.9	(405)	-14.0	(436)	(447)	(458)
Share issues / (buybacks)	(139)	(103)	(175)	(75)	57.1	(75)	0.0	(75)	(75)	(75)
Other financing	5	1	12	0	-	0	-	0	0	0
Change in debt & pref shares	265	(44)	(3)	(59)	1,626.4	150	-	50	50	50
<b>Financing cash flow</b>	<b>(111)</b>	<b>(423)</b>	<b>(495)</b>	<b>(489)</b>	<b>1.2</b>	<b>(330)</b>	<b>32.5</b>	<b>(461)</b>	<b>(472)</b>	<b>(483)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>(30)</b>	<b>14</b>	<b>(22)</b>	<b>25</b>	<b>-</b>	<b>55</b>	<b>123.6</b>	<b>116</b>	<b>104</b>	<b>123</b>
FX / non cash items	20	10	10	0	-	0	-	0	0	0
<b>Balance sheet inc/(dec) in cash</b>	<b>(10)</b>	<b>24</b>	<b>(12)</b>	<b>25</b>	<b>-</b>	<b>55</b>	<b>123.6</b>	<b>116</b>	<b>104</b>	<b>123</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.<sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## Wisconsin Energy Corp. (WEC.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	14.3	15.8	16.5	19.5	18.8	17.9	17.2	16.7
P/E (UBS, diluted)	14.3	15.8	16.5	19.5	18.8	17.9	17.2	16.7
P/CEPS	8.7	9.4	9.8	11.6	11.2	10.9	10.5	10.3
Equity FCF (UBS) yield %	0.5	5.0	4.9	4.4	3.3	4.9	4.9	5.1
Net dividend yield (%)	3.3	3.2	3.5	3.0	3.5	3.7	3.9	4.0
P/BV x	1.8	2.1	2.2	2.7	2.6	2.5	2.4	2.3
EV/revenues (core)	2.8	3.3	3.3	3.4	3.6	3.5	3.4	3.4
EV/EBITDA (core)	10.3	10.1	10.4	11.2	11.0	10.7	10.5	10.2
EV/EBIT (core)	14.1	13.8	14.3	15.3	15.2	14.6	14.2	13.8
EV/OpFCF (core)	NM	21.0	21.2	20.4	21.9	17.2	17.1	16.2
EV/op. invested capital	1.4	1.5	1.6	1.9	1.8	1.8	1.8	1.8
<b>Enterprise value (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Market cap.	7,343	8,565	9,537	11,770	11,770	11,770	11,770	11,770
Net debt (cash)	5,171	5,262	5,220	5,175	5,181	5,195	5,134	5,134
Buy out of minorities	350	378	403	403	403	403	403	403
Pension provisions/other	0	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>12,863</b>	<b>14,206</b>	<b>15,159</b>	<b>17,348</b>	<b>17,354</b>	<b>17,368</b>	<b>17,307</b>	<b>17,307</b>
Non core assets	(359)	(359)	(359)	(359)	(439)	(439)	(439)	(439)
<b>Core enterprise value</b>	<b>12,505</b>	<b>13,847</b>	<b>14,801</b>	<b>16,989</b>	<b>16,915</b>	<b>16,929</b>	<b>16,868</b>	<b>16,868</b>
<b>Growth (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Revenue	3.1	-5.3	6.4	10.6	-5.2	1.8	1.8	1.8
EBITDA (UBS)	14.1	12.1	4.1	6.9	1.5	2.3	2.2	2.6
EBIT (UBS)	16.6	12.7	3.2	7.5	0.5	3.6	2.4	3.5
EPS (UBS, diluted)	13.5	7.7	7.1	5.4	3.9	5.2	3.8	3.3
Net DPS	30.0	15.4	20.4	8.0	14.6	8.4	3.0	3.0
<b>Margins &amp; Profitability (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Gross profit margin	57.7	61.3	59.6	54.8	60.1	60.1	60.2	60.2
EBITDA margin	27.1	32.1	31.4	30.4	32.5	32.7	32.8	33.1
EBIT margin	19.8	23.6	22.8	22.2	23.5	24.0	24.1	24.5
Net earnings (UBS) margin	11.4	12.9	12.8	12.1	13.1	13.5	13.7	13.8
ROIC (EBIT)	10.2	11.2	11.5	12.2	12.1	12.3	12.5	12.8
ROIC post tax	6.1	6.6	6.5	7.1	7.2	7.3	7.5	7.7
ROE (UBS)	13.2	13.5	13.8	14.0	13.9	14.1	14.1	14.1
<b>Capital structure &amp; Coverage (x)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net debt / EBITDA	4.4	3.8	3.7	3.4	3.4	3.3	3.2	3.0
Net debt / total equity %	132.8	125.4	122.4	115.7	114.2	109.4	104.9	100.1
Net debt / (net debt + total equity) %	57.0	55.6	55.0	53.6	53.3	52.2	51.2	50.0
Net debt/EV	42.4	37.7	35.2	30.2	30.9	30.5	30.3	29.8
Capex / depreciation %	NM	194.1	177.1	163.4	183.0	139.9	144.7	142.0
Capex / revenue %	18.5	16.6	15.2	13.4	16.4	12.2	12.6	12.1
EBIT / net interest	3.8	4.0	4.1	4.6	4.1	4.3	4.3	4.3
Dividend cover (UBS)	2.1	2.0	1.7	1.7	1.5	1.5	1.5	1.5
Div. payout ratio (UBS) %	47.7	50.9	57.5	58.9	65.0	67.0	66.4	66.2
<b>Revenues by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	4,486	4,246	4,519	4,997	4,738	4,822	4,910	5,000
<b>Total</b>	<b>4,486</b>	<b>4,246</b>	<b>4,519</b>	<b>4,997</b>	<b>4,738</b>	<b>4,822</b>	<b>4,910</b>	<b>5,000</b>
<b>EBIT (UBS) by division (US\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	887	1,000	1,032	1,109	1,115	1,156	1,184	1,225
<b>Total</b>	<b>887</b>	<b>1,000</b>	<b>1,032</b>	<b>1,109</b>	<b>1,115</b>	<b>1,156</b>	<b>1,184</b>	<b>1,225</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

