

CenterPoint Energy (CNP)

\$20.01 (As of 08/25/20)

Price Target (6-12 Months): **\$21.00**

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:C

Value: B

Growth: D

Momentum: F

Summary

CenterPoint ended the second quarter of 2020 with earnings surpassing the Zacks Consensus Estimate, while revenues missing the same. It 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. CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Rate growth also boosted its results. However, it 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. Its shares have underperformed the industry in the past year.

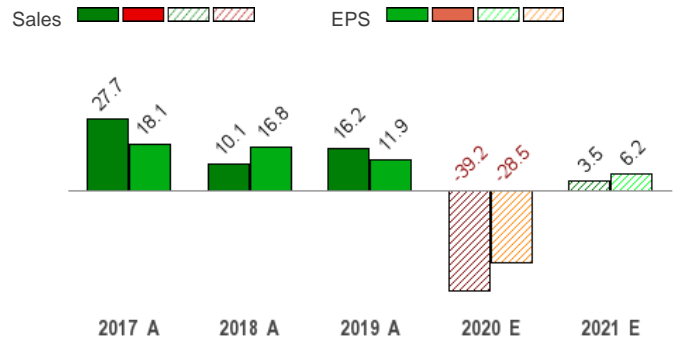
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.71 - \$11.58
20 Day Average Volume (sh)	6,620,939
Market Cap	\$10.9 B
YTD Price Change	-26.6%
Beta	0.94
Dividend / Div Yld	\$0.60 / 3.0%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 23% (194 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	-25.5%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	11/05/2020
Earnings ESP	-6.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,731 E
2020	2,167 A	1,575 A	1,625 E	2,095 E	7,473 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	\$0.39 E	\$0.26 E	\$0.43 E	\$0.32 E	\$1.36 E
2020	\$0.50 A	\$0.21 A	\$0.29 E	\$0.23 E	\$1.28 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.

P/E TTM	11.8
P/E F1	15.6
PEG F1	2.9
P/S TTM	1.1

The data in the charts and tables, except sales and EPS estimates, is as of 08/25/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/26/2020.

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.

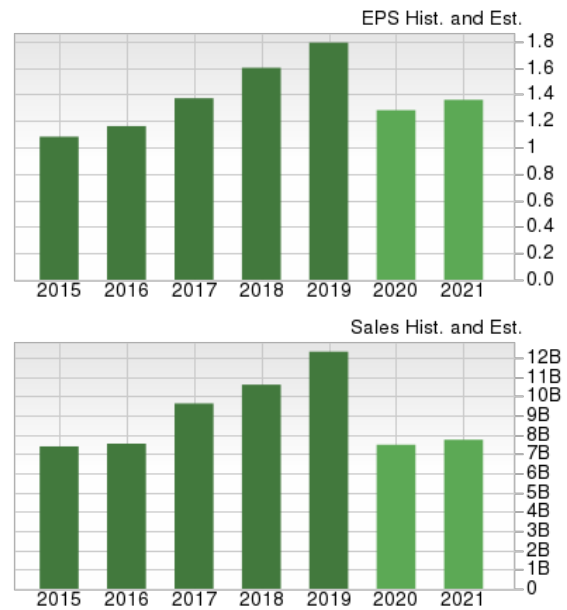
CenterPoint Energy's reportable business segments, effective Jan 1, 2020, include the following:

Houston Electric Transmission & Distribution (T&D): The Houston Electric T&D segment consists of electric transmission and distribution services in the Texas Gulf Coast area. The segment reported net income of \$89 million during the second quarter of 2020.

Natural Gas Distribution: The Natural Gas Distribution 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 \$35 million during the second quarter of 2020.

Indiana Electric: The Indiana Electric segment consists of electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations. The segment reported net income of \$19 million during the second quarter of 2020.

Midstream Investments: It consists of the company's equity investment in Enable. The segment reported net income of \$24 million during the second quarter of 2020.



Reasons To Buy:

- ▲ CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Notably, during the second quarter, the company added 14,960 new meter customers under its Houston Electric Transmission & Distribution segment and 558 under its Indiana Electric Integrated segment. CenterPoint Energy also added 14,888 users to its Natural Gas Distribution unit and 15,470 customers to 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.

Rate growth also boosted CenterPoint Energy's results. Evidently, rate relief benefited earnings in the quarter, primarily due to capital recovery mechanisms in its Indiana, Ohio and Texas Gas jurisdictions, along with the implementation of interim rates in Minnesota, during the second quarter.

