

Xcel Energy Inc.(XEL)

\$57.89 (As of 05/15/20)

Price Target (6-12 Months): **\$61.00**

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: D

Momentum: A

Summary

Xcel Energy's first-quarter 2020 earnings missed estimates and fell from the year-ago quarter's results. The downside was primarily due to unfavourable weather conditions. It is poised to gain from long-term investment plans and renewable power generation. Its long-term earnings growth objective is in the range of 5-7%. Recently, it announced plans to divest 760 MW Mankato Energy Center for \$680 million. Currently, the company's liquidity amounted to \$3.1 billion. The company targets a dividend payout ratio of 60-70% and aims to increase shareholders' value by increasing dividend rate by 5-7% annually. In the past 12 months, Xcel Energy's shares have outperformed the industry. However, the company's natural gas transmission and distribution operations are exposed to explosions, leaks and mechanical setbacks.

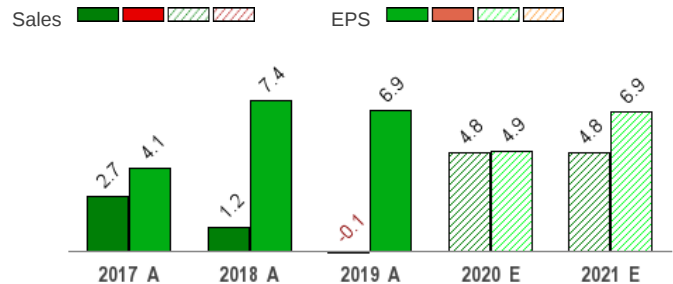
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.14 - \$46.58
20 Day Average Volume (sh)	3,445,081
Market Cap	\$30.4 B
YTD Price Change	-8.8%
Beta	0.28
Dividend / Div Yld	\$1.72 / 3.0%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 26% (66 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.1%
Last Sales Surprise	-14.2%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	NA
Earnings ESP	-1.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,661 E
2020	2,811 A	2,832 E	3,281 E	3,089 E	12,080 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	\$2.96 E
2020	\$0.56 A	\$0.50 E	\$1.11 E	\$0.56 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.

P/E TTM	22.4
P/E F1	20.9
PEG F1	3.7
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/15/2020. The reports text is as of 05/18/2020.

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.

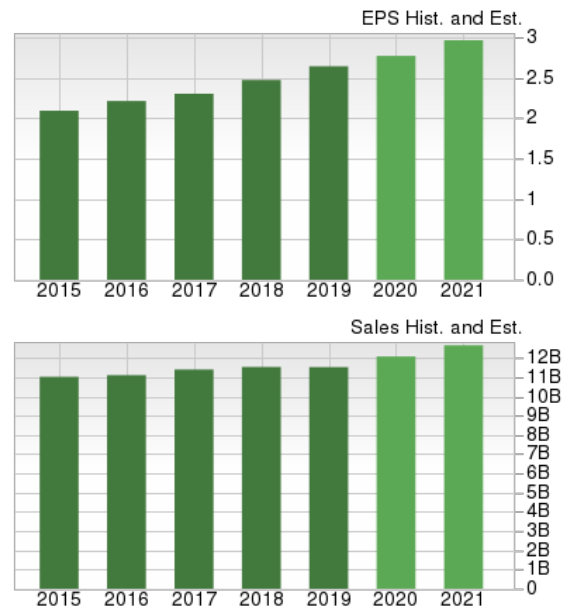
Natural Gas: The segment contributed 16.2% or \$1,868 million to total revenues in 2019.

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:

- ▲ 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 decline. In the past 12 months, Xcel Energy's shares have dropped 0.8% compared with the industry's decline of 8.5%.

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 the first-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.

Moreover, rate case settlements reached for SPS New Mexico Electric Rate Case and SPS Texas Electric Rate Case and new rates are expected to be effective from second or third 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.

- ▲ 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.

- ▲ Recently, the company announced its plans to divest 760 MW natural gas-fired power plant — the Mankato Energy Center — for \$680 million and to use the fund in corporate donations and support COVID-19 relief efforts.

