

## CenterPoint Energy (CNP)

**\$19.27** (As of 07/01/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

### Summary

CenterPoint is investing substantially to expand its operations to meet increasing utility demand. The company targets 5-7% annual EPS growth through 2024, including Midstream investments. To this end, it is currently focused on improving infrastructure and reliability. CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Positive rate growth also boosts its results. However, the company is experiencing COVID-19 led disruptions in its business operations, as restrictions imposed by governments significantly impacted many sectors of the economy. Its unfavorable financial ratios indicate that this utility may face difficulty in paying off its debt obligations, at least in the near term. Shares of CenterPoint Energy have underperformed the industry in the past year.

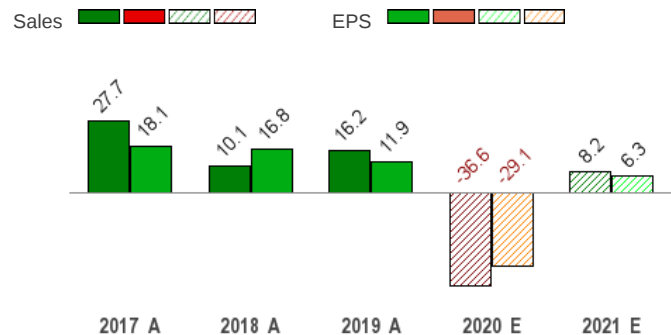
### Price, Consensus & Surprise



### Data Overview

|                            |                                          |
|----------------------------|------------------------------------------|
| 52 Week High-Low           | \$30.71 - \$11.58                        |
| 20 Day Average Volume (sh) | 11,170,946                               |
| Market Cap                 | \$10.5 B                                 |
| YTD Price Change           | -29.3%                                   |
| Beta                       | 0.95                                     |
| Dividend / Div Yld         | \$0.60 / 3.1%                            |
| Industry                   | <a href="#">Utility - Electric Power</a> |
| Zacks Industry Rank        | Top 38% (96 out of 252)                  |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 11.1%      |
| Last Sales Surprise       | -7.1%      |
| EPS F1 Est- 4 week change | 0.0%       |
| Expected Report Date      | 08/06/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 10.5       |
| P/E F1                    | 15.2       |
| PEG F1                    | 2.8        |
| P/S TTM                   | 1.0        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 |         |         |         |         | 8,432 E  |
| 2020 | 2,167 A | 1,672 E | 1,705 E | 2,250 E | 7,793 E  |
| 2019 | 3,531 A | 2,798 A | 2,742 A | 3,230 A | 12,301 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.47 E | \$0.27 E | \$0.45 E | \$0.20 E | \$1.35 E |
| 2020 | \$0.50 A | \$0.19 E | \$0.35 E | \$0.22 E | \$1.27 E |
| 2019 | \$0.46 A | \$0.35 A | \$0.53 A | \$0.45 A | \$1.79 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/01/2020. The reports text is as of 07/02/2020.

## Overview

Incorporated in 2002, Houston, TX-based CenterPoint Energy Inc. is a domestic energy delivery company that provides electric transmission & distribution, natural gas distribution and competitive natural gas sales and services operations. The company maintains the wires, poles and electric infrastructure serving more than 2.5 million metered customers in the greater Houston area and in southwestern Indiana. CenterPoint Energy also owns and operates nearly 1,300 megawatts of electric generation capacity in Indiana. The company also owns a 54.1% limited partner interest in Enable Midstream Partners, a publicly traded master limited partnership it jointly controls with OGE Energy Corp.

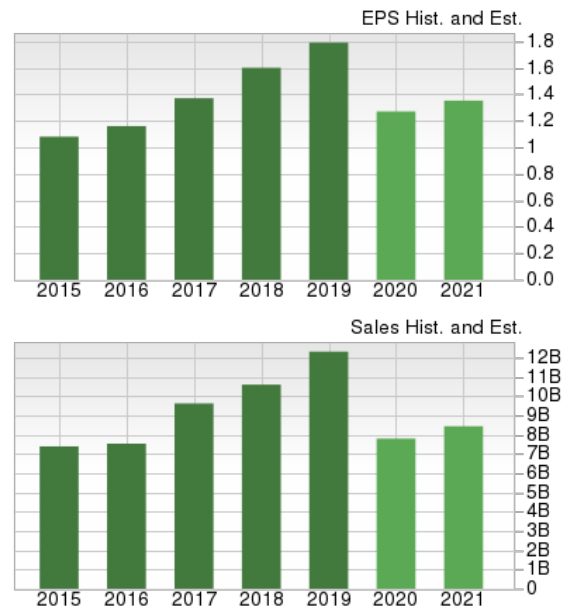
CenterPoint Energy's reportable business segments, effective Jan 1, 2020, include the following:

**Houston Electric Transmission & Distribution (T&D):** This segment consists of electric transmission and distribution services in the Texas Gulf Coast area. The segment reported net income of \$40 million, on a guidance basis, during the first quarter of 2020.

**Natural Gas Distribution:** The segment offers intrastate natural gas sales to and natural gas transportation and distribution for residential, commercial, industrial and institutional customers. The segment reported net income of \$207 million, on a guidance basis, during the first quarter of 2020.

**Indiana Electric:** The segment consists of electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations. It reported net income of \$14 million, on a guidance basis, during the first quarter of 2020.

**Midstream Investments:** It consists of the company's equity investment in Enable. The midstream investments segment reported first-quarter net income of \$50 million.



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## Reasons To Buy:

- ▲ CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Notably, during the first quarter, the company added 57,978 new meter customers under its Houston Electric Transmission & Distribution segment and 1,218 under its Indiana Electric Integrated segment. CenterPoint Energy also added 46,480 users at its Natural Gas Distribution unit and 36,753 customers at the CERC Natural Gas Distribution segment during the quarter. This customer growth trend reflects a notable boost in utility demand, which in turn should bolster the utility provider's operating results.

The Vectren merger deal along with system modernization initiatives and expansion of operation will likely fuel growth.

Positive rate growth also boosts CenterPoint Energy's results. Evidently, rate relief contributed 7 cents to first-quarter earnings, primarily as a result of the capital recovery mechanisms in the Indiana Electric and Texas Gas jurisdictions, along with the implementation of interim rates in Minnesota.

- ▲ CenterPoint Energy is investing substantially to expand its operations to meet increasing utility demand. To this end, the company is currently focused on upgrading infrastructure and improving reliability. Notably, CenterPoint Energy's capital expenditure totaled \$2,587 million in 2019, up 50.4% year over year. The company plans to invest \$13.2 billion from 2020 through 2024. These funds will be utilized primarily to maintain reliability and safety, increase resiliency and expand CenterPoint Energy's systems through value-added projects. The company's capital plan is expected to reflect a compound annual rate-based growth rate of approximately 7.5% through 2024 on account of these notable investment plans. On account of the capital expenditure plan, the company targets 5-7% annual EPS growth through 2024, including Midstream investments.
  - ▲ In February 2019, CenterPoint Energy completed its earlier announced merger agreement with Vectren Corporation, which created a leading energy delivery, infrastructure and services company, catering to more than 7 million customers across the United States. The combined company has electric and natural gas delivery operations in eight states, with assets totaling \$29 billion and an enterprise value of \$27 billion. Per management, the new enterprise will realize additional earnings by investing regulated capital of more than \$2 billion each year through 2022 to meet the needs of the 7-million plus customer base. The merger resulted in the addition of Indiana and Ohio to its regulated operations, which in turn increased the company's collective rate base by 45%. Notably, successful Vectren merger integration contributed materially to CenterPoint Energy's first-quarter earnings growth by 5 cents.
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## Reasons To Sell:

▼ A substantial portion of CenterPoint Energy's operations are located along the gulf coast of the U.S., a high-risk area with strong hurricane activity. This exposes the company's utility plants to damage and expenditures associated with storm-related restoration. In spite of having general liability and property insurance, insurance coverage may not cover all expenses incurred by the company.

Impact of coronavirus outbreak and weak solvency position pose risk to CenterPoint's growth.

▼ Following the novel coronavirus outbreak that started to make its impact significantly in the United States from around the second week of March 2020, federal, state and local U.S. governments have imposed varying degrees of restrictions on business and social activities to contain the spread of the virus. Consequently, CenterPoint Energy experienced some resulting disruptions in its business operations, as these restrictions significantly impacted many sectors of the economy with various businesses curtailing or ceasing normal operations. It is imperative to mention in this context that during the first quarter, the company experienced minimal demand impacts associated with COVID-19 as the stay-at-home restrictions began to take effect across communities toward the end of March.

