

Xcel Energy Inc.(XEL)

\$69.93 (As of 08/04/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Xcel Energy's second-quarter results benefited from a favorable weather and cost-management efforts. Also, it divested 760 MW Mankato Energy Center in the period. In the past year, the company's shares have outperformed the industry. It is poised to gain from long-term investment plans and renewable power generation. Also, the company's expanding electric and natural gas customer base along with new rates coming into effect acts as a growth catalyst. It targets a dividend payout ratio of 60-70% and aims to add shareholder value by increasing dividend rate 5-7% annually. However, Xcel Energy's natural gas transmission and distribution operations are exposed to explosions, leaks and mechanical setbacks. Also, the company's business activities are susceptible to cyber security risk, which might induce a loss of valuable data.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.14 - \$46.58
20 Day Average Volume (sh)	2,212,132
Market Cap	\$36.7 B
YTD Price Change	10.1%
Beta	0.29
Dividend / Div Yld	\$1.72 / 2.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 26% (187 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.4%
Last Sales Surprise	-6.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	10/22/2020
Earnings ESP	-2.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,326 E
2020	2,811 A	2,586 A	3,190 E	3,038 E	11,627 E
2019	3,141 A	2,577 A	3,013 A	2,798 A	11,529 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.60 E	\$1.18 E	\$0.61 E	\$2.98 E
2020	\$0.56 A	\$0.54 A	\$1.12 E	\$0.60 E	\$2.77 E
2019	\$0.61 A	\$0.46 A	\$1.01 A	\$0.56 A	\$2.64 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 08/04/2020. The reports text is as of 08/05/2020.

Overview

Minneapolis, MN-based Xcel Energy Inc. was founded in 1909 and is a holding company. Xcel with subsidiaries engaged primarily in the utility business. The company has operations in eight states – Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas and Wisconsin.

The details of Xcel Energy's segments are mentioned below:

Electric: This segment contributed 83.1% or \$9,575 million to total revenues in 2019.

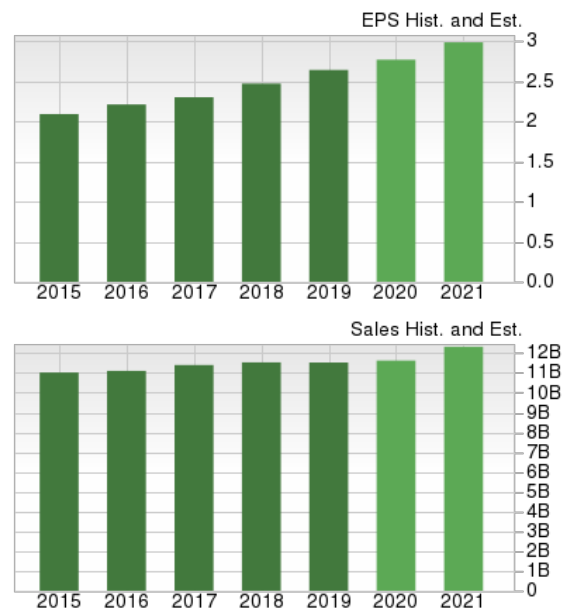
Natural Gas: The segment contributed 16.2% or \$1,868 million to total revenues in 2019.

Other is a non-operating segment which includes Xcel Energy's financing costs. The segment contributed 0.7% or \$86 million to total revenues in 2019.

Through its four regulated utility subsidiaries – Northern States Power Company (NSP)-Minnesota, NSP-Wisconsin, Public Service Company of Colorado (PSCo) and Southwestern Public Service Co. (SPS) – the company serves 3.6 million electricity customers and almost 2.0 million natural gas customers. Along with WYCO Development LLC (WYCO) and West Gas Inter State Inc. (WGI), these companies comprise the regulated utility operations.

Xcel's operating utilities are engaged in the generation, purchase, transmission, distribution and sale of electricity in the U.S. The utilities generate electricity using coal, nuclear, hydro, wind and solar energy. Except SPS, the company's remaining utilities also purchase, transport, distribute and sell natural gas to retail customers, as well as transport customer-owned natural gas.

