

CenterPoint Energy (CNP)

\$18.03 (As of 03/09/20)

Price Target (6-12 Months): **\$19.00**

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:B

Value: B

Growth: B

Momentum: D

Summary

CenterPoint Energy ended fourth-quarter 2019 with quarterly earnings surpassing the Zacks Consensus Estimate, while revenues missing the same. It is investing substantially to expand its operations to meet increasing utility demand. To this end, it is currently focused on improving infrastructure and reliability. It judiciously utilizes its funds in growth projects and at the same time preserves a stable financial position. However, a substantial portion of its operations are located along the gulf coast of the United States, a high-risk area with strong hurricane activity. This exposes the company's utility plants to damage and expenditures associated with storm-related restoration. Moreover, high debt levels increase its vulnerability to adverse economic conditions. Shares CenterPoint Energy have underperformed the industry in the past year.

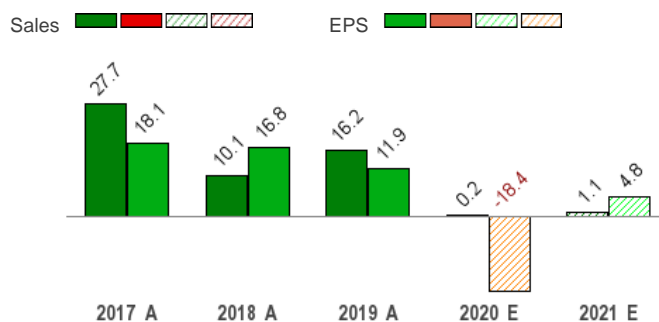
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.17 - \$17.16
20 Day Average Volume (sh)	7,272,257
Market Cap	\$9.1 B
YTD Price Change	-33.9%
Beta	0.62
Dividend / Div Yld	\$1.16 / 6.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 40% (100 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.0%
Last Sales Surprise	-16.6%
EPS F1 Est- 4 week change	-10.5%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	10.1
P/E F1	12.4
PEG F1	2.3
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,463 E
2020					12,331 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					\$1.53 E
2020	\$0.45 E	\$0.35 E	\$0.42 E	\$0.26 E	\$1.46 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 03/09/2020. The reports text is as of 03/10/2020.

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.

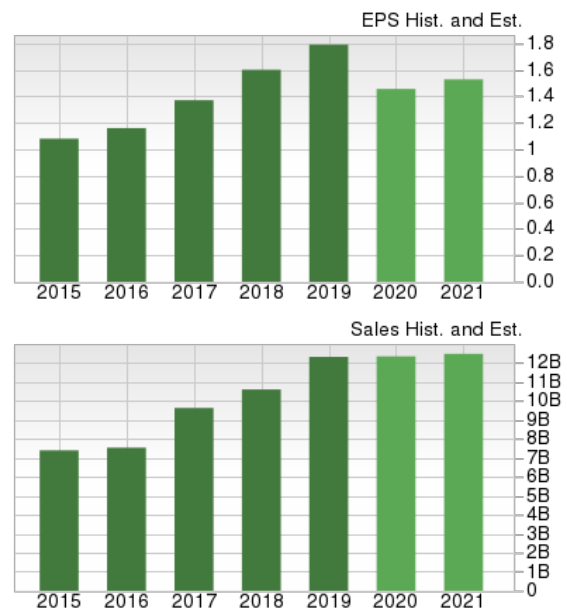
CenterPoint Energy's reportable business segments include the following:

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 2019 operating income of \$624 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 2019 operating income of \$408 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 2019 operating income of \$32 million.

Midstream Investments: The midstream investments segment reported 2019 equity income of \$229 million.



Reasons To Buy:

- ▲ CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Notably, the company added approximately 2.5 million new meter customers under its Electric Transmission & Distribution segment in 2019. Impressively, CenterPoint Energy added 1,095,800 users at the Gas Utility business during the year. 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 \$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, the Vectren merger added earnings of 45 cents per share to CenterPoint Energy's fourth-quarter results.
- ▲ CenterPoint Energy judiciously utilizes its funds in growth projects and at the same time, preserves a stable financial position. As of Dec 31, 2019, the company had cash and cash equivalents of \$241 million. At the end of 2019, the company's net cash from operating activities came in at \$1,638 million. Moreover, a favorable financial position supports CenterPoint Energy's practice of paying out regular dividends. In February 2020, CenterPoint Energy's management raised its quarterly cash dividend rate to \$0.29 per share. This marked the 15th consecutive annual dividend hike for the company. In 2019, the company paid out \$577 million as dividends to its shareholders, up from \$499 million paid out in 2018.

