

## CenterPoint Energy (CNP)

**\$26.95** (As of 01/02/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

### Summary

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. Moreover, high debt levels increase the company's vulnerability to adverse economic or industry conditions. Shares of CenterPoint Energy have underperformed the industry. However, CenterPoint Energy is investing substantially to expand its operations to meet increasing utility demand. To this end, the company is currently focused on improving infrastructure and reliability.

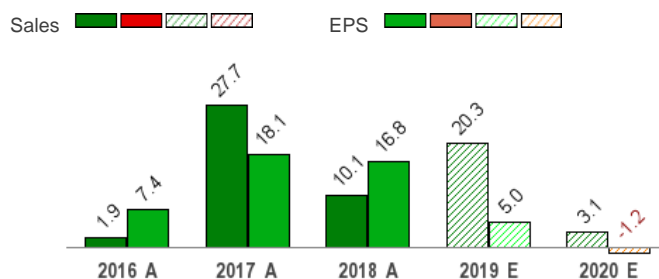
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$31.42 - \$24.25
20 Day Average Volume (sh)	5,398,651
Market Cap	\$13.5 B
YTD Price Change	-1.2%
Beta	0.44
Dividend / Div Yld	\$1.15 / 4.3%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Bottom 27% (185 out of 253)

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



Last EPS Surprise	23.3%
Last Sales Surprise	-5.4%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	02/27/2020
Earnings ESP	-1.1%
P/E TTM	15.9
P/E F1	16.2
PEG F1	3.0
P/S TTM	1.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					13,144 E
2019	3,531 A	2,798 A	2,742 A	3,922 E	12,743 E
2018	3,155 A	2,186 A	2,212 A	3,036 A	10,589 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.43 E	\$0.35 E	\$0.47 E	\$0.30 E	\$1.66 E
2019	\$0.46 A	\$0.35 A	\$0.53 A	\$0.36 E	\$1.68 E
2018	\$0.55 A	\$0.30 A	\$0.39 A	\$0.36 A	\$1.60 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 01/02/2020. The reports text is as of 01/03/2020.

## 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 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.

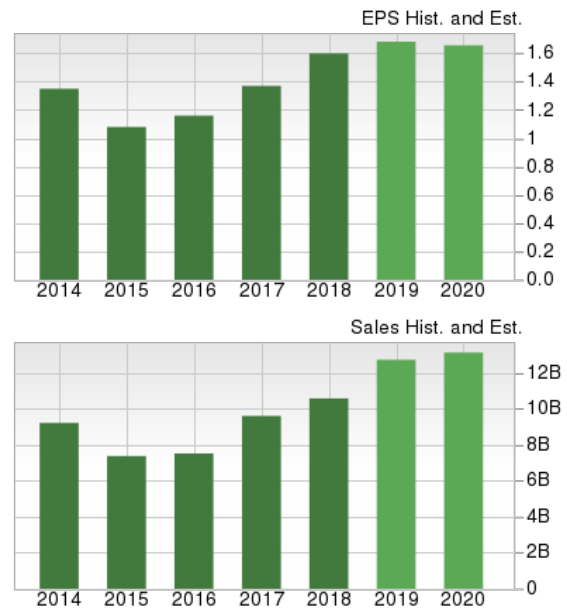
CenterPoint Energy's reportable business segments include the following:

**Electric Transmission & Distribution:** CenterPoint Houston engages in electric transmission and distribution entirely within the state of Texas. It delivers electricity on behalf of retail electric providers (REPs). The segment reported full-year 2018 operating income of \$623 million.

**Natural Gas Distribution:** The segment consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers. As of Feb 1, 2019, this segment includes the results of the Indiana and Ohio gas utilities that CenterPoint acquired during the Vectren merger. The segment reported full-year 2018 operating income of \$266 million.

**Energy Services:** The segment, through CenterPoint Energy Services, Inc. and its subsidiary, CenterPoint Energy Intrastate Pipelines, LLC, provides variable and fixed-priced physical natural gas supplies mainly to commercial and industrial customers and electric and gas utilities. The segment reported a full-year 2018 operating loss of \$47 million.

