

Xcel Energy Inc.(XEL)

\$66.90 (As of 01/23/20)

Price Target (6-12 Months): **\$71.00**

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: C

Growth: C

Momentum: F

Summary

In the past 12 months, Xcel Energy's shares have outperformed the industry. The company continues to invest substantially in its utility assets to provide reliable services to customers and effectively meet rising electricity demand. It is planning to spend \$22 billion from 2020 to 2024. Xcel Energy is poised to gain from long-term investment plans, renewable generation and improving economic conditions in service territories. The company plans to reduce 100% carbon emission in Minnesota by 2050. It 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.

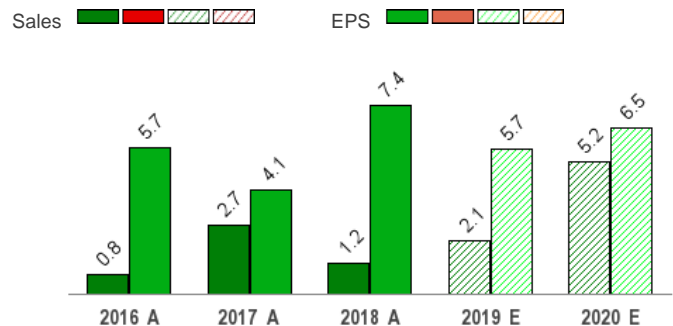
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.97 - \$50.10
20 Day Average Volume (sh)	2,543,432
Market Cap	\$35.1 B
YTD Price Change	5.4%
Beta	0.08
Dividend / Div Yld	\$1.62 / 2.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 36% (162 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.8%
Last Sales Surprise	-6.5%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	01/30/2020
Earnings ESP	-2.4%
P/E TTM	26.8
P/E F1	24.1
PEG F1	4.2
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					12,382 E
2019	3,141 A	2,577 A	3,013 A	3,178 E	11,775 E
2018	2,951 A	2,658 A	3,048 A	2,880 A	11,537 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.62 E	\$0.49 E	\$1.11 E	\$0.57 E	\$2.78 E
2019	\$0.61 A	\$0.46 A	\$1.01 A	\$0.53 E	\$2.61 E
2018	\$0.57 A	\$0.52 A	\$0.96 A	\$0.42 A	\$2.47 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 01/23/2020. The reports text is as of 01/24/2020.

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 84.2% or \$9,719 million to total revenues in 2018.

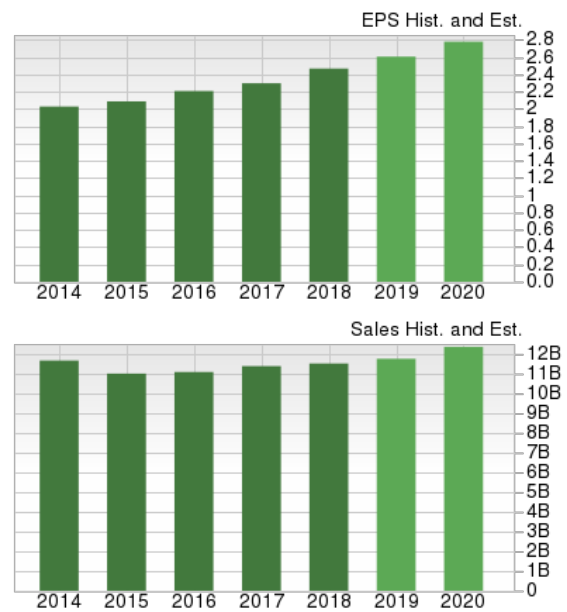
Natural Gas: The segment contributed 15.1% or \$1,739 million to total revenues in 2018.

Other is a non-operating segment which includes Xcel Energy's financing costs. The segment contributed 0.7% or \$79 million to total revenues in 2018.

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 32.4% compared with the industry's rise of 24.7%. 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. The company is well positioned to deliver 2019 ongoing earnings in the range of \$2.60-\$2.65 per share. It expects to deliver 2020 earnings in the range of \$2.73-\$2.83, 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 February, 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.

- ▲ The company is planning to invest \$22 billion from 2020 to 2024. Of the total investment, 28% and 24% is allocated toward electric distribution and electric transmission, respectively. The company will invest 16% for electric generation, 13% for natural gas, 9% for renewables and 10% for others.

In the third quarter, the company's electric and natural gas customer growth increased 1.1% on a year-over-year basis, each. We can notice a consistent increase in electric and natural gas customer base in the second and first quarter as well. This trend is likely to have had a positive impact on the demand growth.

