

NiSource Inc. (NI)

\$30.02 (As of 02/19/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: C

Momentum: C

Summary

NiSource has a 100% regulated utility business model. The company's planned regulated investments improve reliability and safety as well as provide efficient natural gas services to an increasing customer base. The company plans to make capital investment of \$1.7-\$1.8 billion in 2020 and \$1.7-\$2 billion annually over the 2021-2022 time period. It is focused on its long-term utility infrastructure modernization program and intends to invest \$30 billion for the same. However, in the past 12 months, NiSource's shares have underperformed its industry. In spite of investments to upgrade programs, aging infrastructure is likely to cause disruption in operations. Rising debt level is another headwind for the company. There is always an inherent risk associated with the completion of capital projects within budget.

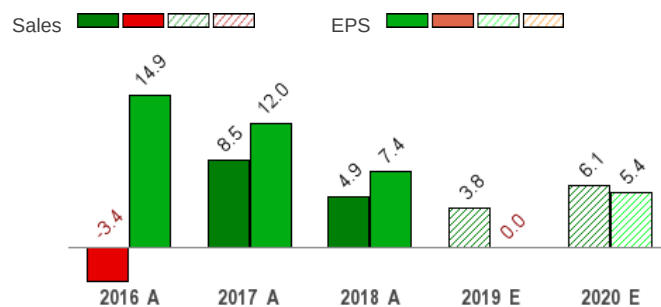
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.67 - \$25.92
20 Day Average Volume (sh)	2,653,035
Market Cap	\$11.2 B
YTD Price Change	7.8%
Beta	0.21
Dividend / Div Yld	\$0.84 / 2.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 43% (145 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-100.0%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	2.4%
P/E TTM	24.0
P/E F1	21.9
PEG F1	3.7
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,028 E	1,075 E	1,014 E	1,588 E	5,631 E
2019	1,859 A	1,010 A	932 A	1,511 E	5,309 E
2018	1,751 A	1,007 A	895 A	1,462 A	5,115 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.80 E	\$0.10 E	\$0.08 E	\$0.41 E	\$1.37 E
2019	\$0.82 A	\$0.05 A	\$0.00 A	\$0.42 E	\$1.30 E
2018	\$0.77 A	\$0.07 A	\$0.10 A	\$0.38 A	\$1.30 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 02/19/2020. The reports text is as of 02/20/2020.

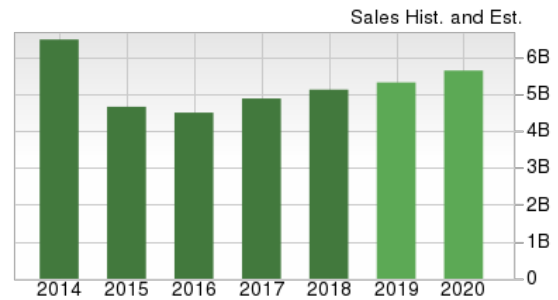
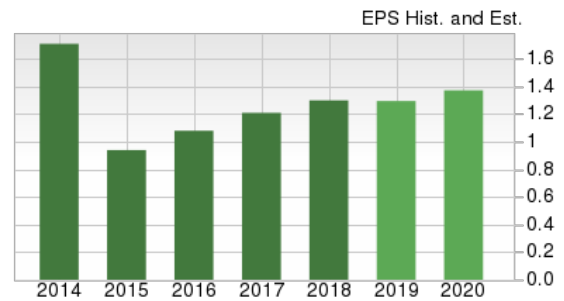
Overview

Merrillville, IN-based NiSource Inc. was founded in 1912. The company is an energy holding company and together with its subsidiaries provides natural gas, electricity and other products and services in the U.S. Its operating subsidiaries deliver energy to roughly 4 million customers in seven states — **Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts.**

NiSource has one of the nation's largest natural gas distribution networks as measured by number of customers. NiSource's principal subsidiary is NiSource Gas Distribution Group, Inc., which is a natural gas distribution holding company. The company generates the majority of its operating income from its rate-regulated businesses.