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

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 Dec 31, 2019, CenterPoint Energy had \$11.2 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 40.7% in the past year against the industry's 6.3% growth.
- ▼ The company's Indiana Electric's generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated operation and maintenance expenses, increased purchase power costs and inadvertent releases of coal ash and/or other contaminants with a significant environmental impact. These operational risks can arise from circumstances such as facility shutdowns or malfunctions due to equipment failure, disruptions in the delivery of electricity, alongside others, which could adversely affect Indiana Electric's business.

Adverse ruling in pending regulatory cases and huge debt loads pose risk to CenterPoint's growth.

Last Earnings Report

CenterPoint Energy Q4 Earnings Tops, Revenues Up Y/Y

CenterPoint Energy reported fourth-quarter 2019 adjusted earnings of 45 cents per share, which exceeded the Zacks Consensus Estimate of 37 cents by 21.6%. The bottom line soared 25% from the year-ago quarter's tally of 36 cents.

The company's GAAP earnings came in at 25 cents per share compared with 18 cents registered in the prior-year quarter.

For 2019, CenterPoint Energy posted adjusted earnings of \$1.79 per share, which surpassed with the Zacks Consensus Estimate of \$1.69 by 5.9%. Full-year earnings also improved by 11.9% from the year-ago tally of \$1.60.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-16.61%
EPS Surprise	25.00%
Quarterly EPS	0.45
Annual EPS (TTM)	1.79

Revenues

CenterPoint Energy's total revenues in the quarter were \$3,230 million, which lagged the Zacks Consensus Estimate of \$3,897 million by 17.1%. However, the reported figure was 6.4% higher than \$3,036 million a year ago.

Increased contribution from both the utility segments led to top-line growth.

For 2019, the company's total revenues of \$12,301 million missed the Zacks Consensus Estimate of \$12,890 million by 4.6%. However, the top line was 16.2% higher than \$10,589 million registered in 2018.

Operational Results

Total expenses during the fourth quarter increased 2.1% to \$2,928 million.

The company's operating income surged 80.8% to \$302 million from \$167 million in the year-ago quarter.

Interest and other finance charges increased to \$139 million from \$102 million a year ago.

Segment Results

The **Electric Transmission & Distribution** segment reported operating income of \$102 million in the fourth quarter compared with \$100 million in the year-ago quarter.

The **Natural Gas Distribution** segment reported operating income of \$167 million compared with \$100 million in the year-ago quarter.

The **Energy Services** segment incurred operating loss of \$32 million compared to the operating loss of \$27 million in the year-ago quarter.

The **Infrastructure Services** segment reported operating income of \$45 million compared with \$95 million in the year-ago quarter.

The **Other Operations** segment incurred operating loss of \$6 million in line with the prior-year quarter's figure.

Financial Condition

As of Dec 31, 2019, CenterPoint Energy had cash and cash equivalents of \$241 million, down significantly from \$4,231 million as of Dec 31, 2018.

Total long-term debt was \$14,244 million as of Dec 31, 2019, compared with \$8,682 million as of Dec 31, 2018.

At the end of 2019, the company's net cash from operating activities was \$1.638 million, up from \$2,136 million in the previous year.

Further, CenterPoint Energy's total capital expenditure totaled \$2,580 million in 2019, up from \$1,720 million a year ago.

2020 Guidance

CenterPoint Energy issued its 2020 earnings guidance. The company currently expects to generate earnings in the range of \$1.10-\$1.20 per diluted share, excluding certain impacts associated in relation to its merger with Vectren. 2020. Its Midstream Investments EPS expected range is 23-28 cents.

The Zacks Consensus Estimate for 2020 earnings is pegged at \$1.58, which lies above the mid-point of the company's guided range.

Recent News

On **Feb 24, 2020**, CenterPoint Energy announced it has entered into an agreement to sell its natural gas retail business, CenterPoint Energy Services, Inc. (CES) to Energy Capital Partners, LLC, (ECP), a private equity and credit investor specializing in energy infrastructure projects, for total consideration of approximately \$400 million, including estimated working capital at close, subject to the satisfaction of customary terms and conditions.

Valuation

CenterPoint Energy's shares are down 33.9% in the year to date period and down 40.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 4.2% and 7.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 6.3%, while the sector is down 11.6%.