Xcel Energy is undertaking initiatives to produce and deliver clean energy to customers. The company aims to serve all customers with 100% zero-carbon emissions by 2050.



Reasons To Buy:

- ▲ In the past 12 months, Xcel Energy's shares have gained 15.7% against the industry's decline of 5.8%. Xcel Energy continues to invest substantially in its utility assets to provide reliable services to its customers and effectively meet rising electricity demand. The capital investment is directed toward transmission, distribution, electric generation and renewable projects. It expects to deliver 2020 earnings in the range of \$2.73-\$2.83 per share, in sync with its long-term earnings growth objective in the range of 5-7%. The company expects implementation of contingency plans will be able to offset the negative impacts of COVID-19. It also expects its O&M to decline 4-5% in 2020, which will offset the revenue dip in the base case scenario.

Xcel Energy's disciplined investments in infrastructure projects focus on renewable expansion and demand driven by improvement in economic condition will act as growth catalysts.

Xcel Energy targets a dividend payout ratio of 60-70% and aims to increase shareholders' value by increasing dividend rate by 5-7% annually. In the first quarter the company increased quarterly dividend by 6.2%. Strong cash flow generation capacity of the company enables it to pay dividend and increase the same at regular intervals.

- ▲ In 2019, its electric and natural gas customer base rose 2.8% and 5%, respectively, on a year-over-year basis. Xcel Energy maintained that a positive trend with 1% and 1.2% of electric and natural gas customers each were added to respective customer bases in the second quarter. With the economy gradually opening up after the pandemic, we expect this trend to continue in the second half of 2020 as well.

Moreover, rate case settlements reached for SPS New Mexico Electric Rate Case and SPS Texas Electric Rate Case while new rates were effectiveness second quarter. The company filed a natural gas rate case in February 2020 for Colorado, the new gas rates could go into effect from November 2020. In the second quarter, the company divested 760 MW natural gas-fired power plant — the Mankato Energy Center — for \$680 million and plans to use the funds in corporate donations as well as to support COVID-19 relief efforts.

- ▲ Xcel Energy is focusing on clean energy transition. The company did not witness any material impact of the coronavirus outbreak to its supply chain with the exception of its wind farms. Due to supply chain disruptions, the completion time of two of its wind firm has been delayed to 2021.

These projects will enable the company to achieve its goal in reducing carbon emission. In 2019, NSP-Minnesota filed its Minnesota resource plan, which runs through 2034. According to the plan, it will achieve an 80% carbon reduction by 2030 and 100% carbon-free electricity by 2050.

- ▲ The company's long-term debt amounted to \$19,463 million in the second quarter of 2020, increasing 11.8% from \$17,407 million in fourth-quarter 2019. However, its divestiture proceeds, bonds issue and equity issue increased its liquidity to \$4.5 billion, which are sufficient to meet its near-term obligations.

Also, its times interest earned ratio is 2.82 in the second quarter of 2020, down marginally from 2.85 in the first quarter. Nonetheless, a greater than 1 ratio indicates that the company will not face problems in servicing its short-term debt obligations. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, this strong ratio is reassuring for investors.

Reasons To Sell:

- ▼ The company's profitability depends on the ability of its utility subsidiaries to recover costs. Any changes in regulation may impair the ability of these utility subsidiaries to recover costs from their customers. The profitability of utility operations is dependent on the ability to recover the costs of providing energy and utility services and earn a return on capital investment. The company's utility subsidiaries are subject to future and historical test years depending upon the regulatory jurisdiction. Thus, the rates may or may not match costs at any given time. Rate regulation is premised on providing an opportunity to earn a reasonable rate of return on invested capital.
- ▼ Xcel Energy's natural gas transmission and distribution operations are exposed to several risks, including explosions, leaks and mechanical setbacks. These incidents can affect the company's operations, thereby impacting its financial performance. The operations are also subject to unfavorable weather conditions. Unfavorable weather in the first quarter lowered the demand.
- ▼ Xcel Energy's operations are subject to the risk of cyber security breaches in the form of cyber hacking. Any such event may lead to the company's loss of vast amounts of valuable data.

Risk related to cyber-security breaches as well as failure of transmission and distribution lines plus strict environmental legislations raise concerns for the company.