However, a modest decline in electricity and gas demand from commercial and small industrial customers was observed by the company in April. This might have an adverse impact on the company's second-quarter results. As of Mar 31, 2020, the company expects the pandemic to have an impact of 5-8 cents on its 2020 bottom-line results.

▼ CenterPoint Energy's cash and cash equivalents were \$898 million at the end of first quarter 2020, compared with \$1,063 million as of Dec 31, 2019. Its long-term debt was \$13.83 billion as of Mar 31, 2020, while current debt was \$1.43 billion. Therefore, both the long-term and current debt values of the company lie much above the company's cash reserve. The current debt is much below its cash balance. This reflects a weak solvency position.

Moreover, the company's first-quarter 2020 interest coverage came in negative, which indicates that the company is incurring losses. Additionally, the company's debt-to-capital ratio of 0.69 as of Mar 31, 2020 increased sequentially from 0.64 and also came in highest among last four-quarter level. Such unfavorable financial ratios indicate that this utility may face difficulty in paying off its debt obligations, at least in the near term. This may have caused investors to lose confidence in this stock's growth. Evidently, the company's shares have slumped 34.5% in the past year, thereby underperforming its industry's decline 7%.

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## Last Earnings Report

### CenterPoint Energy Q1 Earnings Beat, Revenues Fall Y/Y

CenterPoint Energy reported first-quarter 2020 adjusted earnings of 50 cents per share, which surpassed the Zacks Consensus Estimate of 45 cents by 11.1%. The bottom line also improved 8.7% from the year-ago quarter's 46 cents.

The company incurred GAAP loss of \$2.44 per share against earnings of 28 cents registered in the prior-year quarter.

The year-over-year downside can be attributed to after-tax non-cash impairment charges and losses on assets held for sale in the first quarter of 2020.

#### Revenues

CenterPoint Energy's total revenues in the quarter were \$2,167 million, which lagged the Zacks Consensus Estimate of \$2,332 million by 7.1%. Moreover, the reported figure came in 2.8% lower than the prior-year quarter's \$2,229 million.

Decreased contribution from utility segment dragged down the top line.

#### Operational Results

Total expenses during the first quarter declined 3.4% to \$1,950 million.

The company's operating income rose 2.8% year over year to \$217 million in the first quarter.

Interest and other finance charges increased to \$139 million from \$121 million in the year-ago quarter.

#### Segment Results

The Houston Electric-Transmission & Distribution segment reported adjusted earnings of \$40 million for the first quarter compared with \$38 million witnessed in the year-ago quarter.

The Natural Gas Distribution segment registered adjusted earnings of \$207 million compared with the year-ago quarter's \$164 million.

The Indiana Electric –Integrated segment generated adjusted earnings of \$14 million compared with \$9 million in the year-earlier period.

The Midstream Investments segment recorded adjusted earnings of \$50 million compared with \$24 million in the prior-year quarter.

The Corporate and Other Operations segment reported earnings of \$4 million against loss of \$22 million in the year-ago quarter.

#### Financial Condition

As of Mar 31, 2020, CenterPoint Energy had cash and cash equivalents of \$220 million, down from \$241 million as of Dec 31, 2019.

Total long-term debt was \$13,830 million as of Mar 31, 2020, compared with \$14,244 million as of Dec 31, 2019.

At the end of first-quarter 2020, the company's net cash from operating activities was \$662 million, up from the previous year's \$271 million.

Further, CenterPoint Energy's total capital expenditure was \$615 million in the first quarter, up from \$528 million in the year-ago quarter.

#### 2020 Guidance

CenterPoint Energy reiterated its 2020 earnings guidance. The company still expects to generate earnings of \$1.10-\$1.20 per share.

The Zacks Consensus Estimate for current-year earnings is pegged at \$1.32, which lies above the guided range.

Quarter Ending **03/2020**

| Report Date      | May 07, 2020 |
|------------------|--------------|
| Sales Surprise   | -7.09%       |
| EPS Surprise     | 11.11%       |
| Quarterly EPS    | 0.50         |
| Annual EPS (TTM) | 1.83         |

## Recent News

On **Jun 1, 2020**, CenterPoint Energy and Energy Capital Partners, a private equity and credit investor specializing in energy infrastructure projects, announced that they have closed on the sale of CenterPoint Energy Services, Inc. (CES) to an affiliate of ECP. Net proceeds of the sale will be used to repay a portion of outstanding CenterPoint Energy debt.

