Westar Energy, Inc.

Entering the Bullring

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$40.00**
	Prior: US$41.00
Price	**US$38.85**

RIC: WR.N **BBG:** WR US

Trading data and key metrics

52-wk range	US$43.96-33.46
Market cap.	US$4.97bn
Shares o/s	128m (COM)
Free float	100%
Avg. daily volume ('000)	293
Avg. daily value (m)	US$12.0
Common s/h equity (12/14E)	US$3.29bn
P/BV (12/14E)	1.5x
Net debt / EBITDA (12/14E)	3.9x

EPS (UBS, diluted) (US$)

	12/14E			
	From	To	% ch	Cons.
Q1	0.52	0.52	0.00	0.52
Q2	0.41	0.41	0.00	0.40
Q3	1.10	1.10	0.00	1.10
Q4E	0.37	0.33	-10.67	0.32
12/14E	2.42	2.41	-0.25	2.35
12/15E	2.42	2.35	-2.74	2.40
12/16E	2.51	2.49	-0.82	2.52

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Major Kansas ratecase about to begin while WR deals with FERC ROE challenge

A year ago, WR's story centered on its plan for a fast growing transmission ratebase supplemented with possible competitive projects emanating from SPP's FERC order 1000 solicitation. Now, with SPP's need for major transmission upgrades postponed at least a couple of years due to slower demand growth, the company will focus almost entirely on $225M/yr of smaller non-contested projects within its footprint; albeit still a healthy 12% CAGR through 2018. Meanwhile, WR continues to plod through a challenge to its base transmission ROE (10.8%) at FERC brought on by the Kansas Corp Commission (KCC) Staff even as it prepares to file a general ratecase on Monday. With regulatory risk elevated and '15 trimmed, we see WR as fairly valued but note the possibility of Smid M&A activity (see The 'Smid Bid': The Context for Regulated M&A).

Moderately disappointing 2015 guidance; flat to down from last year

Flat to down 2015 guidance vs 2014 was somewhat disappointing, especially in light of the KCC's approval last year for the deferral of depreciation on La Cygne's scrubbers later this year while WR awaits a final rate order. This was expected to drive up EPS by ~$0.10 in 2015 from what had previously been expected to be a flat-down year. The lower-than-expected guidance appears to be related mostly to a reduced AFUDC assumption (vs 3Q factors guidance) and a higher tax rate. The deferral order still represents a positive datapoint for WR's regulatory relationships into the ratecase.

Reducing our 2015 est but 2016-2018 mostly unchanged after rate reset

We're reducing our 2015 estimate -$0.07 to $2.35 to reflect lower AFUDC and a higher tax rate. Our ~unchanged ests for 2016-2018 reflect our view that the KCC will reduce WR's authorized ROE -50 bps, offset by +25 bps of reduced reg lag to reflect the higher transmission capex profile now that most enviro investment is complete.

Valuation: Reduce PT $1 to $40 on lower P/E multiple; Ratecase vs M&A risks

PT is based on a 2017E sum-of-the-parts with a 1.5x turn premium on peer PE for transmission, and peer mult for dist. While ratecase risk is likely to weigh on shares in '15, we also remain mindful of the potential for Smid M&A activity as well.

Highlights (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	2,171	2,261	2,371	2,602	2,652	2,780	2,836	2,897
EBIT (UBS)	512	585	607	657	668	708	733	757
Net earnings (UBS)	228	273	293	313	324	351	370	386
EPS (UBS, diluted) (US$)	1.93	2.16	2.27	2.41	2.35	2.49	2.60	2.71
DPS (US$)	1.28	1.32	1.36	1.40	1.44	1.49	1.53	1.57
Net (debt) / cash	(3,073)	(3,401)	(3,571)	(3,663)	(3,569)	(3,539)	(3,487)	(3,400)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	23.6	25.9	25.6	25.2	25.2	25.5	25.9	26.1
ROIC (EBIT) %	10.1	10.6	10.3	10.4	10.0	10.2	10.4	10.6
EV/EBITDA (core) x	8.5	8.6	9.3	9.8	9.7	8.8	7.5	7.3
P/E (UBS, diluted) x	13.7	13.4	14.0	16.1	16.5	15.6	14.9	14.3
Equity FCF (UBS) yield %	(8.0)	(6.5)	(2.1)	(0.7)	0.2	4.2	4.7	5.6
Net dividend yield %	4.8	4.6	4.3	3.6	3.7	3.8	3.9	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$38.85 on 27 Feb 2015 19:38 EST

Investment Thesis

Westar Energy, Inc.