Substantially investments enable CenterPoint Energy to expand its operations and meet increasing 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 August, CenterPoint Energy decided to combine Indiana Electric and Houston Electric into one Electric organization, which would be effective on an immediate basis. The alignment of CenterPoint Energy's generation, transmission, distribution and engineering areas into one organization will provide greater ability to share best practices for service, reliability and technology across its footprint, as well as deliver on opportunities for long-term efficiencies in service to customers. The plan further reinforces CenterPoint Energy's strategy to focus on regulated businesses.
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Reasons To Sell:

- ▼ 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.

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

It is imperative to mention in this context that during the second quarter, the company experienced mild demand impacts associated with COVID-19. The year-over-year downside in earnings can also be primarily attributed to COVID-19 pandemic-led impacts. Looking ahead, as the duration and severity of the pandemic remain uncertain, such economic crisis might have a significant adverse impact on the company's overall results in the coming quarters. As of Jun 30, 2020, the company expects the pandemic to have an impact of 4-9 cents on its 2020 bottom-line results.

- ▼ CenterPoint Energy's cash and cash equivalents were \$921 million at the end of second-quarter 2020 compared with \$898 million as of Mar 31, 2019. Its long-term debt was \$10.94 billion as of Jun 30, 2020, while current debt was \$1.95 billion. Therefore, both long-term and current debt values of the company lie much above the company's cash reserve. This looks discouraging from the viewpoint of the company's solvency position.

Moreover, the company's second-quarter 2020 interest coverage came in negative, which indicates that the company is incurring losses. Moreover, the company's current ratio as of Jun 30, 2020, was 0.58, which being less than 1 indicates that this utility does not possess sufficient capital on hand to meet its short-term obligations. The ratio also declined sequentially from 1.03. 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. Evidently, the company's shares have slumped 26.6% in the past year compared with the industry's decline of 9.3%.

Last Earnings Report

CenterPoint Energy Q2 Earnings Beat, Revenues Fall Y/Y

CenterPoint Energy, Inc. reported second-quarter 2020 adjusted earnings of 21 cents per share, which surpassed the Zacks Consensus Estimate of 19 cents by 10.5%. The bottom line however deteriorated 40% from the year-ago quarter earnings of 35 cents.

The company reported GAAP earnings of 11 cents per share compared with earnings of 33 cents registered in the prior-year quarter.

The year-over-year downside can be primarily attributed to COVID-19 pandemic-led impacts.

Revenues

CenterPoint Energy's total revenues in the quarter were \$1,575 million, which lagged the Zacks Consensus Estimate of \$2,114 million by 25.5%. Moreover, the reported figure came in 5% lower than the prior-year quarter's \$1,658 million.

Decreased contribution from utility segment dragged down the top line.

Operational Results

Total expenses during the second quarter declined 6.2% to \$1,340 million.

The company's operating income rose 2.6% year over year to \$235 million in the second quarter.

Interest expense and other finance charges decreased to \$128 million from \$134 million in the year-ago quarter.

Segment Results

The *Houston Electric-Transmission & Distribution* segment reported adjusted earnings of \$89 million for the second quarter compared with \$100 million in the year-ago quarter.

The *Natural Gas Distribution* segment registered adjusted earnings of \$35 million compared with the year-ago quarter's \$23 million.

The *Indiana Electric - Integrated* segment generated earnings of \$19 million compared with \$16 million in the year-earlier period.

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

The *Corporate and Other Operations* segment reported net loss of \$28 million compared with loss of \$38 million in the year-ago quarter.

Financial Condition

As of Jun 30, 2020, CenterPoint Energy had cash and cash equivalents of \$168 million, down from \$241 million as of Dec 31, 2019.

Total long-term debt was \$10,937 million as of Jun 30, 2020, compared with \$14,244 million as of Dec 31, 2019.

At the end of second-quarter 2020, the company's net cash from operating activities was \$1,181 million, up from the previous year's \$574 million.

Further, CenterPoint Energy's total capital expenditure was \$632 million in the second quarter, down from \$634 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 \$1.28, which lies above the guided range.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-25.49%
EPS Surprise	10.53%
Quarterly EPS	0.21
Annual EPS (TTM)	1.69

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.

Valuation

CenterPoint Energy's shares are down 26.6% in the year to date period and 26.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 13.9% and 14% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.3% whereas the sector is down 9.5%.