NiSource's reportable segments are: **Gas Distribution** Operations serves around 3.5 million customers in seven states and operates about 60,000 miles of pipeline. Through its wholly-owned subsidiary NiSource Gas Distribution Group, it owns six distribution subsidiaries that provide natural gas to approximately 2.6 million residential, commercial and industrial customers in six states. In addition, through Northern Indiana Public Service Company (NIPSCO), this segment distributes natural gas to around 832,000 customers in northern Indiana. **Electric** Operations segment generates, transmits and distributes electricity through its subsidiary to about 472,000 customers in 20 counties in northern Indiana. It operates two coal-fired electric generating stations, three gas-fired generating units and two hydroelectric plants. This segment has a total operating capacity of 2,853 megawatts (MW). In May 2018, NIPSCO completed the retirement of two coal-burning units at Bailly Generating Station, IN. These units had a generating capacity of approximately 460 MW.

Gas Distribution Operations, Electric Operations, and Corporate and others contributed \$3419.5 million, \$1,708.2 million and \$518.3 million to total revenues in 2018, respectively.



Reasons To Buy:

- ▲ NiSource is working on long-term utility infrastructure modernization program. NiSource will make capital investment of nearly \$1.7-\$1.8 billion in 2020 and \$1.7-\$2 billion annually over the 2021-2022 time period.

The company continues to execute on an estimated \$30-billion investment for long-term infrastructure investments. This long-term infrastructure investment includes \$20 billion for gas and \$10 billion for electricity. For the nine months ended Sep 30, 2019, the company invested \$1.3 billion in capital expenditures across gas and electric utilities.

- ▲ NiSource has a 100% regulated utility business model. Its planned regulated investments will improve reliability and safety of its services and provide efficient electric and natural gas services to its increasing customer base.

More than 75% of NiSource's capital expenditure starts to provide return with 12 months of investment. The clear visibility of return from ongoing investments will allow the company to deliver targeted earnings and dividend growth of 5-7% annually through 2022.

- ▲ NiSource gets regulatory approval to recoup the gas and electric investments made in its service territories. The company received regulatory approval for Columbia Gas of Virginia rate case in June. This approval supports ongoing infrastructure investment programs, addressing the annual revenues increase by \$9.5 million. Approved rates are effective since February 2019. Columbia Gas of Ohio Capital Expenditure Program (CEP) Annual Rider update, NIPSCO PHMSA Compliance plan and NIPSCO Gas System Modernization Program received regulatory approval on August, September and October, respectively. Approved rates for Columbia Gas of Ohio CEP Annual Rider update became effective from September. Approved rates for NIPSCO Gas System Modernization Program are effective from November.

The Indiana Utility Regulatory Commission approved Transmission, Distribution and Storage System Improvement Charge (TDSIC) program, which represents approximately \$1.2 billion of electric infrastructure investment expected to be made through 2022. An order is expected in fourth-quarter 2019 with rates effective in January 2020.

- ▲ NiSource has taken an industry-leading approach to address climate change by developing plans that result in a project in 90% reduction of greenhouse gas emissions by 2030, including a projected 50% reduction in methane emissions from natural gas distribution mains and service lines by 2025. The company, to lower its emission levels, is planning to retire old coal plants and replace the coal fired units by renewable sources. Through its Integrated Resource Plan, ("IRP") NiSource will attempt to lower its carbon footprint and focus more on clean generation.

Consistent with its IRP objectives, the company filed with the Indiana Utility Regulatory Commission (IURC) seeking approval to develop three wind projects — Jordan Creek, Roaming Bison and Rosewater — with total capacity of 800 MW. In August, the IURC approved the joint venture and ownership agreement for Rosewater, one of three wind projects that NIPSCO announced in February 2019. The IURC in June approved Power Purchase Agreement applications for Jordan Creek and Roaming Bison. These projects are expected to help NiSource to lower its carbon footprint.

NiSource's consistent investments to strengthen its existing infrastructure and focus on clean energy are going to drive its performance.