The S&P 500 index is down 14.8% in the year to date period and is down 2.3% in the past year.

The stock is currently trading at 12.3X of forward 12-month earnings, which compares to 13.8X for the Zacks sub-industry, 12.7X for the Zacks sector and 15.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.1X and as low as 12.3X, with a 5-year median of 17.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 12.9X 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	12.28	13.84	12.65	15.78
	5-Year High	22.11	15.58	15.36	19.34
	5-Year Low	12.28	11.14	12.58	15.18
	5-Year Median	17.69	13.27	13.77	17.42
P/S F12M	Current	0.73	2.23	2.7	2.91
	5-Year High	1.57	2.45	3.31	3.44
	5-Year Low	0.73	1.54	1.76	2.54
	5-Year Median	1.22	1.87	2.03	3
P/B TTM	Current	1.37	1.87	3.39	3.69
	5-Year High	3.68	2.13	4.07	4.56
	5-Year Low	1.37	1.32	2.02	2.85
	5-Year Median	2.47	1.56	2.59	3.63

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 40% (100 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 Neutral	X Industry	S&P 500	AEE Neutral	CMS Neutral	ETR Neutral
VGM Score	B	-	-	C	C	C
Market Cap	9.06 B	7.84 B	19.13 B	20.09 B	18.59 B	23.05 B
# of Analysts	4	2	13	5	4	4
Dividend Yield	6.43%	3.00%	2.26%	2.43%	2.49%	3.22%
Value Score	B	-	-	D	D	D
Cash/Price	0.10	0.04	0.05	0.00	0.01	0.02
EV/EBITDA	8.45	10.32	11.99	11.61	13.00	9.80
PEG Ratio	2.25	3.89	1.68	3.83	3.46	NA
Price/Book (P/B)	1.37	1.62	2.64	2.45	3.67	2.25
Price/Cash Flow (P/CF)	4.05	8.39	10.70	10.41	10.92	7.04
P/E (F1)	12.28	18.97	15.44	23.45	24.52	20.67
Price/Sales (P/S)	0.74	2.10	2.05	3.40	2.72	2.12
Earnings Yield	8.10%	5.16%	6.47%	4.26%	4.08%	4.84%
Debt/Equity	2.15	1.06	0.70	1.09	2.38	1.67
Cash Flow (\$/share)	4.45	4.09	7.01	7.84	5.99	16.39
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	10.43%	4.91%	10.85%	8.19%	6.76%	2.35%
Proj. EPS Growth (F1/F0)	-18.72%	4.44%	6.25%	3.88%	7.13%	3.38%
Curr. Cash Flow Growth	10.42%	3.63%	6.09%	2.50%	6.78%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	6.62%	5.53%	8.52%	6.59%	7.74%	0.41%
Current Ratio	0.99	0.85	1.24	0.57	0.86	0.54
Debt/Capital	63.02%	51.32%	42.57%	52.09%	70.41%	61.98%
Net Margin	6.43%	10.09%	11.69%	14.01%	9.93%	11.57%
Return on Equity	14.97%	9.72%	16.74%	10.29%	14.28%	11.02%
Sales/Assets	0.36	0.23	0.54	0.21	0.27	0.21
Proj. Sales Growth (F1/F0)	0.24%	1.64%	3.76%	5.57%	4.02%	4.07%
Momentum Score	D	-	-	A	C	B
Daily Price Chg	-16.33%	-6.31%	-7.65%	-4.39%	-3.64%	-7.15%
1 Week Price Chg	-6.39%	4.78%	-0.67%	8.04%	12.36%	6.30%
4 Week Price Chg	-32.87%	-10.79%	-19.26%	-2.83%	-3.17%	-13.16%
12 Week Price Chg	-31.58%	-3.78%	-17.26%	7.71%	5.74%	-3.12%
52 Week Price Chg	-40.75%	1.52%	-6.83%	12.44%	19.05%	22.82%
20 Day Average Volume	7,272,257	464,574	2,684,709	2,215,941	2,496,955	1,748,386
(F1) EPS Est 1 week change	-0.51%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.46%	0.00%	-0.06%	0.58%	-0.02%	-0.09%
(F1) EPS Est 12 week change	-15.16%	0.00%	-0.46%	0.17%	-0.28%	0.18%
(Q1) EPS Est Mthly Chg	-0.37%	0.00%	-0.40%	-2.79%	1.79%	-5.33%

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
Growth Score	B
Momentum Score	D
VGM Score	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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