Investment case

WR a solid fundamental infrastructure growth story due to its forecasted transmission capital spending plan and an accelerating wind build-out. This growth plan is forecast to drive 7% annual rate-base growth through 2018 (EPS growth catching up after 2016). Acknowledging our concerns over Kansas jurisdictional ROE, we still expect a $0.10-$0.15 pickup through 2016 after new rates are in place for LaCygne's scrubbers and over $1B of high-quality uncontested transmission capex through 2018.

Upside scenario

Our upside scenario has WR successfully completing the La Cygne scrubber project and completing its upcoming rate case with a favorable outcome closer to 10.0%. The combination of near-term environmental spending and long-term transmission capex could drive upside to $43.

Downside scenario

Uncertainty remains over the outcome of its 2015 Kansas ratecase filing; an authorized ROE reduction below 9.5% would result in a reduction to our estimates at a sensitivity of ~$0.10 for every 50 bps. Another question is the degree to which weather normalized sales rebound following the 2013 negative impacts of three industrial customer losses. Negative outcomes from these factors form our downside scenario, in which shares trade near $34.

Upcoming catalysts

March 2 2015	File ratecase for LaCygne
Oct 2015	Expected decision on LaCygne rate case
Aug/Sept 2015	SPP announces winners of competitive transmission

12-month rating **Neutral**

12m price target **US$40.00**

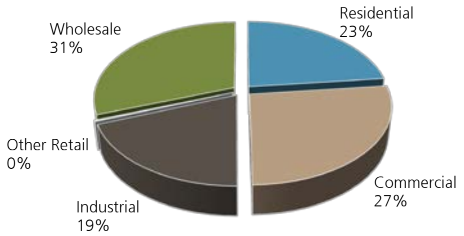
Business description

Westar is the largest electric utility in Kansas, providing electric generation, transmission, and distribution services to approximately 700,000 customers in most of east and east-central Kansas. In south-central and south-eastern Kansas, it provides regulated services under its wholly owned subsidiary, Kansas Gas and Electric (KGE). Westar has approximately 7,000 MW of generation and 35,000 miles of transmission and distribution lines.

Industry outlook

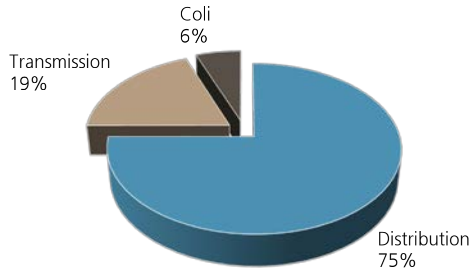
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited 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.

2013 Electricity Sales, (%)



Source: Company reports and UBS estimates

2013 EPS By Segment (%)



Source: Company reports and UBS estimates

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Regulatory & ROE risk now in the spotlight, but WR is a potential Smid-bid takeout candidate

Despite the slowdown in SPP's large competitive regional transmission project queue over the next couple of years, WR still expects ~12% investment growth in this segment from over $1B of smaller, non-contestable projects (at a rate of about $225M/yr). Furthermore, management's forecast for a relatively robust 150 bps of retail sales growth this year is a positive datapoint for growth after this ratecase cycle is over. Nevertheless, disappointing guidance for 2015 highlights a year of elevated risk with diminished reward. However, we've left our 2016-2018 estimates almost unchanged to reflect the outcome of the Kansas jurisdiction ratecase, with our assumption of ~50 bps of reduced authorized ROE (UBSe, based on the outcomes of the recent ATO and GXP ratecases) partially offset by +25bps of expected reduced regulatory lag. Lag should contract as the company shifts its investment profile away from lumpy environmental retrofit work to a more steady flow transmission spend & recovery. Accordingly, we assume a net 9.25% earned ROE post-ratecase in 2016, with some further risk to the downside.