Reasons To Sell:

▼ In the past 12 months, shares of NiSource have gained 16.8% compared with the industry's rally of 26.5%. NiSource is working to lower its debt level and strengthen balance sheet despite a debt-to-capital level of 57.32% compared with the S&P 500 index's 42.37% and the industry's average of 51.52%. In addition, the current ratio of NiSource is 0.41, lower than the Zacks S&P 500 composite's level of 1.24. High-debt level could eat into the margins of the company.

Aging infrastructure, high debt levels and inconsistent weather conditions might deter NiSource's growth.

▼ The company along with their utility customers are exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. The company purchase natural gas for sale and delivery to retail, commercial and industrial customers. Variability in the market price of gas can impact their rates. The company tries to mitigate the gas cost variability by economically hedging.

▼ NiSource also faces the risk of ageing infrastructure that needs regular replacement. Despite efforts made by NiSource to properly maintain its assets through inspection, scheduled maintenance and capital investment, the old machineries can falter, resulting in unplanned outages. These are likely to have an adverse impact on operation, impacting the utility revenues and margins.

The Greater Lawrence incident occurred on Sep 13, 2018 where a series of fires and explosions occurred in Lawrence related to the delivery of natural gas by Columbia of Massachusetts. Recovery of any capital investment, which has not been reimbursed through insurance, is needed to be addressed in a future regulatory proceeding.

▼ NiSource is presently engaged in a number of capital projects, including environmental improvements to its electric generating stations, as well as the construction of new transmission facilities. However, there is always an inherent risk associated with the timely completion of projects and within budget too. Delay in completion increases capital costs and stretches the time limit of the company's expected benefit from these projects.

Last Earnings Report

NiSource Reports Break-Even Earnings in Q3, Issues View

NiSource reported break-even earnings in third-quarter 2019. The Zacks Consensus Estimate for earnings was pegged at 4 cents per share. In the year-ago quarter, the company delivered earnings of 10 cents.

On a GAAP basis, NiSource reported a loss of 2 cents.

Total Revenues

NiSource generated operating revenues of \$931.5 million in the third quarter, which missed the Zacks Consensus Estimate of \$940 million by 0.85%. Nevertheless, the top line increased 4.1% from \$895 million recorded in the year-ago quarter. Operating revenues in Gas Distribution drove revenues year over year.

Highlights of the Release

Total operating expenses in the quarter under review decreased 30.6% year over year to \$840.5 million.

Total interest expenses in the reported quarter increased 15% from the prior-year quarter's figure to \$95.9 million.

Financial Update

NiSource's cash and cash equivalents as of Sep 30, 2019, were \$28 million compared with \$112.8 million as of Dec 31, 2018.

Long-term debts (excluding amounts due within a year) as of Sep 30 were \$7,853.8 million compared with \$7,105.4 million as of Dec 31, 2018.

Net cash provided from operating activities in the first nine months of 2019 was \$1,231.8 million, up from \$927.2 million in the first nine months of 2018.

Guidance

For 2019, NiSource reaffirmed its 2019 earnings per share (EPS) in the range of \$1.27-\$1.33, whose midpoint of \$1.30 is in line with the current Zacks Consensus Estimate. The company currently expects capital investment in the range of \$1.7-\$1.8 billion.

For 2020, the company expects to make capital investments in the range of \$1.7-\$1.8 billion and deliver earnings in the band of \$1.36-\$1.40. Also, the company expects non-GAAP EPS and dividend growth of 5-7% annually. It also expects to make capital investments of \$1.7-\$2.0 billion each year through 2022.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-0.89%
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	1.25

Valuation

NiSource shares are up 2.6% in the last six months period and up 16.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 15.8% and 13.2% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 26.5% and the sector is up 6.6%, respectively.

The S&P 500 index is up nearly 2.6% in the last six months period and 23.3% in the past year.

The stock is currently trading at 21.74X forward 12-month earnings, which compares to 15.82X for the Zacks sub-industry, 14.61X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.51X and as low as 9.23X, with a 5-year median of 20.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$32 price target reflects 23.18X forward 12-month earnings.

