

Xcel Energy Inc.(XEL)

\$69.06 (As of 02/10/20)

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:C

Value: C

Growth: C

Momentum: B

Summary

Xcel Energy delivered mixed fourth-quarter 2019 results. The company's earnings beat the Zacks Consensus Estimate, while revenues missed the same. In the past 12 months, Xcel Energy's shares have outperformed the industry. The company is poised to gain from long-term investment plans, renewable generation and improving economic conditions in service territories. Its long-term earnings growth objective is in the range of 5-7%. The company plans to reduce 100% carbon emission by 2050. Xcel Energy aims to boost shareholders' value by increasing dividend rate by 5-7% annually. However, the company's high debt level and increasing interest expenses are headwinds. The company's natural gas transmission and distribution operations are exposed to explosions, leaks and mechanical setbacks.

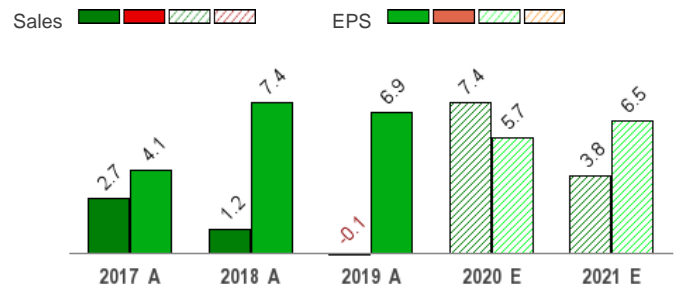
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.82 - \$53.03
20 Day Average Volume (sh)	2,733,764
Market Cap	\$36.2 B
YTD Price Change	8.8%
Beta	0.09
Dividend / Div Yld	\$1.62 / 2.3%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 40% (154 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	-12.0%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	04/23/2020
Earnings ESP	-6.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,853 E
2020					12,382 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	\$0.69 E	\$0.52 E	\$1.15 E	\$0.58 E	\$2.97 E
2020	\$0.62 E	\$0.49 E	\$1.11 E	\$0.57 E	\$2.79 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.

P/E TTM	26.2
P/E F1	24.8
PEG F1	4.3
P/S TTM	3.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

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.

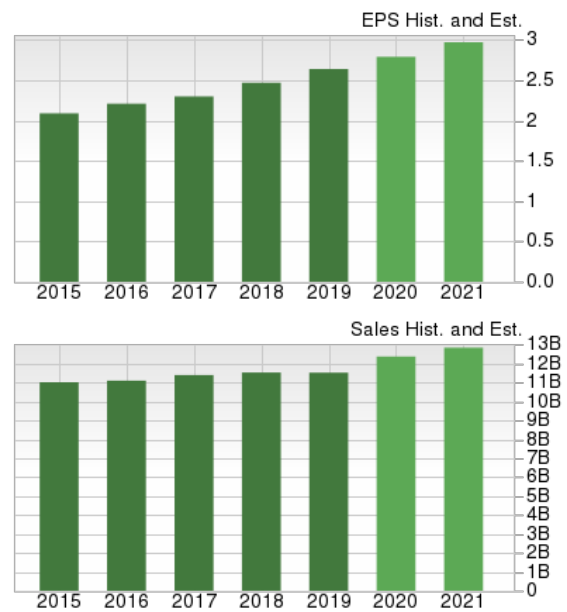
Natural Gas: The segment contributed 16.2% or \$1,868 million to total revenues in 2019.

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 rallied 32.6% compared with the industry's rise of 24.2%. 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%.

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 Feb, 2020, the company increased quarterly dividend by 6.6%. Strong cash flow generation capacity of the company enables it to pay dividend and increase the same at regular intervals.

- ▲ In the fourth quarter, the company's electric and natural gas customer growth increased 1% and 1.2% respectively on a year-over-year basis. We can notice a consistent increase in electric and natural gas customer base in all the quarters as well. This trend is likely to have had a positive impact on the demand growth.
- ▲ Xcel Energy is focusing on clean energy transition. In 2019, the Minnesota Commission approved the purchase of the Longroad wind assets. With the successful completion of wind projects named Foxtail, Lake Benton and Hale, with 700 megawatt (MW) capacity, the company continued to achieve important milestones in nation-leading wind expansion program. Moreover, the company has almost 2,000 MWs of wind projects under construction, which are expected to be completed in 2020.