While ratecase risk is likely to weigh on shares in '15, we remain focused on WR's transmission-heavy rate base growth plan, strong cash flow, and fully scrubbed fleet with minimal negative exposure to enviro regulations. *We see WR as a reasonable good quality ratebase growth stories under our coverage coupled with more promising sales growth (+1.5% for the second year in a row)*, *which continues to see robust M&A activity in 2015* (see our Dec note *The 'Smid Bid': The Context for Regulated M&A*). *Notable to the smid takeout thesis here is the limited holding company debt, allowing any potential acquirer to layer on additional leverage in an attempt to make any deal accretive. That said, we don't see its growth rate as being out-sized for the group, limiting any arguments around fundamental accretion.*

For more information on these and other topics, see our most recent notes:

12/19/14 The 'Smid Bid': The Context for Regulated M&A

11/7/14 "Strong Sales Growth vs ROE Contraction"

10/2014 "Koncerned about Kansas"

What's new at WR?

- As we highlighted in our 12/1 report "Easing off Transmission Spend in SPP", SPP is moving slowly with their long-term transmission planning process, with only a single project identified for possible competitive bid this year (it may still yet be classified as a non-competitive reliability project). Its latest ITP-10 process has initially resulted in only ~$300 Mn of spend relative to a high of ~$1.5 Bn of projects approved in its 2012 plan. Having achieved integration of many of its regional policy goals – and without clarity from future EPA rules such as the 111(d) carbon standards – SPP appears loath to over-invest (returning to a pace of investment similar to a long-term historic trend).

- The lack of competitive projects this year will not affect WR's projection for $225M/yr of non-contestable "footprint" projects for the foreseeable future.

- The Section 206 complaint has been assigned to a settlement judge, with settlement conferences scheduled over the near term. The company's sensitivity to a 50 bps move in transmission ROE is about $0.02-$0.03 EPS.

Guidance for 2015 below expectations for lower AFUDC and higher taxes

- We've reduced our 2015 estimate by -$0.07 primarily to reflect lower AFUDC and higher income tax rate vs our prior assumptions. Our estimates for 2016-2018 are only slightly reduced a few pennies, reflecting a lower earned ROE coming out of the ratecase.

- For 2015, we had seen initial guidance in a range of $2.35-$2.50 vs our prior estimate and consensus of $2.42.

- However, AFUDC is now expected to reduce this year by -$15M vs the prior expectation of -$9M (an extra -$0.05/sh), primarily for a higher number of completed projects as well as a lower embedded ROE assumption.

- Furthermore, we had expected the effective tax rate to remain in-line with the 2014 rate of 32%; instead it is forecast to increase to a more normalized 33%-34%. Versus 2014, normalization of weather hurts -$0.02. Management is guiding toward a 150 bps sales growth forecast for 2015 at a rate of $0.05-$0.06 for each 100 bps.

- The company will file a general ratecase (with an environmental cost recovery rider, or ECRR) on March 2 and join a settlement conference later, probably after the staff recommendation in July. The filing is mostly intended to place the remaining $270M of LaCygne's scrubbers into ratebase and we expect ROE at the utility to improve roughly 50 bps from the high-8s/low-9s beginning around November.

- The two months of benefit in 2015 are worth about $0.02. The order to defer LaCygne's depreciation before new rates go into effect this year is worth an incremental $0.09. Transmission formula rates are expected to increase margins by $19M, while the ECRR is expected to increase annual pretax earnings by $17M (7 months in 2015). O&M savings of 1% contribute an incremental +$0.03, which is offset by $24M higher depreciation ($5M from La Cygne beginning in November), or -$0.09 of EPS.

- Lower AFUDC of -$0.12, higher interest expense of -$0.02, and the -$0.11 dilutive effect of settling the remaining ~8M share forward sale this Spring should impact EPS as well. COLI actuarial assumptions actually step up in 2015 by $1M to an annualized $15M.

Figure 1: WR Earnings Walk, 2015E vs 2014A (UBSe)

2015 Earnings Walk	
2014 Adjusted EPS	**$2.40**
Weather Reversal from 2014	($0.02)
Rate increase (2 months)	$0.02
Retail sales growth 150 bps	$0.09
LaCygne defer Depn	$0.09
Transmission Rates	$0.10
ECRR (7 months)	$0.05
Opex	$0.04
D&A	($0.10)
AFUDC	($0.12)
Interest Expense	$0.00
Share Dilution	($0.14)
Eff Tax Rate 32% to 33%-35%	($0.06)
COLI	$0.01
2015 UBSe	**$2.35**
Consensus	*$2.42*
2014 Guidance	*2.25-2.45*