The table below shows summary valuation data for NI

Valuation Multiples - NI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.74	15.82	14.61	19.3
	5-Year High	26.51	15.82	15.36	19.34
	5-Year Low	9.23	11.14	12.58	15.18
	5-Year Median	20.23	13.26	13.84	17.47
P/S F12M	Current	1.98	2.51	3.11	3.57
	5-Year High	2.28	2.51	3.31	3.57
	5-Year Low	0.79	1.54	1.71	2.54
	5-Year Median	1.74	1.87	1.98	3
P/B TTM	Current	2.26	2.01	4.35	4.66
	5-Year High	2.27	2.01	4.35	4.68
	5-Year Low	0.69	1.32	2.02	2.85
	5-Year Median	1.96	1.55	2.58	3.62

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (145 out of 255)



Top Peers

Ameren Corporation (AEE)	Neutral
Avangrid, Inc. (AGR)	Neutral
CMS Energy Corporation (CMS)	Neutral
CenterPoint Energy, Inc. (CNP)	Neutral
DTE Energy Company (DTE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
Pacific Gas & Electric Co. (PCG)	Neutral
UGI Corporation (UGI)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	NI Neutral	X Industry	S&P 500	AEE Neutral	LNT Neutral	PCG Neutral
VGM Score	C	-	-	C	D	B
Market Cap	11.21 B	9.91 B	24.59 B	21.13 B	14.29 B	9.27 B
# of Analysts	4	2	13	5	2	2
Dividend Yield	2.80%	2.67%	1.78%	2.31%	2.56%	0.00%
Value Score	D	-	-	C	D	A
Cash/Price	0.00	0.04	0.04	0.00	0.01	0.35
EV/EBITDA	27.28	11.81	14.21	11.85	14.86	-1.33
PEG Ratio	3.70	4.24	2.09	4.01	4.24	1.70
Price/Book (P/B)	2.26	1.85	3.28	2.57	2.88	1.03
Price/Cash Flow (P/CF)	10.37	9.84	13.59	11.15	13.57	1.77
P/E (F1)	21.94	20.92	19.17	24.82	24.37	4.27
Price/Sales (P/S)	2.13	2.46	2.68	3.51	3.93	0.54
Earnings Yield	4.56%	4.76%	5.18%	4.03%	4.10%	23.42%
Debt/Equity	1.58	1.08	0.70	1.05	1.11	0.21
Cash Flow (\$/share)	2.89	4.03	6.93	7.70	4.38	9.87
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	-2.70%	4.44%	10.84%	8.26%	6.06%	4.54%
Proj. EPS Growth (F1/F0)	5.98%	4.90%	7.00%	5.49%	6.09%	4.33%
Curr. Cash Flow Growth	9.76%	4.12%	7.81%	12.97%	11.59%	7.61%
Hist. Cash Flow Growth (3-5 yrs)	1.91%	4.91%	8.25%	8.12%	6.04%	9.17%
Current Ratio	0.41	0.81	1.24	0.65	0.53	1.79
Debt/Capital	57.32%	51.52%	42.37%	51.33%	51.71%	17.31%
Net Margin	9.70%	10.08%	11.69%	13.34%	14.86%	-44.64%
Return on Equity	9.70%	9.36%	16.86%	10.10%	11.43%	19.11%
Sales/Assets	0.24	0.24	0.55	0.22	0.23	0.20
Proj. Sales Growth (F1/F0)	6.05%	3.08%	4.05%	3.09%	NA	0.45%
Momentum Score	C	-	-	C	C	A
Daily Price Chg	-0.63%	0.00%	0.38%	-1.00%	-1.16%	8.83%
1 Week Price Chg	1.38%	1.95%	1.65%	3.82%	2.42%	-6.63%
4 Week Price Chg	3.30%	3.38%	0.86%	7.47%	2.97%	39.63%
12 Week Price Chg	13.15%	12.04%	4.56%	15.77%	12.09%	131.92%
52 Week Price Chg	14.23%	16.02%	14.15%	21.99%	31.65%	-3.84%
20 Day Average Volume	2,653,035	302,837	1,989,235	1,378,009	1,223,942	12,527,962
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.74%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.03%	-0.14%	0.00%	0.74%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.21%	-0.57%	0.00%	3.02%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.40%	0.43%	NA	54.54%

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	D
Growth Score	C
Momentum Score	C
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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