

NiSource Inc. (NI)

\$24.55 (As of 03/26/20)

Price Target (6-12 Months): **\$26.00**

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:D

Value: D

Growth: C

Momentum: B

Summary

NiSource' planned regulated investments improve reliability and safety, and provide efficient natural gas and electric services to an increasing customer base. It has a 100% regulated utility business model. The company is focused on long-term utility infrastructure modernization program and intends to invest \$30 billion for the same. New electric and gas rates have been approved and will be implemented in 2020. This, in turn, will drive its top line. 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. Further, there is always an inherent risk associated with the completion of capital projects within budget.

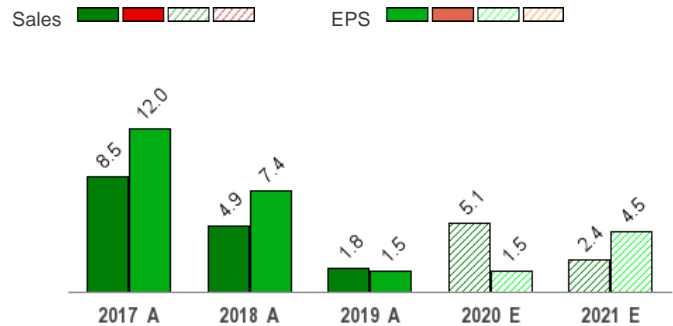
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.67 - \$19.56
20 Day Average Volume (sh)	5,655,641
Market Cap	\$9.4 B
YTD Price Change	-11.8%
Beta	0.30
Dividend / Div Yld	\$0.84 / 3.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 13% (34 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	-7.5%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	18.6
P/E F1	18.3
PEG F1	3.1
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,992 E	1,078 E	1,000 E	1,457 E	5,605 E
2020	1,969 E	1,056 E	961 E	1,407 E	5,475 E
2019	1,859 A	1,010 A	932 A	1,397 A	5,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.09 E	\$0.07 E	\$0.44 E	\$1.40 E
2020	\$0.83 E	\$0.07 E	\$0.03 E	\$0.42 E	\$1.34 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 03/26/2020. The reports text is as of 03/27/2020.

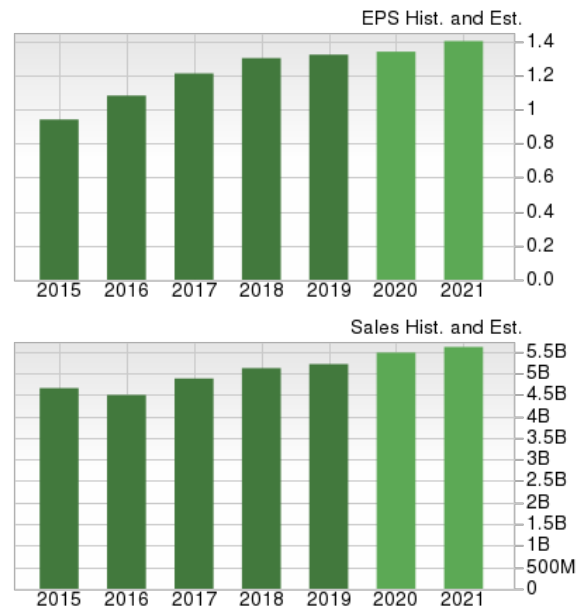
Overview

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 2,847 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 \$3,509.7 million, \$1,698.4 million and \$0.8 million to total revenues in 2019, respectively.



Reasons To Buy:

- ▲ 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 will make capital investments of nearly \$1.8-\$1.9 billion in 2020.

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. Due to the expected closing the Columbia Gas of Massachusetts transaction, the company has withdrawn 2020 net operating earnings guidance and eliminated plan for equity issuance in 2020. The company anticipates delivering targeted earnings and dividend growth of 5-7% annually through 2022 depending on other long-term growth opportunities.

- ▲ NiSource gets regulatory approval to recoup the gas and electric investments made in its service territories. Few electric and gas rates have been approved and will be implemented in 2020, thereby driving the top line.

- ▲ Under NIPSCO's 2018 Integrated Resource plans ("IRP"), the company is seeking approval to retire 100% coal generating sources by 2028 with reliable and cleaner options at lower costs. The company aims to reduce greenhouse gas emissions by 90% by 2030 and save more than \$4 billion for customers over the long term.

Consistent with its IRP objectives, NIPSCO will purchase power directly from Jordan Creek a 400 MW wind project, developed and constructed by NextEra Energy Resources located in Benton. NIPSCO will also purchase power directly from Roaming Bison, a 300 MW wind project located in Montgomery County. EDP Renewables and NIPSCO entered into a joint venture and ownership agreement for a 102 MW wind project in White County named the Rosewater project. These projects are anticipated to help NiSource to lower 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 lost 14% compared with the industry's decline of 6.5%. NiSource is working to lower debt level and strengthen balance sheet despite a debt-to-capital level of 56.75% compared with the S&P 500 index's 42.57% and the industry's average of 50.58%. Additionally, the current ratio of NiSource is 0.49, lower than the Zacks S&P 500 composite's level of 1.23. 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.

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.

Last Earnings Report

NiSource's Q4 Earnings Beat Estimates, Revenues Miss

NiSource delivered operating earnings of 45 cents per share in fourth-quarter 2019, beating the Zacks Consensus Estimate of 42 cents by 7.1%. The bottom line improved 18.4% from the year-ago quarter.

On a GAAP basis, the company reported a loss of 41 cents compared with a loss of 5 cents in the year-ago quarter.

In 2019, NiSource generated earnings of \$1.32, up from \$1.30 reported in 2018.