In connection with the closing of the transaction, CES changed its name to Symmetry Energy Solutions, LLC, (Symmetry Energy) and entered into a structured long-term Preferred Supply agreement through which Shell Energy North America (US), L.P. will provide gas supply and collateral support, as well as receive equity warrants.

On **Apr 9, 2020**, CenterPoint Energy announced the close of its previously announced sale of Miller Pipeline and Minnesota Limited to PowerTeam Services, LLC for \$850 million in cash, subject to customary purchase price adjustments. The net proceeds of the sale will be used to repay a portion of outstanding CenterPoint Energy debt.

## Valuation

CenterPoint Energy's shares are down 29.3% in the year to date period and 34.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12.1% and 15.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 7% whereas the sector is down 12.7%.

The S&P 500 index is down 3.7% in the year-to-date period and up 4% in the past year.

The stock is currently trading at 14.7X of forward 12-month earnings, which compares to 13.2X for the Zacks sub-industry, 12.3X for the Zacks sector and 22.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.1X and as low as 8.3X, with a 5-year median of 17.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$20 price target reflects 15.3X forward 12-month earnings.

The table below shows summary valuation data for CNP

| Valuation Multiples - CNP |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 14.7  | 13.19        | 12.26  | 22.19   |
|                           | 5-Year High   | 22.11 | 15.53        | 15.32  | 22.19   |
|                           | 5-Year Low    | 8.33  | 11.12        | 11.4   | 15.25   |
|                           | 5-Year Median | 17.29 | 13.23        | 13.79  | 17.51   |
| P/S F12M                  | Current       | 1.27  | 2.15         | 2.6    | 3.47    |
|                           | 5-Year High   | 1.57  | 2.45         | 3.29   | 3.47    |
|                           | 5-Year Low    | 0.5   | 1.54         | 1.75   | 2.53    |
|                           | 5-Year Median | 1.22  | 1.89         | 2.05   | 3.02    |
| EV/EBITDA TTM             | Current       | 6.6   | 11.83        | 18.11  | 11.57   |
|                           | 5-Year High   | 19.86 | 13.6         | 20.87  | 12.86   |
|                           | 5-Year Low    | 4.85  | 7.81         | 10.59  | 8.25    |
|                           | 5-Year Median | 8.78  | 10.37        | 13.74  | 10.86   |

As of 07/01/2020

## Industry Analysis Zacks Industry Rank: Top 38% (96 out of 252)



## Top Peers

| Company (Ticker)             | Rec     | Rank |
|------------------------------|---------|------|
| Ameren Corporation (AEE)     | Neutral | 3    |
| CMS Energy Corporation (CMS) | Neutral | 2    |
| DTE Energy Company (DTE)     | Neutral | 2    |
| Consolidated Edison Inc (ED) | Neutral | 3    |
| Edison International (EIX)   | Neutral | 4    |
| Entergy Corporation (ETR)    | Neutral | 3    |
| FirstEnergy Corporation (FE) | Neutral | 3    |
| Xcel Energy Inc. (XEL)       | Neutral | 3    |