- ▲ Xcel Energy is focusing on the steel-for-fuel initiative that enables the addition of renewables and reduces bills. Nearly 2,372 megawatt (MW) of new wind has received regulatory approval and is construction is in process. This figure excludes 600 MW Rush Creek project that was completed in 2018 and 478 MW Hale wind project, which was completed in second-quarter 2019.

All other wind projects are in various stages of permitting and construction is expected to be completed in the 2019-2021 time period. These projects will enable the company to achieve its goal in reducing carbon emission.

- ▲ In July 2019, the company filed Minnesota Resource Plan, which includes early retirement of coal plants, starting with King in 2028, followed by Sherco 3 in 2030 and complete exit from coal in the Upper Midwest by the end of 2030. Moreover, this plan includes an extension of the Monticello nuclear plant from 2030 to 2040. The plan includes addition of 4,000 megawatts of solar and 1,200 megawatts of wind powered plants in its generation portfolio.

The company focuses on reducing carbon emission and announced target of 80% carbon reduction by 2030 from 2005 level. In the long run, the company expects to deliver 100% carbon free energy by 2050 in Minnesota.

To produce more electricity from clean sources, the company is undertaking certain initiatives. Xcel Energy has filed to acquire Mankato Energy Centre as a non-regulated asset, which is expected to be closed in the fourth quarter of 2019 or the first quarter of 2020. Jeffers Wind and Community Wind North Repowering acquisition is expected to be closed in the fourth quarter of 2020. The wind farms are currently contracted under power purchase agreement with NSP-Minnesota, with approximately 70 MW repowering capacity. Mower Wind facility is expected to close in the fourth quarter of 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 consistent rise from the 2011 level of \$8.8 billion to \$16.8 billion in the third quarter of 2019. The company's debt/capital is 56.14% compared with the industry's average of 51.9% and the S&P 500's 42.99%. The current ratio is 0.72 compared with the S&P 500 average of 1.22. The high debt level and rising capital servicing costs are denting margins. In the first nine months of 2019, total interest charges and financing costs rose 12.9% from the first nine months of 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's Earnings Miss Estimates in Q3, Up Y/Y

Xcel Energy posted third-quarter 2019 operating earnings of \$1.01 per share, which lagged the Zacks Consensus Estimate of \$1.05 by 3.8%. The bottom line increased 5.2% from the year-ago quarter's levels.

The year over year uptick in earnings was driven by higher electric margins courtesy of non-fuel riders, regulatory rate outcomes as well as lower O&M expenses. However, these factors were offset by increased depreciation and interest expenses as well as lower allowance for funds used during construction.

Total Revenues

Xcel Energy's third-quarter revenues amounted to \$3,013 million, which missed the Zacks Consensus Estimate of \$3,221 million by 6.5%. The figure also declined 1.1% from the prior-year quarter's tally of \$3,048 million. Lower Electric and Natural gas revenues hurt the quarterly top line outcome.

Segment Results

Electric: Revenues declined 1.1% to \$2,771 million from \$2,802 million in the last reported quarter.

Natural Gas: Revenues declined 2.2% to \$222 million from the year-ago quarter's tally.

Other: Revenues in the segment amounted to \$20 million in the quarter, up 5.3% from the year-ago quarter's figure.

Quarterly Highlights

Total operating expenses fell 4.1% year over year to \$2,255 million.

Operating income in the reported quarter improved 8.9% from the prior-year quarter's tally to \$758 million.

Total interest charges and financing costs in the reported quarter rose 17.1% from the prior-year quarter's figure to \$192 million.

Outlook

Xcel Energy narrowed its 2019 earnings per share guidance in the range of \$2.60 to \$2.65 from its previously announced range of \$2.55 - \$2.65. The recent guidance's midpoint is \$2.62 which is higher than the Zacks Consensus Estimate of \$2.61.

The company reaffirmed long-term earnings growth in the band of 5-7% from a base of \$2.60 (mid-point of the original 2019 guidance range) per share. Xcel Energy projects an annual increase in dividend rate by 5-7%.

The company provided 2020 earnings per share guidance in the range of \$2.73-\$2.83.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-6.47%
EPS Surprise	-3.81%
Quarterly EPS	1.01
Annual EPS (TTM)	2.50

Recent News

Xcel Energy to Install Smart Meters, Teams With Itron -Sep 17,2019

Xcel Energy recently announced that it has signed an agreement with Itron, to install smart meters across its system. Itron provides technology and service solutions to measure, manage as well as analyze energy and water usage. The collaboration will enable Xcel Energy to develop next generation smart meters as well as enhance grid reliability and improve response time to outages.

The company is undertaking initiatives to provide clean reliable energy and install smart meters, which will enable customers to save money and control energy usage. We believe that the smart meters will help the company to retain its customers and expand its existing base.