These projects will enable the company to achieve its goal in reducing carbon emission. In 2019, Xcel Energy estimated that it has reduced carbon emissions by more than 40% from 2005 levels. The company is on track to achieve an 80% carbon reduction by 2030 and 100% carbon-free electricity by 2050.

As a part of its transition process, the company is closing its coal plants. In Minnesota, the company is building a Google data center and relocating a metal recycling plant next to the closing Sherco coal plant. In Colorado, it is developing a solar solution to retain a steel mill, in Pueblo, where they are closing two coal units. Xcel Energy has also acquired Mankato Energy Centre as a non-regulated asset in December 2019 to increase its clean energy asset.

- ▲ There are four rate cases pending for approval and are expected to be effective in 2020. When approved together, NSPM Multi-Year Minnesota Electric Rate Case, PSCo Colorado Electric Rate Case, SPS New Mexico Electric Rate Case and SPS Texas Electric Rate Case are expected to increase rate of \$492 million in 2020.

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.

Reasons To Sell:

- ▼ Xcel Energy's long-term debt witnessed continued rise from the 2011 level of \$8.8 billion to \$17.4 billion in the fourth quarter of 2019. The company's debt/capital is 56.14% compared with the industry's average of 51.52% and the S&P 500's 42.90%. The current ratio is 0.72 compared with the S&P 500 average of 1.20. The high debt level and rising capital servicing costs are denting margins. In 2019, total interest charges and financing costs rose 13.5% from 2018.
- ▼ 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.

High debt levels, risk related to cyber security breaches and strict environmental legislations are causes of concern.

Additionally, 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.

Last Earnings Report

Xcel Energy Q4 Earnings Beat Estimates, Revenues Miss

Xcel Energy posted fourth-quarter 2019 operating earnings of 56 cents per share, which beat the Zacks Consensus Estimate of 53 cents by 5.6%.

For 2019, the company reported earnings of \$2.64, up 6.8% from \$2.47 in 2018.

The upside can be attributed to higher electric margins, courtesy of favorable non-fuel riders and regulatory rate outcomes as well as natural gas margins and lower O&M expenses. However, these factors were partially offset by lower AFUDC, increased depreciation and interest expenses.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-11.95%
EPS Surprise	5.66%
Quarterly EPS	0.56
Annual EPS (TTM)	2.64

Total Revenues

Xcel Energy's fourth-quarter revenues of \$2,798 million missed the Zacks Consensus Estimate of \$3,178 million by 11.9%. Revenues fell 2.8% from the prior-year quarter's tally of \$2,880 million.

Xcel Energy's total operating revenues for 2019 was \$11,529 million, down 0.06% from \$11,537 million in 2018.

Segment Results

Electric: Revenues declined 3% to \$2,231 million from \$2,300 million in the last reported quarter.

Natural Gas: Revenues fell 2.5% to \$544 million from the year-ago quarter's tally.

Other: Revenues in the segment amounted to \$23 million in the quarter, up by a penny from the year-ago quarter's figure.

Quarterly Highlights

Total operating expenses fell 7.6% year over year to \$2,348 million.

Operating income in the reported quarter increased 32.7% from the prior-year quarter's tally to \$450 million.

Total interest charges and financing costs in the reported quarter rose 13.5% from the prior-year quarter's figure to \$185 million.

Looking Ahead

Xcel Energy reaffirmed 2020 earnings per share guidance in the range of \$2.73-\$2.83 and long-term earnings growth in the band of 5-7% from a 2019 base of \$2.60 (mid-point of the original 2019 guidance range) per share. The mid-point of the current earnings guidance range is \$2.78, which is in line with the Zacks Consensus Estimate for 2020 earnings.

Xcel Energy projects an annual increase in dividend rate in the range of 5-7%.

Valuation

Xcel Energy, shares are up 13.7% in the last six months period, and up 32.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 14.3% and 11.8% in the last six months period, respectively. Over the past year, the Zacks sub-industry was up 24.2% and sector was up 5.6%, respectively.

The S&P 500 index is up 17.1% in the last six months period and 22.8% in the past year.

