NiSource Inc. (NI)

$22.72 (As of 08/21/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/03/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: B | Momentum: A	

Summary

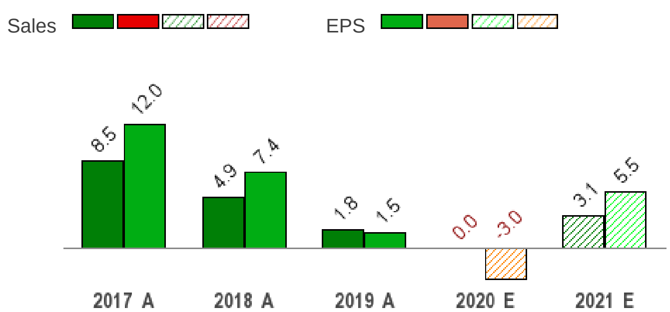
NiSource's second-quarter earnings beat estimates but its topline lagged the same. The utility is exposed to variability in cash flows associated with volatility in natural gas prices. Despite efforts made by NiSource to properly maintain its assets through inspection and capital investment, the old machineries can falter, resulting in unplanned outages. The ongoing pandemic lowered demand from the Commercial and Industrial customers. Shares of the company have underperformed its industry in the past 12 months. The company is focused on infrastructure modernization program and anticipates to invest $30 billion to that end. NiSource continues to add clean power assets. 75% of the company's investment recovered through rate revision within a span of 18 months provides necessary funds to be utilized on strengthening its infrastructure.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$30.67 - $19.56**
20 Day Average Volume (sh)	**2,486,949**
Market Cap	**$8.7 B**
YTD Price Change	**-18.4%**
Beta	**0.31**
Dividend / Div Yld	**$0.84 / 3.7%**
Industry	**Utility - Electric Power**
Zacks Industry Rank	**Bottom 22% (197 out of 252)**
Last EPS Surprise	**85.7%**
Last Sales Surprise	**-10.3%**
EPS F1 Est- 4 week change	**-0.2%**
Expected Report Date	**NA**
Earnings ESP	**-250.0%**
P/E TTM	**17.0**
P/E F1	**17.9**
PEG F1	**3.4**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,678 E	1,067 E	989 E	1,453 E	5,371 E
2020	1,606 A	963 A	969 E	1,446 E	5,209 E
2019	1,859 A	1,010 A	932 A	1,397 A	5,209 A

EPS Estimates

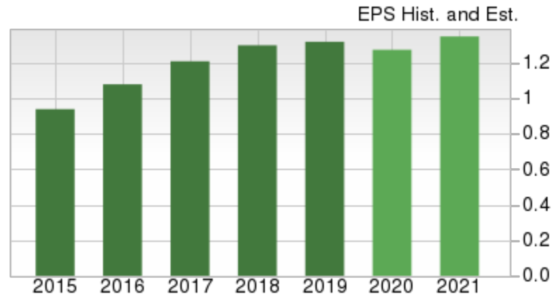
	Q1	Q2	Q3	Q4	Annual*
2021	$0.75 E	$0.09 E	$0.07 E	$0.45 E	$1.35 E
2020	$0.76 A	$0.13 A	$0.01 E	$0.42 E	$1.28 E
2019	$0.82 A	$0.05 A	$0.00 A	$0.45 A	$1.32 A

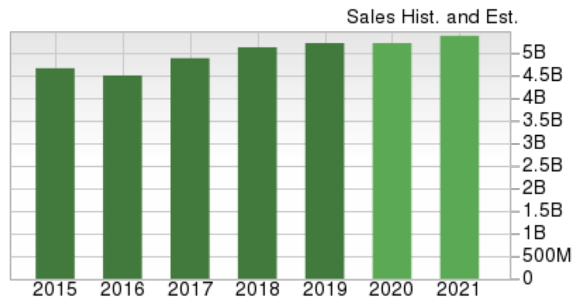
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

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 2.7 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 839,000 customers in northern Indiana. **Electric** Operations segment generates, transmits and distributes electricity through its subsidiary to about 476,000 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 2,847megawatts (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 \$3,509.7 million, \$1,698.4 million and \$0.8 million to total revenues in 2019, respectively.

Reasons To Sell:

Aging infrastructureand volatility in natural gas prices might deter NiSource's growth.

- In the past 12 months, shares of NiSource have lost 22.8% compared with the industry's decline of 9.6%. The company along with its utility customers is exposed to variability in cash flows associated with natural gas purchases and volatility in natural gas prices. The company purchases natural gas for sale and delivery to retail, commercial and industrial customers. Variability in the market price of gas can impact their rates. Also, due to COVID-19, combined demand from commercial and industrial customers dropped 17.1% in the first half of 2020 compared to the comparable period of the prior year.

- 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.