Valuation

Xcel Energy, shares are up 11.2% in the last six months period, and up 32.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 13.1% and 9.88% in the last six months period, respectively. Over the past year, the Zacks sub-industry was up 24.7% and sector was up 5.1%, respectively.

The S&P 500 index is up 11.5% in the last six months period and 24% in the past year.

The stock is currently trading at 23.91X of forward 12 months earnings, which compares to 15.14X for the Zacks sub-industry, 14.07X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.28X and as low as 14.87X, with a 5-year median of 18.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$71 price target reflects 25.44X 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	23.91	15.14	14.07	19.13
	5-Year High	24.28	15.14	15.33	19.34
	5-Year Low	14.87	11.19	12.61	15.17
	5-Year Median	18.67	13.09	13.7	17.44
P/S F12M	Current	2.8	2.38	3.01	3.56
	5-Year High	2.82	2.38	3.26	3.56
	5-Year Low	1.31	1.5	1.7	2.54
	5-Year Median	1.91	1.83	1.95	3
P/B TTM	Current	2.67	1.94	4.23	4.54
	5-Year High	2.74	1.94	4.23	4.55
	5-Year Low	1.58	1.32	2.01	2.85
	5-Year Median	2.03	1.55	2.56	3.61

As of 1/23/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 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	D	-	-	C	F	D
Market Cap	35.08 B	9.47 B	24.46 B	25.35 B	30.84 B	31.22 B
# of Analysts	6	2	13	4	4	4
Dividend Yield	2.42%	2.65%	1.75%	3.02%	3.19%	3.05%
Value Score	C	-	-	C	D	C
Cash/Price	0.03	0.04	0.04	0.00	0.01	0.00
EV/EBITDA	13.01	11.59	14.11	13.33	12.11	12.15
PEG Ratio	4.21	4.10	2.04	3.39	10.33	4.50
Price/Book (P/B)	2.67	1.86	3.40	2.33	1.70	2.09
Price/Cash Flow (P/CF)	11.30	9.44	13.66	10.54	10.37	10.32
P/E (F1)	24.06	20.33	19.10	20.33	20.66	18.38
Price/Sales (P/S)	3.02	2.39	2.67	1.91	2.45	3.10
Earnings Yield	4.16%	4.84%	5.23%	4.92%	4.84%	5.44%
Debt/Equity	1.28	1.07	0.72	1.28	1.01	0.99
Cash Flow (\$/share)	5.92	4.03	6.94	12.70	8.95	5.98
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	5.63%	4.47%	10.60%	7.64%	1.98%	3.00%
Proj. EPS Growth (F1/F0)	6.65%	5.33%	7.59%	5.91%	4.30%	3.07%
Curr. Cash Flow Growth	9.42%	7.23%	13.90%	10.89%	6.99%	-19.92%
Hist. Cash Flow Growth (3-5 yrs)	8.08%	4.93%	9.00%	4.53%	5.46%	2.45%
Current Ratio	0.72	0.81	1.22	0.77	0.58	0.75
Debt/Capital	56.14%	51.69%	42.99%	56.15%	50.30%	49.66%
Net Margin	11.15%	9.73%	11.35%	8.24%	10.98%	14.45%
Return on Equity	10.35%	9.28%	17.10%	9.93%	7.92%	11.01%
Sales/Assets	0.24	0.24	0.55	0.36	0.23	0.22
Proj. Sales Growth (F1/F0)	5.16%	3.08%	4.03%	2.95%	3.34%	-1.17%
Momentum Score	F	-	-	A	F	C
Daily Price Chg	1.04%	0.49%	0.26%	0.97%	1.77%	2.39%
1 Week Price Chg	4.36%	3.10%	2.29%	3.79%	3.14%	1.48%
4 Week Price Chg	6.55%	4.76%	2.24%	4.16%	3.48%	5.30%
12 Week Price Chg	5.34%	4.77%	7.79%	5.17%	0.60%	-2.48%
52 Week Price Chg	30.18%	18.20%	21.61%	15.93%	19.46%	15.97%
20 Day Average Volume	2,543,432	277,806	1,536,379	900,208	1,479,076	2,417,695
(F1) EPS Est 1 week change	-0.12%	0.00%	0.00%	0.06%	-0.39%	-0.07%
(F1) EPS Est 4 week change	-0.18%	0.00%	0.00%	0.01%	-0.94%	-0.37%
(F1) EPS Est 12 week change	-0.24%	-0.35%	-0.23%	1.22%	-1.75%	-0.44%
(Q1) EPS Est Mthly Chg	-2.89%	0.00%	0.00%	NA	0.00%	4.21%

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	C
Momentum Score	F
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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