Source: UBS estimates, Company guidance

Figure 2: WR Estimates vs Consensus and Guidance, 2013A-2018E

	2013A	2014A	2015E	2016E	2017E	2018E
UBSe	$2.27	$2.41	$2.35	$2.49	$2.60	$2.71
Prior estimate	2.27	2.42	2.42	2.51	2.61	2.72
Consensus	*2.27*	*2.41*	*2.42*	*2.53*	*2.64*	*2.83*
Guidance			*2.25-2.45*			
Authorized ROE (Implied)		10.00%	10.00%	9.50%	9.50%	9.50%
Regulatory lag & other		-0.51%	-1.05%	-0.25%	-0.25%	-0.25%
Earned Kansas Dist ROE		9.49%	8.95%	9.25%	9.25%	9.25%
Long-term 5-Yr CAGR 4%-6% off adjusted 2013 base						
LT Guidance 4%	$2.19	$2.28	$2.37	$2.46	$2.56	$2.66
LT Guidance 5%	$2.19	$2.30	$2.41	$2.54	$2.66	$2.80
LT Guidance 6%	$2.19	$2.32	$2.46	$2.61	$2.76	$2.93

Source: UBS Estimates, Company filings, FactSet

We've reduced our PT -$1 to $40 primarily as a result of a lower average peer utility 2017E P/E multiple.

Figure 3: WR 2017E SOTP Valuation

	2017 EPS	Prem/ Discount	P/E	Price
Transmission	$0.71	*1.5x*	*16.6x*	$11.77
Distribution	$1.79	*0%*	*15.1x*	$27.03
COLI	$0.11		*15.1x*	$1.60
	$2.60		*15.5x*	**40.40**
2016 average P/E & premium			*15.1x*	*3%*

Source: UBS estimates, FactSet

Robust +1.5% retail sales growth forecast by management; but we see limited earnings impact

Initial FY15 earnings drivers from the company indicate a continuation in +1.5% sales growth YoY, relatively high for regional utilities as management remains confident on recovery. To support its expectations, management reiterated that industry sales have been growing in the 2-3% range over last couple of quarters; and that the growth is not being driven by a particular company but is rather across the board – including commercial aviation, food, basic manufacturing and chemical/oils. Management also highlighted continued improvement in the commercial and residential sales segment as well.

However, given an increased degree of regulatory risk in the next ratecase (and our general assumption that WR will not be allowed to over-earn its allowed ROE), we do not factor in much of an earnings impact from higher sales beyond 2015.

We expect the LaCygne rate case in 2015 to be settled

WR will file its next ratecase on March 2nd, 2015 in order to place the remaining portion of LaCygne scrubbers into ratebase. Staff and intervenor testimony are scheduled for early July with a final order on Oct 28 and rates in effect in November. WR has reached settlements in the last two GRCs and would generally prefer to settle cases (although even in an early settlement, the November, 2015 implementation date would remain).

To set some expectation for this case, we think it may be prudent to look at the recent KCC gas LDC rate order for Atmos Energy (ATO) – where the KCC ordered the adoption of a partial settlement of the ATO ratecase based on a 9.1% ROE and 53.0% equity ratio vs the initial ask of 10.53% on 53%. This follows last July's decision for GXP's Kansas City Power & Light that was based on **9.5% ROE** and 51.82% equity.

La Cygne retrofit on target for June completion

Equipment tie-in work on Unit 2, as part of the air quality retrofit at La Cygne, was done over Q3. Management continues to expect completion of this project by next June.

As we highlighted earlier, following approval by the KCC of an application for a construction accounting order for the La Cygne retrofit rate case, WR will be able to defer about 5 months of depreciation expense (and continue to book carrying charges) next year after the scrubbers are in service, but while awaiting a final rate order at the end of the year. The deferral is expected to drive EPS up ~$0.10 in 2015, including $15M of depreciation and another $5.5M of related carrying costs (already included in our estimates).

While this improvement is essentially a one-time item with little effect on our 2016 estimate (which already has recovery of depreciation post-ratecase), we believe it highlights the effect of management's efforts to minimize regulatory lag through its fundamentally solid working relationship with regulators, which we believe remains intact despite the Section 206 complaint described below.