| Industry Comparison Industry: Utility - Electric Power |            |            |           | Industry Peers |           |           |
|--------------------------------------------------------|------------|------------|-----------|----------------|-----------|-----------|
|                                                        | CNP        | X Industry | S&P 500   | AEE            | CMS       | ETR       |
| Zacks Recommendation (Long Term)                       | Neutral    | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                | 3          | -          | -         | 3              | 2         | 3         |
| VGM Score                                              | A          | -          | -         | C              | C         | A         |
| Market Cap                                             | 10.50 B    | 8.09 B     | 21.87 B   | 17.90 B        | 17.16 B   | 19.36 B   |
| # of Analysts                                          | 4          | 2          | 14        | 4              | 5         | 4         |
| Dividend Yield                                         | 3.11%      | 3.62%      | 1.94%     | 2.73%          | 2.72%     | 3.85%     |
| Value Score                                            | B          | -          | -         | C              | C         | B         |
| Cash/Price                                             | 0.09       | 0.07       | 0.07      | 0.00           | 0.05      | 0.08      |
| EV/EBITDA                                              | 8.87       | 9.50       | 12.69     | 10.91          | 12.34     | 8.92      |
| PEG Ratio                                              | 2.83       | 3.46       | 2.86      | 3.11           | 3.29      | 3.05      |
| Price/Book (P/B)                                       | 1.85       | 1.62       | 2.98      | 2.17           | 3.29      | 1.90      |
| Price/Cash Flow (P/CF)                                 | 4.33       | 7.77       | 11.63     | 9.25           | 10.01     | 5.90      |
| P/E (F1)                                               | 15.45      | 17.52      | 21.27     | 21.13          | 22.78     | 17.47     |
| Price/Sales (P/S)                                      | 0.96       | 1.82       | 2.27      | 3.09           | 2.58      | 1.81      |
| Earnings Yield                                         | 6.59%      | 5.65%      | 4.48%     | 4.73%          | 4.39%     | 5.72%     |
| Debt/Equity                                            | 2.64       | 1.02       | 0.76      | 1.14           | 2.42      | 1.78      |
| Cash Flow (\$/share)                                   | 4.45       | 4.27       | 6.94      | 7.84           | 5.99      | 16.39     |
| Growth Score                                           | A          | -          | -         | C              | D         | B         |
| Hist. EPS Growth (3-5 yrs)                             | 11.63%     | 4.99%      | 10.93%    | 7.69%          | 6.95%     | 0.30%     |
| Proj. EPS Growth (F1/F0)                               | -29.05%    | 0.21%      | -9.61%    | 2.39%          | 5.70%     | 2.50%     |
| Curr. Cash Flow Growth                                 | 10.42%     | 5.76%      | 5.51%     | 2.50%          | 6.78%     | -3.90%    |
| Hist. Cash Flow Growth (3-5 yrs)                       | 6.62%      | 5.82%      | 8.62%     | 6.59%          | 7.74%     | 0.41%     |
| Current Ratio                                          | 1.03       | 0.86       | 1.30      | 0.62           | 0.96      | 0.66      |
| Debt/Capital                                           | 66.49%     | 50.49%     | 44.46%    | 53.27%         | 70.72%    | 63.50%    |
| Net Margin                                             | -5.28%     | 10.50%     | 10.62%    | 13.51%         | 10.68%    | 10.50%    |
| Return on Equity                                       | 15.75%     | 9.25%      | 15.75%    | 9.62%          | 14.68%    | 11.40%    |
| Sales/Assets                                           | 0.32       | 0.22       | 0.55      | 0.20           | 0.25      | 0.21      |
| Proj. Sales Growth (F1/F0)                             | 0.00%      | 0.00%      | -2.57%    | 1.54%          | -1.33%    | 4.68%     |
| Momentum Score                                         | C          | -          | -         | C              | B         | A         |
| Daily Price Chg                                        | 3.21%      | 1.16%      | -0.32%    | 3.03%          | 2.64%     | 3.10%     |
| 1 Week Price Chg                                       | -0.51%     | -2.68%     | -3.90%    | -1.29%         | -2.43%    | -3.03%    |
| 4 Week Price Chg                                       | 4.39%      | -4.75%     | -4.56%    | -4.72%         | -0.30%    | -7.04%    |
| 12 Week Price Chg                                      | 14.57%     | 0.68%      | 9.62%     | -4.63%         | -1.12%    | -3.78%    |
| 52 Week Price Chg                                      | -34.52%    | -15.73%    | -7.80%    | -5.27%         | 1.66%     | -7.48%    |
| 20 Day Average Volume                                  | 11,170,946 | 424,458    | 2,688,665 | 1,844,478      | 2,048,624 | 1,429,895 |
| (F1) EPS Est 1 week change                             | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| (F1) EPS Est 4 week change                             | 0.00%      | 0.00%      | 0.00%     | -0.29%         | 1.00%     | 0.05%     |
| (F1) EPS Est 12 week change                            | -4.87%     | -2.31%     | -9.63%    | -0.81%         | -1.24%    | -0.18%    |
| (Q1) EPS Est Mthly Chg                                 | 0.00%      | 0.00%      | 0.00%     | 0.89%          | 0.50%     | 0.00%     |

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>A</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>A</b> |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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