  Post the Greater Lawrence incident, the company has increased safety-related spending and higher financing costs due the accident impacted its top line.

- 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.

Risks

- NiSource is working on long-term utility infrastructure modernization program. In 2019, the company invested nearly $1.9 billion across the gas and electric utilities. NiSource made capital investments of $819.3 million in the first half of 2020 and reaffirmed its 2020 capital spending guidance in the range of $1.7-$1.8 billion. 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.

  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 in less than 18 months of investment. The sale of Columbia Gas of Massachusetts remains on track with the approval of the same expected to come in the third quarter. The company provided its 2021 net operating earnings per share guidance in the $1.28-$1.36 range and expects to see a 10-12% CAGR for the rate base through 2024. This will drive earnings per share in excess of the previous 5-7% annual growth commitment.

- Under NIPSCO's 2018 Integrated Resource plans (IRP), the company is seeking an approval to retire its 100% coal generating sources by 2028 with reliable and cleaner options at lower costs. The company aims to reduce greenhouse gas emissions by 90% within 2030 from the 2005 levels and save more than $4 billion for customers of more than 30 years.

  The company will retire its 1,300MW R.M. Schahfer Generating Station by 2023 and replace the capacity with clean and renewable energy source. NiSource has plans to invest in the range of $1.8-$2 billion, primarily in 2022 and 2023, to meet its renewable goals. The company through JVs (joint ventures) and PPA agreement is scheduled to add nearly 1,030 MW of clean generation to its existing portfolio by 2023 end.

- As of Jun 30, 2020, NiSource's long-term debt amounted to $8,810.2 million, up from $7,856.2 million as of Dec 31, 2019. Also, its times interest earned ratio is pegged at 0.8 in the second quarter of 2020, lower than 1.8 in the first quarter of 2020. However, the company had $2 billion available liquidity and $2.2 billion of committed facilities, which are adequate enough to meet its debt obligations.

  Moreover, the company does not have any significant long-term debt maturity until 2021. Furthermore, according to credit rating agencies like Moody's, S&P and Fitch, the company has a stable credit score.

Last Earnings Report

NiSource's Q2 Earnings Beat Estimates, Revenues Miss

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	-10.30%
EPS Surprise	85.71%
Quarterly EPS	0.13
Annual EPS (TTM)	1.34

NiSource delivered operating earnings of 13 cents per share in second-quarter 2020, which surpassed the Zacks Consensus Estimate of 7 cents by 85.7%. Also, the bottom line surged 160% from the year-ago quarter's figure.

On a GAAP basis, the company reported loss of 5 cents per share against earnings of 76 cents in the year-ago quarter.

Total Revenues

NiSource generated total net revenues of $957.4 million in the second quarter, which missed the Zacks Consensus Estimate of $1,073 million by 10.8%. Further, the top line declined 5.4% from $1,011.9 million reported in the year-ago quarter.

Highlights of the Release

Total operating expenses in the quarter under review fell 10% year over year to $792.1 million.

Total interest expenses in the reported quarter increased 3.1% from the prior-year quarter's figure to $97 million.

It reaffirmed its expected 2020 CapEx at $1.7-$1.8 billion.

Financial Update

NiSource's cash and cash equivalents as of Jun 30, 2020 were $142.2 million, up from $139.3 million as of Dec 31, 2019.

Long-term debts (excluding amounts due within a year) as of Jun 30 were $8,810.2 million compared with $ 7,856.2 million as of Dec 31, 2019.

Net cash flows from operating activities for the first half of 2020 were $707.7 million compared with $926.2 million for the first half of 2019.

Recent News

NiSource Prices $2B Senior Notes to Refinance Debts —Aug 13, 2020

NiSource announced the pricing of $2 billion senior notes in two tranches, which are expected to close on Aug 18 and are subject to customary closing conditions.

The company priced 0.950% senior notes of an aggregate principal amount worth $1.25 billion due 2025 and 1.700% senior notes worth $0.75 billion aggregate principal amount due 2031.

The company expects to use the net proceeds for paying the purchase price and the costs related to its certain outstanding debt securities. Also, it will prepay all its outstanding privately placed 5.89% Series D senior notes due Nov 28, 2025. NiSource plans to use any remaining aggregate net proceeds for general corporate purposes.

Valuation

NiSource shares are down 18.4% in the year to date period and 22.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are down 14.2% and 14.3% in the year to date period. Over the past year, the Zacks sub-industry is down 9.6% and sector is 9.9%.

The S&P 500 index is up 5.4% in the year to date period and 18.3 % in the past year.