FERC 1000 Opportunity: WR partnering with MidAmerican for SPP projects

In 2014, WR announced a MOU with MidAmerican Energy to jointly pursue projects under SPP's competitive transmission solicitation under FERC Order 1000. Despite the slow start expected at SPP for the most recent 2015 ITP-10 competitive transmission process, we think SPP could yet emerge (longer term) as among the more 'competitive' frameworks, giving WR a solid start on what is likely to be the underpinning of continued growth late in the decade. Importantly, none of these larger 100-300kV types of competitive projects are included in its current long-term capex forecast as they wouldn't actually begin construction until 2017-18 at the earliest, more or less beyond the scope of the current 2014-2018 capex plan. In anticipation of these opportunities, WR formed an independent transmission subsidiary to house new competitive projects, which the company envisions funding with project-level debt, similar to the way Prairie Wind has been funded.

Management had stated previously that joint ventures with other transmission companies such as the Mid-American partnership will probably be among the best options for competing successfully, noting their 'homecourt advantage' with the various siting boards and regulatory agencies needed to bring onboard. Additionally, cooperation will probably have to be the dominant model if WR intends to compete for projects outside their own footprint.

We also expect the recent extension of the federal production tax credit (PTC) could yet bolster expectations for further project development in the SPP footprint, and in particular across the windy state of Kansas.

In the long-term, SPP is consciously delaying spend on transmission spend in order to clarify resource shift around pending carbon regulations from CPP. While we wouldn't hold our breath around formal implementation, we appreciate the potential for meaningful renewable additions across the footprint. Net-net, the opportunity for transmission spend is real, it's just delayed.

Baseline of smaller transmission projects moving forward

WR's capex forecast includes about $225M/year of non-contestable smaller transmission projects within its territory, with that level of annual spending expected for the foreseeable future.

Section 206 complaint not a major concern

The recent challenge does not shake our confidence in the long-term transmission story.

The Section 206 transmission formula rate complaint filed last year by the Kansas Corporation Commission's (KCC) Staff has been assigned to a settlement judge, with settlement conferences scheduled over the near term. The company's sensitivity to a 50 bps move in transmission ROE is about $0.02-$0.03 EPS. After reviewing the complaint, we believe that the KCC faces long odds of success in their attempt to convince FERC to adjust their methodology so soon after the resolution of the New England case in order to produce a base ROE radically lower than the 10.56% set for New England. Moreover, FERC specifically advised that evidence and analyses provided in other complaints be "guided" by the New England outcome. We do not expect a conclusion until mid-2015 at least.

Challenge could be an uphill battle for the KCC

While WR's current base transmission ROE of 10.8% plus a 50 bps adder for SPP RTO is above FERC's 10.56% upper-half midpoint, it is still well within the 9.39%-11.74% zone of reasonableness and unlikely to be changed significantly, in our view (hence mgmt's confidence the case could be dismissed on the basis it remains

within the zone of reasonableness). In contrast, the KCC cites 8.87% base plus 50 bps as more reasonable based on its adjusted calculations using the FERC two-step method. In our opinion, a reduction of 169 bps is unlikely to be considered consistent with FERC guidance. It is our impression that WR did not file a Section 205 complaint (as requested informally by the KCC) in order to avoid opening the issue up to other parties. Furthermore, while a Section 205 filing need only show that proposed rates are just and reasonable, a Section 206 must also meet the higher burden of proof that existing rates are unjust and unreasonable as well.

.. Rather this appears consistent with similar petitions elsewhere nationally.

We believe that the KCC request reflects the testing of FERC rates generally throughout the nation and is not necessarily a reflection of a serious deterioration of their regulatory relationship with WR. The utility's current Kansas jurisdiction authorized ROE is 10.4% and as noted in the complaint, WR and the KCC both agreed recently to voluntarily reduce the ROE component of its Generation Formula Rate from 10.8% to 10.2%.