Last Earnings Report

Xcel Energy Q2 Earnings Beat Estimates, Revenues Miss

Xcel Energy posted second-quarter 2020 operating earnings of 54 cents per share, surpassing the Zacks Consensus Estimate of 46 cents by 17.4%. The bottom line also increased 17.4% from the year-ago earnings of 46 cents per share.

While there was a drop in sales due to the pandemic, earnings benefited from favorable weather conditions and the company's cost-management efforts.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-6.28%
EPS Surprise	17.39%
Quarterly EPS	0.54
Annual EPS (TTM)	2.67

Total Revenues

Xcel Energy's second-quarter revenues of \$2,586 million missed the Zacks Consensus Estimate of \$2,759 million by 6.3%. However, the top line improved 0.3% from the prior-year quarter's \$2,577 million. This upside was owing to higher contribution from the electric segment than the prior-year quarter.

Segmental Results

Electric: Revenues rose 1.7% to \$2,286 million from \$2,249 million in the year-ago quarter.

Natural Gas: Revenues fell 9.1% from the year-ago quarter to \$280 million.

Other: Revenues in the segment grossed \$20 million, on par with the year-ago figure.

Quarterly Highlights

Total operating expenses slid 0.1% year over year to \$2,164 million, primarily owing to lower operating and maintenance expenses, and cost of natural gas sold and transported.

Operating income in the reported quarter inched up 2.9% from the prior-year quarter to \$422 million.

Total interest charges and financing costs in the reported quarter rose 9.5% from the prior-year figure to \$196 million.

Looking Ahead

Xcel Energy reaffirmed its 2020 earnings per share guidance in the range of \$2.73-\$2.83. The company expects to deliver long-term annual EPS growth of 5-7% based on the 2019 reported figure of \$2.60 per share, which represents the mid-point of the original 2019 guided range of \$2.55-\$2.65 per share.

Xcel Energy projects an annual dividend rate hike of 5-7% and targets a payout ratio of 60-70%.

Recent News

Xcel Energy Completes Phase One of Inspection Process - Jul 7, 2020

Xcel Energy announced that together with eSmart Systems and EDM International, it has successfully completed the first phase of a strategic initiative to improve the aerial inspection of the company's transmission system. This phase was completed ahead of schedule in March and helped deploying Collaborative Intelligence to inspect and document 2,897 miles of Xcel Energy's transmission assets.

Notably, the base of this solution —Collaborative Intelligence —combines human intelligence with Grid Vision™, an AI-based analytics service from eSmart.

Following the closure of the first phase, launched in December 2019, the company decided to stretch this multi-year project and launched the Phase Two in May 2020, to continue updating its asset records, trimming operational costs, shrinking failure rates and extending asset life.

This new phase is supposed to inspect another 5,000 miles of Xcel Energy's transmission system by this year-end. Similar to Phase One, transmission asset imagery will be collected by the company's Unmanned Aircraft Systems and manned helicopters. However, the Phase Two will witness an improvement in the inspection processes by enhancing the Collaborative Intelligence approach with a deeper integration of eSmart's Grid Vision into the existing business processes.

Moreover, eSmart and EDM are using the Phase One image data to augment the efficiency of Grid Vision™, making the asset component identification and defect detection more effective.

Valuation

Xcel Energy, shares are up 10.1% in the year to date period, and 15.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 12.3% and 13.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry was down 5.8% and sector was down 8.1%, respectively.

The S&P 500 index is up 2.3% in the year to date period and 14.7% in the past year.

The stock is currently trading at 24.14X of forward 12 months earnings, which compares to 13.98X for the Zacks sub-industry, 12.94X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.25X and as low as 15.01X, with a 5-year median of 19.10X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 25.20X of forward 12 months earnings.