The stock is currently trading at 24.56X of forward 12 months earnings, which compares to 15.42X for the Zacks sub-industry, 14.24X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.77X and as low as 14.87X, with a 5-year median of 18.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 25.97X 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	24.56	15.42	14.24	19.12
	5-Year High	24.77	15.58	15.36	19.34
	5-Year Low	14.87	11.14	12.58	15.18
	5-Year Median	18.69	13.26	13.84	17.47
P/S F12M	Current	2.91	2.44	3.03	3.53
	5-Year High	2.93	2.45	3.31	3.53
	5-Year Low	1.31	1.54	1.71	2.54
	5-Year Median	1.91	1.87	1.98	3
P/BTTM	Current	2.76	1.95	4.24	4.29
	5-Year High	2.77	1.97	4.27	4.42
	5-Year Low	1.58	1.32	2.02	2.85
	5-Year Median	2.03	1.55	2.58	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (154 out of 255)



Top Peers

Avangrid, Inc. (AGR)	Neutral
DTE Energy Company (DTE)	Neutral
Consolidated Edison Inc (ED)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
Public Service Enterprise Group Incorporated (PEG)	Neutral
WEC Energy Group, Inc. (WEC)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	XEL Neutral	X Industry	S&P 500	DTE Neutral	ED Neutral	PEG Neutral
VGM Score	C	-	-	A	F	C
Market Cap	36.21 B	9.54 B	24.00 B	25.66 B	30.94 B	29.05 B
# of Analysts	6	2	13	4	4	4
Dividend Yield	2.35%	2.74%	1.78%	3.03%	3.18%	3.27%
Value Score	C	-	-	C	D	C
Cash/Price	0.02	0.04	0.04	0.00	0.01	0.00
EV/EBITDA	13.30	11.63	14.07	12.66	12.14	11.57
PEG Ratio	4.33	4.17	2.04	3.35	10.37	4.86
Price/Book (P/B)	2.76	1.88	3.28	2.17	1.70	1.95
Price/Cash Flow (P/CF)	11.54	9.58	13.58	10.31	10.40	9.60
P/E (F1)	24.75	20.70	18.86	20.13	20.73	17.09
Price/Sales (P/S)	3.14	2.44	2.65	2.03	2.46	2.89
Earnings Yield	4.04%	4.78%	5.30%	4.97%	4.82%	5.85%
Debt/Equity	1.28	1.08	0.71	1.36	1.01	0.99
Cash Flow (\$/share)	5.98	4.03	6.89	12.95	8.95	5.98
Growth Score	C	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	5.90%	4.47%	10.80%	7.49%	1.98%	3.00%
Proj. EPS Growth (F1/F0)	5.75%	5.44%	7.23%	5.24%	4.30%	3.07%
Curr. Cash Flow Growth	3.12%	6.89%	9.51%	7.70%	6.99%	-19.92%
Hist. Cash Flow Growth (3-5 yrs)	7.68%	4.94%	8.55%	4.88%	5.46%	2.45%
Current Ratio	0.72	0.80	1.20	0.77	0.58	0.75
Debt/Capital	56.14%	51.52%	42.90%	57.57%	50.30%	49.66%
Net Margin	11.90%	9.76%	11.76%	9.23%	10.98%	14.45%
Return on Equity	10.88%	9.26%	16.98%	10.52%	7.92%	11.01%
Sales/Assets	0.24	0.24	0.54	0.33	0.23	0.22
Proj. Sales Growth (F1/F0)	7.40%	3.09%	4.15%	5.48%	3.34%	-1.17%
Momentum Score	B	-	-	A	D	B
Daily Price Chg	0.51%	0.28%	-0.64%	-0.11%	0.32%	-0.45%
1 Week Price Chg	-0.69%	0.35%	-2.60%	0.75%	-1.30%	-2.53%
4 Week Price Chg	8.98%	4.17%	0.72%	2.99%	6.03%	-1.39%
12 Week Price Chg	13.44%	10.39%	4.69%	8.06%	6.41%	-5.84%
52 Week Price Chg	28.92%	17.02%	16.01%	12.11%	17.87%	2.61%
20 Day Average Volume	2,733,764	306,273	1,961,054	1,053,219	1,663,533	2,508,038
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.65%	0.00%	-0.37%
(F1) EPS Est 4 week change	0.24%	0.00%	-0.00%	0.66%	-0.94%	-0.37%
(F1) EPS Est 12 week change	0.18%	0.00%	-0.16%	0.99%	-1.21%	-0.15%
(Q1) EPS Est Mthly Chg	-2.89%	0.00%	0.00%	NA	0.00%	4.21%

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	C
Growth Score	C
Momentum Score	B
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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