The stock is currently trading at 17.17X forward 12-month earnings, which compares to 13.57X for the Zacks sub-industry, 12.60X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.93X and as low as 14.83X, with a 5-year median of 19.93X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $19 price target reflects 14.36X 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	17.17	13.57	12.6	22.85
	5-Year High	23.93	15.36	15.28	22.85
	5-Year Low	14.83	11.07	11.3	15.25
	5-Year Median	19.93	13.2	13.72	17.58
P/S F12M	Current	1.64	2.28	2.67	3.71
	5-Year High	2.08	2.46	3.29	3.71
	5-Year Low	0.99	1.55	1.75	2.53
	5-Year Median	1.72	1.91	2.07	3.05
P/B TTM	Current	1.82	2.25	4.17	4.59
	5-Year High	2.26	2.32	4.29	4.59
	5-Year Low	0.69	1.29	2.01	2.83
	5-Year Median	1.96	1.6	2.64	3.75

As of 8/21/2020

Industry Analysis **Zacks Industry Rank:** Bottom 22% (197 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation **(AEE)**	Neutral	3
Brookfield Infrastructure Partners LP **(BIP)**	Neutral	3
CMS Energy Corporation **(CMS)**	Neutral	3
CenterPoint Energy, Inc. **(CNP)**	Neutral	3
Companhia Paranaense de Energia COPEL **(ELP)**	Neutral	3
Fortis Inc. **(FTS)**	Neutral	3
Avangrid, Inc. **(AGR)**	Underperform	4
Pacific GasElectric Co. **(PCG)**	Underperform	5

Industry Comparison Industry: Utility - Electric Power

Industry Peers

	NI	X Industry	S&P 500	AEE	AGR	PCG
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	3	4	5
VGM Score	A	-	-	C	C	A
Market Cap	8.70 B	8.43 B	23.62 B	19.94 B	15.29 B	17.63 B
# of Analysts	2	3	14	5	7	2
Dividend Yield	3.70%	3.52%	1.65%	2.45%	3.56%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.02	0.07	0.07	0.00	0.00	0.84
EV/EBITDA	11.32	9.70	13.29	12.06	10.57	-5.64
PEG Ratio	3.34	3.44	3.03	3.44	4.11	2.55
Price/Book (P/B)	1.82	1.57	3.11	2.38	0.96	4.64
Price/Cash Flow (P/CF)	6.95	7.51	12.69	10.30	9.15	0.90
P/E (F1)	17.85	17.08	21.51	23.29	22.75	6.39
Price/Sales (P/S)	1.78	1.81	2.43	3.43	2.44	0.98
Earnings Yield	5.59%	5.81%	4.46%	4.30%	4.39%	15.64%
Debt/Equity	1.84	1.05	0.76	1.22	0.45	9.60
Cash Flow ($/share)	3.27	4.27	6.93	7.84	5.41	10.06
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	1.88%	5.32%	10.44%	7.41%	3.67%	5.70%
Proj. EPS Growth (F1/F0)	-3.41%	0.93%	-5.53%	3.46%	0.20%	-63.87%
Curr. Cash Flow Growth	14.00%	6.78%	5.20%	2.50%	3.66%	3.97%
Hist. Cash Flow Growth (3-5 yrs)	3.26%	6.02%	8.52%	6.59%	10.44%	5.38%
Current Ratio	0.89	0.86	1.33	0.81	0.53	0.55
Debt/Capital	60.88%	50.98%	44.50%	54.86%	31.15%	90.57%
Net Margin	-1.26%	9.66%	10.13%	14.57%	11.17%	-37.92%
Return on Equity	10.32%	9.28%	14.67%	10.27%	4.37%	34.60%
Sales/Assets	0.22	0.22	0.51	0.20	0.18	0.20
Proj. Sales Growth (F1/F0)	0.20%	0.00%	-1.54%	1.13%	0.65%	5.38%
Momentum Score	A	-	-	C	D	A
Daily Price Chg	-1.09%	0.00%	-0.15%	0.31%	0.79%	1.68%
1 Week Price Chg	-2.55%	-0.86%	1.09%	-1.11%	0.75%	3.41%
4 Week Price Chg	-8.16%	-2.00%	1.64%	0.25%	0.79%	-4.12%
12 Week Price Chg	-5.41%	2.79%	6.72%	9.17%	12.53%	-22.26%
52 Week Price Chg	-23.35%	-12.08%	1.00%	5.08%	-0.06%	-22.26%
20 Day Average Volume	2,486,949	336,207	1,873,576	1,180,917	581,648	19,211,198
(F1) EPS Est 1 week change	0.39%	0.00%	0.00%	0.06%	-0.07%	-7.79%
(F1) EPS Est 4 week change	-0.20%	0.19%	1.79%	0.23%	-1.62%	23.68%
(F1) EPS Est 12 week change	-2.42%	0.00%	3.35%	0.61%	-2.21%	-61.86%
(Q1) EPS Est Mthly Chg	-55.56%	-0.68%	0.42%	-0.81%	5.45%	325.81%

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	B
Momentum Score	A
VGM Score	A

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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