Westar Energy, Inc. (WR.N)

Income statement (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Revenues	**2,171**	**2,261**	**2,371**	**2,602**	*9.7*	**2,652**	*1.9*	**2,780**	**2,836**	**2,897**
Gross profit	1,540	1,671	1,736	1,896	*9.2*	1,924	*1.4*	2,044	2,092	2,145
EBITDA (UBS)	**797**	**855**	**880**	**943**	*7.2*	**960**	*1.8*	**1,054**	**1,081**	**1,111**
Depreciation & amortisation	(285)	(270)	(273)	(286)	*5.1*	(292)	*2.1*	(346)	(348)	(354)
EBIT (UBS)	**512**	**585**	**607**	**657**	*8.2*	**668**	*1.7*	**708**	**733**	**757**
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	(172)	(176)	(182)	(183)	*-0.5*	(178)	*2.9*	(175)	(173)	(172)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**340**	**409**	**425**	**474**	*11.5*	**490**	*3.5*	**532**	**560**	**585**
Tax	(103)	(126)	(124)	(151)	*-22.3*	(167)	*-10.2*	(181)	(190)	(199)
Profit after tax	**236**	**282**	**301**	**322**	*7.1*	**324**	*0.4*	**351**	**370**	**386**
Preference dividends	(2)	(2)	0	0	-	0	-	0	0	0
Minorities	(6)	(8)	(8)	(9)	*-8.7*	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**228**	**273**	**293**	**313**	*7.0*	**324**	*3.3*	**351**	**370**	**386**
Net earnings (UBS)	**228**	**273**	**293**	**313**	*7.0*	**324**	*3.3*	**351**	**370**	**386**
Tax rate (%)	30.4	30.9	29.1	31.9	*9.7*	34.0	*6.4*	34.0	34.0	34.0

Per share (US$)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
EPS (UBS, diluted)	1.93	2.16	2.27	2.41	*6.2*	2.35	*-2.3*	2.49	2.60	2.71
EPS (local GAAP, diluted)	1.93	2.16	2.27	2.41	*6.2*	2.35	*-2.3*	2.49	2.60	2.71
EPS (UBS, basic)	1.93	2.16	2.27	2.41	*6.2*	2.35	*-2.3*	2.49	2.60	2.71
Net DPS (US$)	1.28	1.32	1.36	1.40	*2.9*	1.44	*2.9*	1.49	1.53	1.57
Cash EPS (UBS, diluted)[1]	4.34	4.29	4.38	4.61	*5.2*	4.48	*-2.8*	4.94	5.05	5.20
Book value per share	23.65	22.86	23.94	25.34	*5.9*	26.85	*5.9*	27.25	28.35	29.51
Average shares (diluted)	118.29	126.71	128.96	130.01	*0.8*	137.45	*5.7*	141.32	141.91	142.50

Balance sheet (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Cash and equivalents	4	6	4	5	*1.5*	26	*NM*	28	28	115
Other current assets	630	637	702	696	*-0.8*	752	*8.0*	771	780	791
Total current assets	**634**	**643**	**707**	**701**	*-0.8*	**778**	*11.0*	**799**	**809**	**906**
Net tangible fixed assets	6,745	7,336	7,849	8,441	*7.6*	8,841	*4.7*	9,156	9,479	9,785
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	1,304	1,286	1,042	1,205	*15.6*	1,191	*-1.1*	1,178	1,165	1,151
Total assets	**8,683**	**9,265**	**9,597**	**10,347**	*7.8*	**10,810**	*4.5*	**11,133**	**11,452**	**11,842**
Trade payables & other ST liabilities	513	481	543	564	*3.8*	534	*-5.3*	541	548	556
Short term debt	314	365	412	286	*-30.71*	58	*-79.83*	8	8	8
Total current liabilities	**827**	**846**	**955**	**850**	*-11.1*	**592**	*-30.4*	**549**	**556**	**564**
Long term debt	2,740	3,042	3,164	3,382	*6.9*	3,538	*4.6*	3,560	3,508	3,508
Other long term liabilities	2,314	2,467	2,409	2,814	*16.8*	2,984	*6.0*	3,167	3,359	3,559
Preferred shares	21	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**5,904**	**6,355**	**6,529**	**7,046**	*7.9*	**7,114**	*1.0*	**7,275**	**7,422**	**7,630**
Common s/h equity	2,769	2,896	3,063	3,295	*7.6*	3,690	*12.0*	3,851	4,024	4,206
Minority interests	10	14	6	6	*12.1*	6	*0.0*	6	6	6
Total liabilities & equity	**8,683**	**9,265**	**9,597**	**10,347**	*7.8*	**10,810**	*4.5*	**11,133**	**11,452**	**11,842**