- ▲ The company exited the first quarter with a total liquidity of nearly \$3.1 billion. Divestiture proceeds and equity issue can increase the liquidity level further to nearly \$4.5 billion. This liquidity level will be enough for meeting its current obligations. The company's long-term debt amounted to \$17,010 million in the first quarter, down from \$17,407 million in the fourth quarter.

Its times interest earned ratio is pegged at 2.9 in the first quarter of 2020, in line with the fourth quarter. This strong ratio indicates that the firm will be able to meet debt obligations in the near future without any difficulties.

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 and strict environmental legislations are causes of concern.

Last Earnings Report

Xcel Energy Q1 Earnings and Revenues Lag Estimates

Xcel Energy posted first-quarter 2020 operating earnings of 56 cents per share, lagging the Zacks Consensus Estimate of 59 cents by 5.1%. The bottom line also declined 8.2% from the year-ago earnings of 61 cents per share.

The decline in earnings was mainly due to lower year-over-year demand on account of unfavourable weather conditions.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-14.18%
EPS Surprise	-5.08%
Quarterly EPS	0.56
Annual EPS (TTM)	2.59

Total Revenues

Xcel Energy's first-quarter revenues of \$2,811 million missed the Zacks Consensus Estimate of \$3,276 million by 14.2%. Revenues also fell 10.5% from the prior-year quarter's \$3,141 million. The decline was due to lower contribution from both electric and natural gas segments than the prior-year quarter.

Segment Results

Electric: Revenues declined 5.2% to \$2,203 million from \$2,325 million in the last reported quarter.

Natural Gas: Revenues fell 26.6% from the year-ago quarter to \$583 million.

Other: Revenues in the segment amounted to \$25 million, up 13.6% from the year-ago figure.

Quarterly Highlights

Total operating expenses fell 11.3% year over year to \$2,356 million, primarily due to lower electric fuel and purchased power expenses.

Operating income in the reported quarter decreased 6.4% from the prior-year quarter to \$455 million.

Total interest charges and financing costs in the reported quarter rose 5.6% from the prior-year figure to \$189 million.

Looking Ahead

Xcel Energy reaffirmed its 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). The mid-point of the current earnings guided range is \$2.78, which is in line with the Zacks Consensus Estimate.

It is implementing contingency actions to offset the negative impacts of the COVID-19 pandemic, whose magnitude is quite uncertain.

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

Recent News

Xcel Energy to Sell Assets, Use Gains in Corporate Giving - Apr 6, 2020

Xcel Energy recently announced that it is going to divest its 760 MW natural gas-fired power plant — the Mankato Energy Center — to Denver-based independent power producer Southwest Generation for \$680 million. The deal is expected to close in the third quarter of 2020.

This non-regulated asset sale is in sync with the company's focus to become a fully-regulated utility company. The sales proceeds will not only reduce the company's overall financing needs and improve its credit metrics, but will also utilize the net gain to fund corporate donations and support COVID-19 relief efforts.

Valuation

Xcel Energy, shares are down 8.8% in the year to date period, and 0.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 17.2% and 19.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry was down 8.5% and sector was down 22.8%, respectively.

The S&P 500 index is down 10.9% in the year to date period and up 0.8% in the past year.

The stock is currently trading at 20.37X of forward 12 months earnings, which compares to 12.36X for the Zacks sub-industry, 11.65X for the Zacks sector and 20.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.25X and as low as 14.87X, with a 5-year median of 18.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$61 price target reflects 21.47X 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	20.37	12.36	11.65	20.84
	5-Year High	25.25	15.53	15.32	20.87
	5-Year Low	14.87	11.12	11.4	15.23
	5-Year Median	18.94	13.23	13.78	17.49
P/S F12M	Current	2.47	1.96	2.48	3.24
	5-Year High	3	2.45	3.29	3.44
	5-Year Low	1.31	1.54	1.75	2.53
	5-Year Median	1.95	1.88	2.03	3.01
P/B TTM	Current	2.28	1.67	3.26	3.91
	5-Year High	2.82	1.94	4.05	4.56
	5-Year Low	1.58	1.21	2.01	2.83
	5-Year Median	2.06	1.57	2.6	3.65

