CenterPoint Energy (CNP)

Updated February 17th, 2019 by Christopher VanWert

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	4.8%	**Volatility Percentile:**	6.4%
Fair Value Price:	$26	**5 Year Growth Estimate:**	4.4%	**Momentum Percentile:**	73.4%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Growth Percentile:**	31.9%
Dividend Yield:	3.7%	**5 Year Price Target**	$32	**Valuation Percentile:**	24.1%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	18.7%

Overview & Current Events

CenterPoint Energy is a public utility holding company. Its subsidiaries own and operate facilities that transmit and distribute electric energy and natural gas. Its customers are commercial, industrial, and natural gas utilities. It was founded in 2003 as a result of deregulation in Texas causing the split of Houston Lighting and Power into three separate companies.

CenterPoint Energy has a market cap of $15.5 billion and a recently declared dividend of $0.2775. This is an increase of 4% and management has consistently increased by about 4% over the past few years.

CenterPoint Energy is in the process of merging with Vectren, a large natural gas supplier. Financing for the deal, $6 billion in cash, has been committed and CenterPoint now serves over 7 million customers in 8 states. Vectren will become a wholly owned subsidiary of CenterPoint and will have a debt load of $2.5 billion. In 2017 Vectren's revenue was $2,657 million and $216 million in net income from continuing operations which was 31.8% of CenterPoint's 2017 net income.

Earnings for the third quarter came in 4 cents lower than expected at $.35 per diluted share due to merger related costs of also 4 cents per share. This shortfall should not impact management's expectations of delivering on the high end of the $1.50 to $1.60 earnings per share for the year 2018. This range of year-end earnings is also excluding merger related costs. Management also recently declared a dividend of $0.2775 per share, in line with a 4% increase annually.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.30	$1.01	$1.07	$1.27	$1.35	$1.24	$1.42	$1.08	$1.03	$4.13	***$1.64***	***$2.03***
DPS	$0.73	$0.76	$0.78	$0.79	$0.81	$0.83	$0.95	$0.99	$1.03	$1.07	***$1.11***	***$1.35***
Shares	346.09	391.75	424.7	426.03	427.44	429	429	430	431	431	***432***	***435***

The large spike in earnings per share in 2017 is due to a tax refund from the changes in corporate tax law. This resulted in a gain of $1.01 billion. Without the benefit of the tax break, earnings per share in 2017 would be $1.37

Management has strived for growth through acquisitions and organic customer growth. All regulatory requirements for the merger with Vectren have been successfully met. This merger could lead to an increase of 30% in net income after merger and acquisition related costs. Overall, we expect growth of 4.4% annualized over the next 5 years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.3	11.8	13.8	14.6	14.8	18.7	17.0	18.1	21.9	17.9	***18.9***	***16.0***
Avg. Yld.	5.0%	6.4%	5.3%	4.3%	4.0%	3.6%	3.9%	5.1%	4.7%	4.8%	***3.8%***	***4.6%***

CenterPoint's average price-to-earnings ratio from 2008 through 2016 has been approximately 16. We believe this is a reasonable estimate of fair value going forward based on the company's growth prospects and stability as a regulated utility.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	55%	74%	72%	62%	60%	66%	67%	92%	100%	68%	***68%***	***69%***

CenterPoint Energy's subsidies are established through state regulators as a natural gas distributor and power transmitter and distributor. They also benefit from having already invested in the infrastructure to operate and maintain a large power operation. Over the Great Recession CenterPoint performed the same as the utility sector did (-13.6%). This is still better than the S&P 500 (-18.7%) but still negative over all.