Cash flow (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Net income (before pref divs)	230	275	293	313	*7.0*	324	*3.3*	351	370	386
Depreciation & amortisation	285	270	273	286	*5.1*	292	*2.1*	346	348	354
Net change in working capital	(185)	(133)	0	0	-	(86)	-	(12)	(3)	(3)
Other operating	(571)	(631)	(651)	(636)	*2.2*	(522)	*18.0*	(479)	(479)	(460)
Operating cash flow	**(241)**	**(219)**	**(85)**	**(37)**	*57.0*	**9**	-	**208**	**235**	**278**
Tangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	15	0	-	0	-	0	0	0
Other investing	(4)	13	123	13	-	13	-	13	13	13
Investing cash flow	**(4)**	**13**	**138**	**13**	*-90.4*	**13**	*0.0*	**13**	**13**	**13**
Equity dividends paid	(138)	(158)	(163)	(172)	*-5.3*	(198)	*-15.4*	(211)	(217)	(224)
Share issues / (buybacks)	295	7	33	88	*166.4*	270	*207.5*	20	20	20
Other financing	(1)	29	52	27	*-48.66*	0	-	0	0	0
Change in debt & pref shares	85	323	(331)	113	-	(72)	-	(28)	(52)	0
Financing cash flow	**241**	**201**	**(409)**	**56**	-	**0**	-	**(219)**	**(249)**	**(204)**
Cash flow inc/(dec) in cash	**(3)**	**(5)**	**(356)**	**32**	-	**22**	*-33.2*	**2**	**0**	**87**
FX / non cash items	6	8	355	(32)	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**3**	**2**	**(1)**	**0**	-	**22**	*NM*	**2**	**0**	**87**

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

Westar Energy, Inc. (WR.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	13.7	13.4	14.0	16.1	16.5	15.6	14.9	14.3
P/E (UBS, diluted)	13.7	13.4	14.0	16.1	16.5	15.6	14.9	14.3
P/CEPS	6.1	6.7	7.3	8.4	8.7	7.9	7.7	7.5
Equity FCF (UBS) yield %	(8.0)	(6.5)	(2.1)	(0.7)	0.2	4.2	4.7	5.6
Net dividend yield (%)	4.8	4.6	4.3	3.6	3.7	3.8	3.9	4.0
P/BV x	1.1	1.3	1.3	1.5	1.4	1.4	1.4	1.3
EV/revenues (core)	3.1	3.3	3.4	3.5	3.5	3.3	2.9	2.8
EV/EBITDA (core)	8.5	8.6	9.3	9.8	9.7	8.8	7.5	7.3
EV/EBIT (core)	13.2	12.6	13.4	14.0	14.0	13.1	11.0	10.7
EV/OpFCF (core)	8.5	8.6	9.3	9.8	9.7	8.8	7.5	7.3
EV/op. invested capital	1.3	1.3	1.4	1.5	1.4	1.3	1.1	1.1

Enterprise value (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	3,015	3,380	4,050	4,970	4,970	4,970	4,970	4,970
Net debt (cash)	3,060	3,237	3,486	3,617	3,616	3,554	3,513	3,513
Buy out of minorities	10	14	6	6	6	6	6	6
Pension provisions/other	672	726	605	628	763	763	763	763
Total enterprise value	**6,757**	**7,357**	**8,147**	**9,222**	**9,356**	**9,294**	**9,253**	**9,253**
Non core assets	0	0	0	0	0	0	(1,165)	(1,151)
Core enterprise value	**6,757**	**7,357**	**8,147**	**9,222**	**9,356**	**9,294**	**8,088**	**8,102**

Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	5.6	4.2	4.8	9.7	1.9	4.8	2.0	2.2
EBITDA (UBS)	7.7	7.3	2.8	7.2	1.8	9.8	2.5	2.8
EBIT (UBS)	9.3	14.2	3.8	8.2	1.7	5.9	3.6	3.2
EPS (UBS, diluted)	7.3	11.6	5.2	6.2	-2.3	5.6	4.7	4.0
Net DPS	3.2	3.1	3.0	2.9	2.9	3.5	2.7	2.6

Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	70.9	73.9	73.2	72.9	72.5	73.5	73.8	74.1
EBITDA margin	36.7	37.8	37.1	36.3	36.2	37.9	38.1	38.4
EBIT margin	23.6	25.9	25.6	25.2	25.2	25.5	25.9	26.1
Net earnings (UBS) margin	10.5	12.1	12.3	12.0	12.2	12.6	13.0	13.3
ROIC (EBIT)	10.1	10.6	10.3	10.4	10.0	10.2	10.4	10.6
ROIC post tax	7.0	7.3	7.3	7.1	6.6	6.8	6.9	7.0
ROE (UBS)	8.9	9.6	9.8	9.9	9.3	9.3	9.4	9.4

Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	3.9	4.0	4.1	3.9	3.7	3.4	3.2	3.1
Net debt / total equity %	110.6	116.9	116.4	111.0	96.6	91.7	86.5	80.7
Net debt / (net debt + total equity) %	52.5	53.9	53.8	52.6	49.1	47.8	46.4	44.7
Net debt/EV	45.5	46.2	43.8	39.7	38.2	38.1	43.1	42.0
Capex / depreciation %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex / revenue %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT / net interest	3.0	3.3	3.3	3.6	3.8	4.0	4.2	4.4
Dividend cover (UBS)	1.5	1.6	1.7	1.7	1.6	1.7	1.7	1.7
Div. payout ratio (UBS) %	66.3	61.2	59.9	58.1	61.2	59.9	58.7	58.0

Revenues by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	2,171	2,261	2,371	2,602	2,652	2,780	2,836	2,897
Total	**2,171**	**2,261**	**2,371**	**2,602**	**2,652**	**2,780**	**2,836**	**2,897**

EBIT (UBS) by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	512	585	607	657	668	708	733	757
Total	**512**	**585**	**607**	**657**	**668**	**708**	**733**	**757**

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

Forecast returns

Forecast price appreciation	+3.0%
Forecast dividend yield	3.7%
Forecast stock return	+6.7%
Market return assumption	5.6%
Forecast excess return	+1.1%

Statement of Risk

Investors should be aware of the following risks when owning Westar's shares: the risk of an adverse decision regarding Clean Air lawsuit by the EPA, the risk of a poor outcome in rate cases decided by the Kansas KCC, and the possibility for further equity issuances to finance its capital spending. Other risks include: limited commodity/trading exposure due its asset & non-asset based trading ops., the potential impact of mild weather on regulated utility sales, the potential impact of a sluggish economy, and the risk of any unexpected or unreasonable regulatory decisions.

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12-Month Rating	**Definition**	**Coverage**[1]	**IB Services**[2]
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	**Definition**	**Coverage**[3]	**IB Services**[4]
Buy	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%
Sell	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
Westar Energy, Inc.[6, 16]	WR.N	Neutral	N/A	US$38.85	27 Feb 2015

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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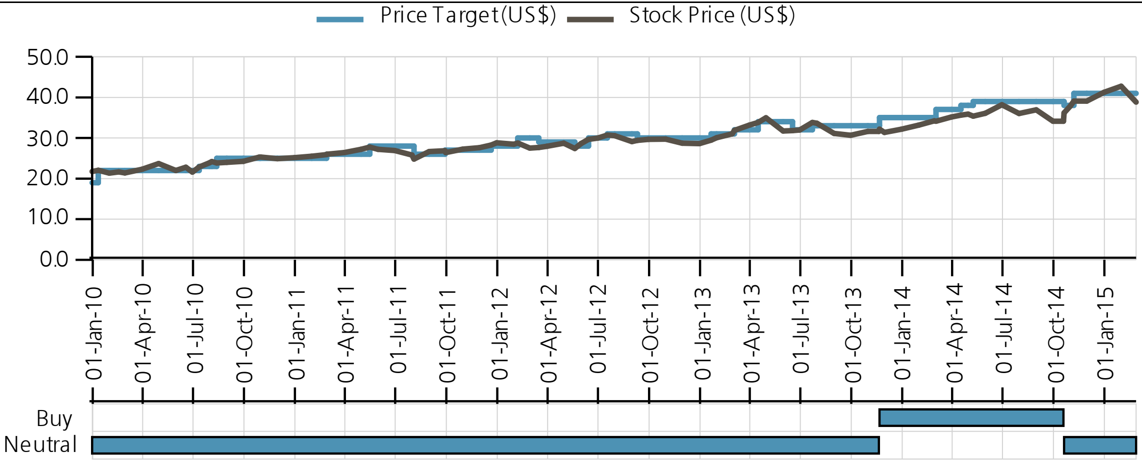
Westar Energy, Inc. (US$)



Source: UBS; as of 27 Feb 2015

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