The S&P 500 index is up 7% in the year-to-date period and up 20.4% in the past year.

The stock is currently trading at 15X of forward 12-month earnings, which compares to 13.6X for the Zacks sub-industry, 12.6X for the Zacks sector and 23.1X 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 17.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$21 price target reflects 15.8X 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	15.04	13.58	12.62	23.12
	5-Year High	22.11	15.36	15.28	23.12
	5-Year Low	8.33	11.07	11.3	15.25
	5-Year Median	17.23	13.2	13.72	17.58
P/S F12M	Current	1.43	2.29	2.68	3.77
	5-Year High	1.57	2.46	3.29	3.77
	5-Year Low	0.5	1.55	1.75	2.53
	5-Year Median	1.23	1.91	2.07	3.05
EV/EBITDA TTM	Current	6.6	11.51	18.37	13.09
	5-Year High	19.86	13.88	21.07	13.09
	5-Year Low	4.85	7.84	10.59	8.25
	5-Year Median	8.78	10.54	13.99	10.92

As of 08/25/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	4
Edison International (EIX)	Neutral	3
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	3	3
VGM Score	C	-	-	C	C	B
Market Cap	10.90 B	8.56 B	23.77 B	19.67 B	17.24 B	19.58 B
# of Analysts	5	3	14	5	5	4
Dividend Yield	3.00%	3.51%	1.65%	2.49%	2.71%	3.80%
Value Score	B	-	-	C	C	B
Cash/Price	0.09	0.07	0.07	0.00	0.09	0.05
EV/EBITDA	8.24	9.68	13.35	11.95	12.42	9.06
PEG Ratio	2.82	3.43	3.03	3.39	3.25	3.02
Price/Book (P/B)	1.83	1.63	3.17	2.35	3.28	1.88
Price/Cash Flow (P/CF)	4.50	7.61	12.81	10.16	10.05	5.97
P/E (F1)	15.38	17.34	21.72	22.97	22.74	17.44
Price/Sales (P/S)	1.12	1.81	2.47	3.38	2.59	1.88
Earnings Yield	6.40%	5.74%	4.45%	4.36%	4.40%	5.74%
Debt/Equity	1.84	1.03	0.75	1.22	2.57	1.75
Cash Flow (\$/share)	4.45	4.27	6.93	7.84	5.99	16.39
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	11.64%	5.32%	10.41%	7.41%	7.05%	-2.08%
Proj. EPS Growth (F1/F0)	-28.49%	0.77%	-4.92%	3.46%	6.35%	3.89%
Curr. Cash Flow Growth	10.42%	6.78%	5.20%	2.50%	6.78%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	6.62%	6.02%	8.50%	6.59%	7.74%	0.41%
Current Ratio	0.58	0.86	1.33	0.81	1.13	0.58
Debt/Capital	56.58%	50.68%	44.20%	54.86%	71.97%	63.60%
Net Margin	-6.87%	9.66%	10.25%	14.57%	11.33%	11.95%
Return on Equity	15.31%	9.28%	14.66%	10.27%	15.32%	11.36%
Sales/Assets	0.29	0.22	0.51	0.20	0.24	0.20
Proj. Sales Growth (F1/F0)	-39.25%	0.00%	-1.45%	1.13%	-1.37%	2.36%
Momentum Score	F	-	-	B	D	C
Daily Price Chg	-1.04%	-0.45%	-0.03%	-2.03%	-1.04%	-0.83%
1 Week Price Chg	-3.65%	-1.57%	-1.45%	-0.68%	-0.80%	-2.77%
4 Week Price Chg	3.41%	0.00%	3.76%	-0.09%	-5.23%	-4.72%
12 Week Price Chg	10.55%	0.81%	5.99%	6.26%	1.19%	-5.52%
52 Week Price Chg	-26.65%	-11.26%	4.07%	5.08%	-3.76%	-12.74%
20 Day Average Volume	6,620,939	324,938	1,880,903	1,182,478	1,391,678	967,347
(F1) EPS Est 1 week change	0.31%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.20%	0.06%	1.03%	0.12%	0.45%	1.16%
(F1) EPS Est 12 week change	-0.78%	0.00%	3.40%	0.61%	2.07%	1.29%
(Q1) EPS Est Mthly Chg	-13.00%	-0.68%	0.00%	-0.81%	17.11%	3.67%

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.

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	D
Momentum Score	F
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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