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Avangrid, Inc. (AGR)	Neutral	2
DTE Energy Company (DTE)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	3
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	3
Entergy Corporation (ETR)	Neutral	3
Public Service Enterprise Group Incorporated (PEG)	Neutral	3
WEC Energy Group, Inc. (WEC)	Neutral	2

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	XEL	X Industry	S&P 500	DTE	ED	PEG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	B	B
Market Cap	30.40 B	7.00 B	18.98 B	18.75 B	23.51 B	22.99 B
# of Analysts	5	3	14	5	4	4
Dividend Yield	2.97%	3.68%	2.21%	4.16%	4.35%	4.31%
Value Score	C	-	-	B	D	B
Cash/Price	0.01	0.06	0.06	0.03	0.06	0.03
EV/EBITDA	11.29	9.00	11.60	10.71	9.56	9.00
PEG Ratio	3.66	3.26	2.58	2.72	8.07	3.76
Price/Book (P/B)	2.29	1.44	2.59	1.56	1.27	1.51
Price/Cash Flow (P/CF)	9.27	7.35	10.28	7.52	7.49	7.18
P/E (F1)	20.90	16.48	19.01	14.94	16.14	13.80
Price/Sales (P/S)	2.71	1.72	1.92	1.54	1.91	2.33
Earnings Yield	4.78%	5.93%	5.06%	6.70%	6.20%	7.26%
Debt/Equity	1.28	1.05	0.75	1.43	1.10	0.94
Cash Flow (\$/share)	6.25	4.15	7.01	12.95	9.39	6.33
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	5.69%	4.94%	10.82%	6.69%	1.79%	3.25%
Proj. EPS Growth (F1/F0)	4.85%	1.20%	-10.48%	3.46%	-0.23%	0.46%
Curr. Cash Flow Growth	7.69%	3.63%	5.68%	7.70%	12.02%	5.82%
Hist. Cash Flow Growth (3-5 yrs)	8.62%	5.54%	8.52%	4.88%	7.14%	2.02%
Current Ratio	0.51	0.88	1.27	0.89	0.80	0.72
Debt/Capital	56.12%	50.78%	44.25%	58.86%	52.27%	48.40%
Net Margin	12.07%	10.48%	10.54%	9.10%	10.53%	14.59%
Return on Equity	10.39%	9.54%	16.29%	9.82%	7.92%	10.92%
Sales/Assets	0.22	0.22	0.54	0.30	0.21	0.21
Proj. Sales Growth (F1/F0)	4.78%	0.00%	-2.55%	1.60%	2.66%	-0.24%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	-0.53%	-0.70%	0.20%	-0.66%	-1.79%	-2.40%
1 Week Price Chg	-3.01%	0.13%	3.23%	0.58%	-3.97%	-1.30%
4 Week Price Chg	-11.28%	-4.88%	0.88%	-4.15%	-20.42%	-12.86%
12 Week Price Chg	-18.08%	-23.88%	-23.26%	-27.32%	-25.61%	-23.18%
52 Week Price Chg	0.28%	-16.42%	-12.56%	-23.20%	-18.54%	-24.30%
20 Day Average Volume	3,445,081	442,038	2,553,422	1,239,538	1,977,069	2,553,422
(F1) EPS Est 1 week change	-0.07%	0.00%	0.00%	0.00%	-1.16%	0.00%
(F1) EPS Est 4 week change	-1.00%	-1.08%	-5.57%	-1.42%	-4.39%	-0.20%
(F1) EPS Est 12 week change	-0.97%	-3.68%	-16.22%	-2.79%	-5.35%	-0.72%
(Q1) EPS Est Mthly Chg	-0.17%	-4.55%	-11.63%	-4.19%	-2.34%	2.76%

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	C
Growth Score	D
Momentum Score	A
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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