## Forecast returns

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Forecast price appreciation	-3.4%
Forecast dividend yield	3.5%
Forecast stock return	+0.1%
Market return assumption	5.7%
Forecast excess return	-5.6%

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## Statement of Risk

Factors that could prevent Wisconsin Energy from achieving our earnings, cash flow, and/or price target objectives include, but are not limited to: (1) adverse weather conditions; (2) availability of and unscheduled generation outages or unplanned maintenance; (3) unanticipated changes in all matters related fuel procurement; (4) changes in state and / or Federal regulatory policy; (5) more stringent environmental legislation; (6) interest rate and / or capital market risk(s); (7) inability to achieve timely completion and reasonable recovery of power plants under construction; (8) continuation of labor relationships with unionized employees; (9) changes in accounting policies by the standard setting bodies; (10) economic conditions that affect both customer growth and demand, among others items; (11) regulatory challenges to its proposed acquisition of Integrys.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	37%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	42%	32%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities LLC:** Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Wisconsin Energy Corp.</b> <sup>16</sup>	WEC.N	Neutral	N/A	US\$51.76	11 Feb 2015

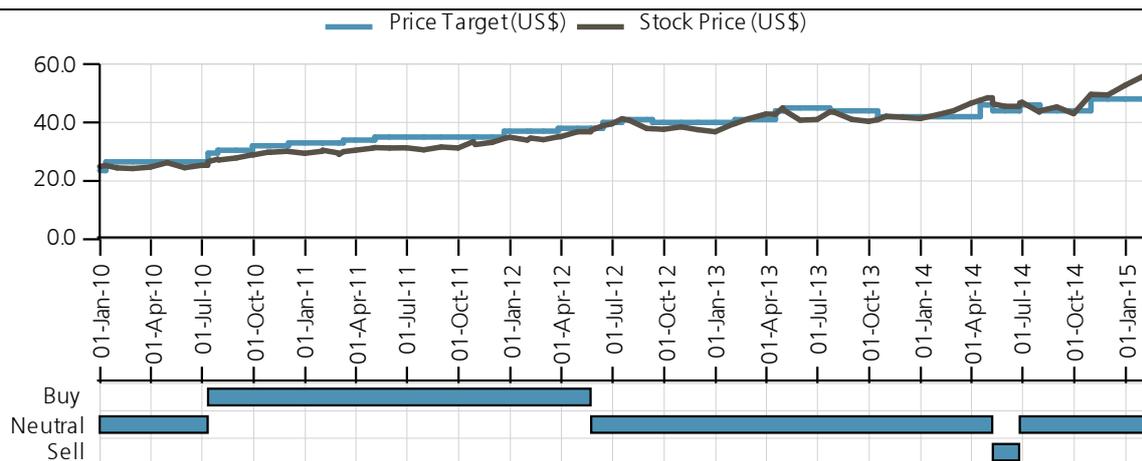
Source: UBS. All prices as of local market close.

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### Wisconsin Energy Corp. (US\$)



Source: UBS; as of 11 Feb 2015

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