**Midstream Investments:** The midstream investments segment reported full-year 2018 equity income of \$307 million.



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## Reasons To Sell:

- ▼ The performance of CenterPoint Energy's regulated electricity and natural gas utilities depends upon rate relief at regular intervals in its different service areas. Any adverse decision in pending regulatory cases can impact the company's earnings substantially. The proceeds are used to finance a portion of its expansion program. An adverse regulatory decision will force the company to refund the incremental bill it has charged from its customers.
- ▼ 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.
- ▼ As of Sep 30, 2019, CenterPoint Energy had \$11.3 billion of outstanding fixed-rate debt (excluding indexed debt securities) compared with \$9 billion at the end of 2018. Such high debt levels increase the company's vulnerability to adverse economic or industry conditions. Moreover, it will require the company to dedicate a portion of its cash flow from operations to repayments of debt, thereby reducing the availability of cash flow for fund working capital, capital expenditures and strategic initiatives. Such debt levels tend to affect investors' confidence in this stock. Evidently, shares of CenterPoint Energy have lost 2.1% in the past year against its industry's 25.5% growth.
- ▼ A comparative analysis of CenterPoint Energy's historical Price/Cash Flow (P/CF) ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/CF ratio of 8.82. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is slightly higher than the industry's average of 8.80, which indicates that the stock is somewhat overvalued.

Exposure to extreme weather conditions and huge debt loads pose risk to CenterPoint's growth.

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## Risks

- CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Notably, the company added 48,432 new meter customers under its Electric Transmission & Distribution segment in the third quarter of 2019. Impressively, CenterPoint Energy added a massive 1,077,930 users at the Gas Utility business during the third quarter. Ongoing economic development in its operating territories primarily boosted the customer count. This trend is expected to continue in the future given the economic recovery in Houston, which will subsequently boost utility demand.
  - 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 \$666 million in the third quarter, up 53.5% year over year. Going ahead, the company has plans to invest \$12.1 billion from 2019 through 2023. 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 8.2% through 2023, on account of these notable investment plans. On account of the capital expenditure plan, the company targets 5-7% annual EPS growth through 2023, including Midstream investments.
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## Last Earnings Report

### CenterPoint Energy Q3 Earnings Beat, Revenues Up Y/Y

CenterPoint Energy, Inc. reported third-quarter 2019 adjusted earnings of 53 cents per share, which surpassed the Zacks Consensus Estimate of 43 cents by 23.3%. The bottom line also improved 36% from the year-ago quarter's figure.

The company's GAAP earnings came in at 47 cents per share compared with 35 cents in the prior-year quarter.

The year-over-year upside can be attributed to higher revenues as well as operating income generated in the third quarter.

#### Revenues

CenterPoint Energy's total revenues in the quarter were \$2.74 billion, which missed the Zacks Consensus Estimate by 5.4%. However, the top line surged 24% from \$2.21 billion of revenues generated in the year-ago quarter. Notably, increased contribution from both the utility and non-utility businesses led to the top-line growth.

#### Operational Results

Total expenses during the third quarter increased 18.3% to \$2,350 million.  
The company's operating income also increased 73% year over year to \$392 million.

Interest and other finance charges increased to \$134 million from \$90 million a year ago.

#### Segment Results

The Houston electric-transmission & distribution segment reported operating income of \$269 million in the third quarter compared with \$227 million in the year-ago quarter.

The Natural Gas distribution segment reported operating income of \$27 million compared with \$3 million in the prior-year quarter.

The Energy Services segment registered operating income of \$2 million compared with \$9 million in the year-ago quarter.

The Infrastructure Services segment reported \$42 million of operating income in the reported quarter.

The Corporate and Other segment generated operating income of \$4 million compared with \$5 million in the prior-year quarter.

The Indiana electric-integrated segment reported operating income of \$48 million in the third quarter of 2019.

#### Financial Condition

As of Sep 30, 2019, CenterPoint Energy had cash and cash equivalents of \$259 million, down significantly from \$4,231 million as of Dec 31, 2018.

Total long-term debt was \$14,014 million as of Sep 30, 2019 compared with \$8,682 million as of Dec 31, 2018.

At the end of the third quarter, the company's net cash from operating activities was \$1,086 million, down from \$1,679 million in the year ago quarter.

Further, CenterPoint Energy's total capital expenditure totaled \$666 million in the third quarter, up from \$434 million in the year ago quarter.

#### 2019 Guidance

CenterPoint Energy updated its 2019 earnings guidance. The company currently expects to generate earnings per share near the upper end of its earlier provided guidance of \$1.60-\$1.70.

The Zacks Consensus Estimate for 2019 earnings is pegged at \$1.64, which lies below the company's guidance.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-5.36%
EPS Surprise	23.26%
Quarterly EPS	0.53
Annual EPS (TTM)	1.70

## Valuation

CenterPoint Energy's shares are down 6.4% in the past six months period and down 2.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 7.6% and 5% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 25.5%, while the sector is up 7.2%.

The S&P 500 index is up 9.3% in the past six months period and is up 29% in the past year.