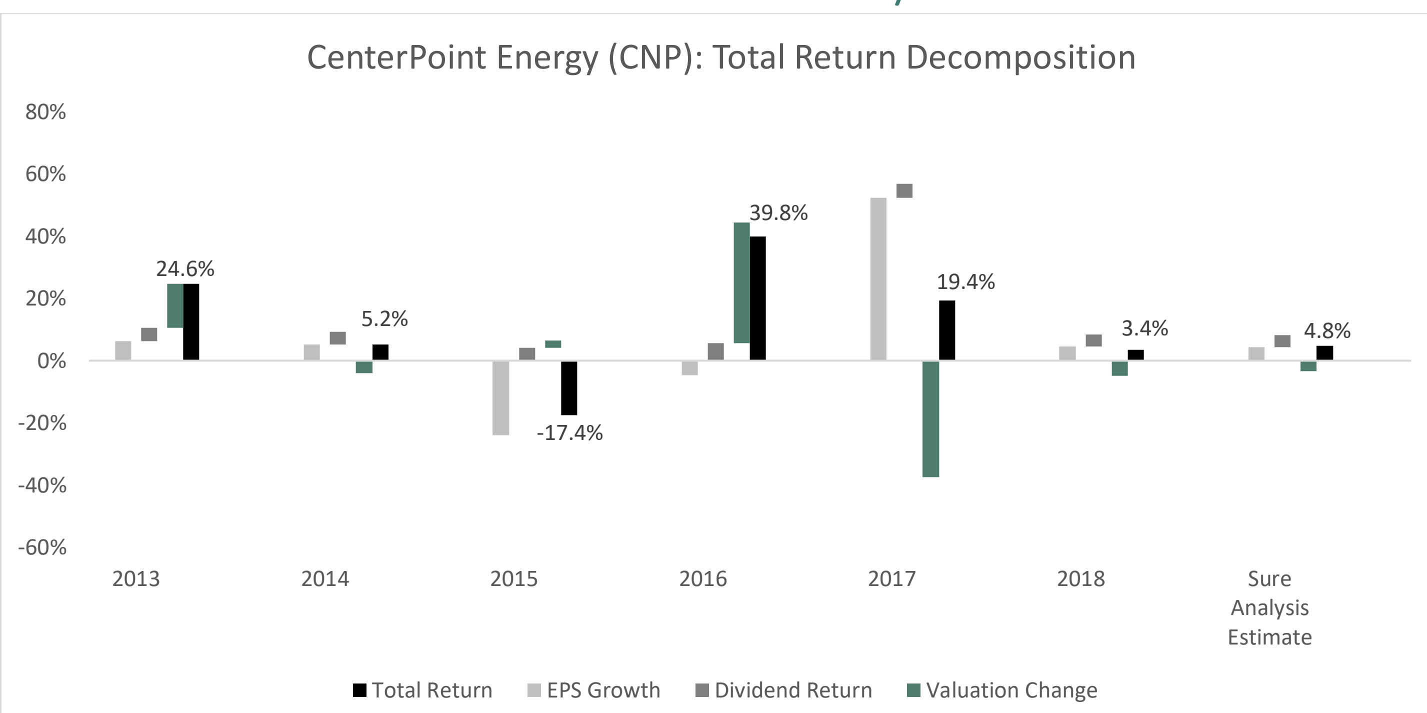
Total debt after the Merger will be $2.5 billion dollars. The current interest rate on debt is 3.82% and currently has an interest coverage ratio of 3.42, well above the general 2.5 warning threshold.

The payout ratio has maintained around 70% except for 2015 and 2016 which were dragged down by a large loss from Enable in 2015 and a loss in index debt securities in 2016. CenterPoint Energy has limited partner interests in Enable that operates and develops natural gas and crude oil infrastructure assets. CenterPoint owns a majority of Enable.

Final Thoughts & Recommendation

The total expected return estimate is 4.8%. While CenterPoint is currently over it's fair value it is a utility and performs better than the overall market during a downturn. The risk for CenterPoint is low, its balance sheet contains $13.65 billion dollars in property, plant and equipment and long-term investments of $2.82 billion. Its dividend has steadily been increasing and its payout ratio should go down post-merger. This stock is a hold until the final earnings consolidation occurs post-merger with Vectren and the final costs and savings are determined.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	11322	8281	8785	8450	7452	8106	9226	7386	7528	9614
Gross Profit	3856	3910	2492	2560	2705	2351	2336	2277	2469	2499
Gross Margin	34.1%	47.2%	28.4%	30.3%	36.3%	29.0%	25.3%	30.8%	32.8%	26.0%
D&A Exp.	708	743	864	886	1050	954	1013	970	1126	1036
Operating Profit	1273	1124	1249	1298	1290	1010	935	933	959	1072
Op. Margin	11.2%	13.6%	14.2%	15.4%	17.3%	12.5%	10.1%	12.6%	12.7%	11.2%
Net Profit	446	372	442	1357	417	311	611	-692	432	1792
Net Margin	3.9%	4.5%	5.0%	16.1%	5.6%	3.8%	6.6%	-9.4%	5.7%	18.6%
Free Cash Flow	-169	681	-123	585	648	327	25	286	517	-5
Income Tax	277	176	263	404	340	470	274	-438	254	-729

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	19676	19773	20111	21703	22871	21870	23200	21290	21829	22736
Cash & Equivalents	167	740	199	220	646	208	298	264	341	260
Acc. Receivable	1009	790	835	773	768	851	837	593	740	1000
Inventories	569	327	375	353	322	285	379	347	312	397
Goodwill & Int.	1696	1696	1696	1696	1468	840	840	840	911	941
Total Liabilities	17654	17134	16913	17481	18570	17541	18652	17829	18369	18048
Accounts Payable	897	648	667	560	561	689	716	483	657	963
Long-Term Debt	10667	10077	9482	9187	9795	8357	8857	8770	8592	8840
Total Equity	2022	2639	3198	4222	4301	4329	4548	3461	3460	4688
D/E Ratio	5.28	3.82	2.97	2.18	2.28	1.93	1.95	2.53	2.48	1.89

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	2.4%	1.9%	2.2%	6.5%	1.9%	1.4%	2.7%	-3.1%	2.0%	8.0%
Return on Equity	23.3%	16.0%	15.1%	36.6%	9.8%	7.2%	13.8%	-17.3%	12.5%	44.0%
ROIC	3.7%	2.9%	3.5%	10.4%	3.0%	2.3%	4.7%	-5.4%	3.6%	14.0%
Shares Out.	346.09	391.75	424.7	426.03	427.44	429	429	430	431	431
Revenue/Share	32.91	22.50	21.27	19.70	17.33	18.81	21.36	17.18	17.35	22.15
FCF/Share	-0.49	1.85	-0.30	1.36	1.51	0.76	0.06	0.67	1.19	-0.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.