The table below shows summary valuation data for XEL

Valuation Multiples - XEL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.14	13.98	12.94	22.58
	5-Year High	25.25	15.52	15.31	22.58
	5-Year Low	15.01	11.11	11.38	15.25
	5-Year Median	19.1	13.25	13.78	17.55
P/S F12M	Current	3.05	2.33	2.71	3.6
	5-Year High	3.05	2.45	3.29	3.6
	5-Year Low	1.34	1.54	1.75	2.53
	5-Year Median	2	1.9	2.06	3.04
P/B TTM	Current	2.76	1.74	3.69	4.5
	5-Year High	2.82	2.04	4.16	4.56
	5-Year Low	1.61	1.27	2.01	2.83
	5-Year Median	2.08	1.57	2.62	3.72

As of 8/04/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
CenterPoint Energy, Inc. (CNP)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	4
Edison International (EIX)	Neutral	3
Entergy Corporation (ETR)	Neutral	2
FirstEnergy Corporation (FE)	Neutral	3
Fortis Inc. (FTS)	Neutral	3
Vistra Energy Corp. (VST)	Neutral	3
WEC Energy Group, Inc. (WEC)	Neutral	2

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	XEL	X Industry	S&P 500	FE	FTS	VST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	A
Market Cap	36.74 B	9.17 B	22.75 B	16.06 B	19.05 B	9.17 B
# of Analysts	5	3	14	5	5	2
Dividend Yield	2.46%	3.30%	1.76%	5.26%	3.30%	2.88%
Value Score	D	-	-	A	B	A
Cash/Price	0.01	0.06	0.07	0.01	0.01	0.08
EV/EBITDA	13.40	9.82	13.09	11.25	10.97	4.73
PEG Ratio	4.17	3.57	2.95	NA	3.50	0.41
Price/Book (P/B)	2.74	1.61	3.16	2.25	1.35	1.15
Price/Cash Flow (P/CF)	11.19	7.94	12.32	6.14	10.34	3.14
P/E (F1)	25.25	17.71	21.81	11.90	21.07	7.60
Price/Sales (P/S)	3.28	1.87	2.46	1.48	2.92	0.78
Earnings Yield	3.96%	5.61%	4.40%	8.40%	4.75%	13.17%
Debt/Equity	1.45	1.05	0.76	3.08	1.22	1.26
Cash Flow (\$/share)	6.25	4.27	6.94	4.83	3.97	5.97
Growth Score	C	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	5.49%	4.83%	10.46%	-2.26%	4.55%	NA
Proj. EPS Growth (F1/F0)	4.85%	0.77%	-7.16%	-3.49%	1.35%	19.32%
Curr. Cash Flow Growth	7.69%	6.78%	5.47%	-2.04%	-3.08%	91.01%
Hist. Cash Flow Growth (3-5 yrs)	8.62%	6.02%	8.55%	-0.82%	NA	24.06%
Current Ratio	0.80	0.88	1.32	0.78	0.71	0.99
Debt/Capital	59.25%	50.91%	44.36%	75.47%	53.00%	55.81%
Net Margin	12.50%	10.80%	10.25%	6.10%	13.83%	6.45%
Return on Equity	10.56%	9.19%	14.67%	19.31%	6.06%	10.84%
Sales/Assets	0.22	0.22	0.51	0.26	0.16	0.44
Proj. Sales Growth (F1/F0)	0.85%	0.00%	-1.71%	-0.36%	-3.21%	14.14%
Momentum Score	C	-	-	F	F	F
Daily Price Chg	1.70%	0.21%	0.42%	1.54%	1.43%	0.00%
1 Week Price Chg	1.71%	0.00%	0.14%	-1.63%	4.19%	-1.17%
4 Week Price Chg	9.95%	4.65%	4.97%	-26.36%	6.85%	-1.16%
12 Week Price Chg	18.95%	10.12%	15.30%	-25.15%	8.49%	3.65%
52 Week Price Chg	15.72%	-9.56%	2.34%	-31.74%	2.53%	-15.80%
20 Day Average Volume	2,212,132	343,216	2,082,836	19,893,292	337,050	3,335,848
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.51%	-2.43%
(F1) EPS Est 4 week change	0.22%	0.00%	0.93%	0.16%	0.52%	-37.15%
(F1) EPS Est 12 week change	0.80%	0.00%	0.78%	0.10%	1.14%	-13.58%
(Q1) EPS Est Mthly Chg	-0.15%	-0.17%	0.17%	6.51%	-0.32%	-14.95%

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	D
Growth Score	C
Momentum Score	C
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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