The stock is currently trading at 16.04X of forward 12-month earnings, which compares to 14.68X for the Zacks sub-industry, 13.61X for the Zacks sector and 19.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.11X and as low as 14.25X, with a 5-year median of 17.98X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 13.7X 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	16.04	14.68	13.61	19.06
	5-Year High	22.11	14.68	15.33	19.34
	5-Year Low	14.25	11.19	12.61	15.17
	5-Year Median	17.98	13.02	13.69	17.44
P/S F12M	Current	1.06	2.25	2.9	3.46
	5-Year High	1.57	2.25	3.26	3.46
	5-Year Low	0.75	1.5	1.7	2.54
	5-Year Median	1.22	1.83	1.95	3
P/B TTM	Current	2.05	1.76	3.97	4.41
	5-Year High	3.68	1.86	3.97	4.42
	5-Year Low	1.66	1.32	2.01	2.85
	5-Year Median	2.47	1.54	2.55	3.6

As of 01/02/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 253)



## Top Peers

Ameren Corporation (AEE)	Neutral
CMS Energy Corporation (CMS)	Neutral
DTE Energy Company (DTE)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
Pinnacle West Capital Corporation (PNW)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	CNP Underperform	X Industry	S&P 500	AEE Neutral	CMS Neutral	ETR Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Market Cap	13.53 B	9.29 B	23.93 B	18.71 B	17.52 B	23.48 B
# of Analysts	4	2	13	5	5	4
Dividend Yield	4.27%	2.81%	1.78%	2.60%	2.48%	3.15%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Cash/Price	0.07	0.04	0.04	0.00	0.02	0.04
EV/EBITDA	12.71	11.30	13.95	10.88	13.47	15.08
PEG Ratio	2.97	3.67	2.12	3.51	3.59	3.02
Price/Book (P/B)	2.05	1.76	3.33	2.28	3.51	2.34
Price/Cash Flow (P/CF)	6.67	9.08	13.67	9.88	10.98	6.29
P/E (F1)	16.23	19.60	19.66	21.87	23.07	21.16
Price/Sales (P/S)	1.12	2.22	2.69	3.11	2.55	2.15
Earnings Yield	6.16%	5.08%	5.08%	4.58%	4.33%	4.72%
Debt/Equity	2.12	1.06	0.72	1.05	2.43	1.69
Cash Flow (\$/share)	4.04	4.03	6.94	7.70	5.62	18.75
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	8.50%	4.40%	10.56%	8.26%	6.54%	4.11%
Proj. EPS Growth (F1/F0)	-1.53%	5.68%	0.00%	6.58%	7.43%	4.84%
Curr. Cash Flow Growth	22.44%	7.23%	14.83%	12.97%	6.77%	0.51%
Hist. Cash Flow Growth (3-5 yrs)	5.78%	4.95%	9.00%	8.12%	8.07%	2.60%
Current Ratio	0.99	0.81	1.23	0.65	1.06	0.72
Debt/Capital	62.67%	51.35%	42.92%	51.33%	70.82%	62.21%
Net Margin	6.23%	9.70%	11.08%	13.34%	9.03%	7.38%
Return on Equity	14.51%	9.47%	17.10%	10.10%	12.80%	11.13%
Sales/Assets	0.37	0.24	0.55	0.22	0.27	0.22
Proj. Sales Growth (F1/F0)	3.15%	3.15%	0.00%	4.37%	2.28%	1.19%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>C</b>
Daily Price Chg	-1.17%	-0.60%	0.33%	-0.98%	-1.80%	-1.56%
1 Week Price Chg	0.67%	-0.15%	0.13%	-0.35%	-0.89%	-0.26%
4 Week Price Chg	8.71%	1.97%	3.67%	1.28%	-0.21%	-0.41%
12 Week Price Chg	-4.30%	0.26%	10.64%	-1.04%	-4.07%	0.12%
52 Week Price Chg	-4.30%	19.41%	27.46%	19.41%	27.50%	40.11%
20 Day Average Volume	5,398,651	262,578	1,693,267	1,603,615	1,391,951	1,393,277
(F1) EPS Est 1 week change	-1.49%	0.00%	0.00%	0.14%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.40%	0.00%	0.00%	0.08%	0.00%	0.00%
(F1) EPS Est 12 week change	-7.88%	-0.12%	0.14%	-0.38%	0.75%	0.00%
(Q1) EPS Est Mthly Chg	-3.37%	0.00%	0.00%	0.00%	0.00%	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	C
Growth Score	B
Momentum Score	D
VGM Score	C

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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