Total Revenues

NiSource generated total net revenues of \$1,385.4 million in fourth-quarter 2019, which missed the Zacks Consensus Estimate of \$1,511 million by 8.3%. Revenues declined from \$1,453.1 million reported in the year-ago quarter.

In 2019, NiSource generated revenues of \$5,184.1 million, up from \$5,084 million in 2018.

Highlights of the Release

Total operating expenses in the quarter under review increased 1.8% year over year to \$670.5 million.

Total interest expenses in the reported quarter were up 6% from the prior-year quarter's figure to \$93.3 million.

Financial Update

NiSource's cash and cash equivalents as of Dec 31, 2019 were \$139.3 million, up from \$112.8 million as of Dec 31, 2018.

Long-term debts (excluding amounts due within a year) as of Dec 31, 2019 were \$7,856.2 million compared with \$ 7,105.4 million as of Dec 31, 2018.

Net cash provided from operating activities in 2019 was \$1,583.3 million compared with \$540.1 million in 2018.

Guidance

NiSource expects long-term growth rate for earnings and dividend in the range of 5-7% annually with 2021 as the base year.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-7.52%
EPS Surprise	7.14%
Quarterly EPS	0.45
Annual EPS (TTM)	1.32

Valuation

NiSource shares are down 11.8% in the year to date period and 14% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are down 16% and 18.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 6.5% and 22%, respectively.

The S&P 500 index is down nearly 18.3% in the year to date period and 7.5% in the past year.

The stock is currently trading at 18.16X forward 12-month earnings, which compares to 12.11X for the Zacks sub-industry, 11.38X for the Zacks sector and 15.91X 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 20.15X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$26 price target reflects 19.25X 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	18.16	12.11	11.38	15.91
	5-Year High	26.51	15.53	15.4	19.34
	5-Year Low	9.23	11.12	11.38	15.18
	5-Year Median	20.15	13.23	13.83	17.42
P/S F12M	Current	1.7	2.21	2.43	2.85
	5-Year High	2.28	2.45	3.29	3.43
	5-Year Low	0.79	1.54	1.75	2.54
	5-Year Median	1.73	1.87	2.03	3
P/B TTM	Current	1.8	1.42	2.78	3.54
	5-Year High	2.26	1.87	4.04	4.56
	5-Year Low	0.69	1.15	2.02	2.85
	5-Year Median	1.95	1.56	2.59	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (34 out of 253)



Top Peers

Ameren Corporation (AEE)	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
Avangrid, Inc. (AGR)	Underperform

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	NI Neutral	X Industry	S&P 500	AEE Neutral	LNT Neutral	PCG Neutral
VGM Score	D	-	-	C	D	B
Market Cap	9.38 B	7.08 B	18.50 B	17.92 B	11.74 B	5.18 B
# of Analysts	4	2	13	5	2	2
Dividend Yield	3.42%	3.42%	2.35%	2.72%	3.17%	0.00%
Value Score	D	-	-	D	D	B
Cash/Price	0.02	0.06	0.07	0.00	0.00	0.41
EV/EBITDA	11.16	9.78	11.16	10.74	11.82	-0.78
PEG Ratio	3.02	3.44	1.74	3.42	3.57	0.95
Price/Book (P/B)	1.80	1.38	2.44	2.18	2.21	0.96
Price/Cash Flow (P/CF)	7.51	7.38	9.87	9.29	10.19	0.97
P/E (F1)	17.89	16.47	15.29	20.92	19.63	2.39
Price/Sales (P/S)	1.81	1.89	1.93	3.03	3.22	0.30
Earnings Yield	5.46%	6.04%	6.47%	4.78%	5.09%	41.88%
Debt/Equity	1.54	1.06	0.70	1.09	1.06	0.32
Cash Flow (\$/share)	3.27	4.27	7.01	7.84	4.70	10.06
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-1.23%	4.77%	10.85%	8.19%	6.44%	4.64%
Proj. EPS Growth (F1/F0)	1.33%	3.97%	2.89%	3.88%	5.63%	4.33%
Curr. Cash Flow Growth	14.00%	3.60%	5.93%	2.50%	10.43%	3.97%
Hist. Cash Flow Growth (3-5 yrs)	3.26%	5.47%	8.55%	6.59%	6.17%	5.38%
Current Ratio	0.49	0.83	1.23	0.57	0.43	1.33
Debt/Capital	56.75%	50.58%	42.57%	52.09%	50.58%	24.31%
Net Margin	7.37%	10.38%	11.64%	14.01%	15.56%	-44.64%
Return on Equity	10.13%	9.68%	16.74%	10.29%	11.52%	21.88%
Sales/Assets	0.23	0.24	0.54	0.21	0.22	0.20
Proj. Sales Growth (F1/F0)	5.33%	1.61%	2.37%	5.00%	0.00%	0.45%
Momentum Score	B	-	-	C	A	C
Daily Price Chg	7.53%	6.25%	6.21%	7.77%	8.42%	5.84%
1 Week Price Chg	-16.60%	-15.68%	-16.96%	-17.36%	-20.04%	-29.29%
4 Week Price Chg	-10.07%	-15.60%	-15.70%	-10.76%	-12.83%	-40.05%
12 Week Price Chg	-9.68%	-15.87%	-23.67%	-4.29%	-10.68%	-9.77%
52 Week Price Chg	-13.98%	-13.55%	-13.99%	-0.91%	2.13%	-43.25%
20 Day Average Volume	5,655,641	840,784	4,286,768	2,911,269	2,960,580	14,542,314
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.55%	0.00%	-2.28%	0.23%	0.00%	0.00%
(F1) EPS Est 12 week change	-2.37%	0.00%	-3.22%	0.24%	0.00%	3.80%
(Q1) EPS Est Mthly Chg	3.75%	0.00%	-1.60%	0.00%	NA	0.00%

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	B
VGM Score	D

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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