CenterPoint Energy (CNP)

Updated March 1st, 2019 by Christopher VanWert

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	8.5%	**Volatility Percentile:**	3.7%
Fair Value Price:	$28	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	71.0%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Growth Percentile:**	51.2%
Dividend Yield:	3.8%	**5 Year Price Target**	$37	**Valuation Percentile:**	35.0%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	41.5%

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 $15.1 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 subsidiarity of CenterPoint and will have a debt load of $2.5 billion. In 2017 Vectren's revenue was $2,657 million with $216 million in net income from continuing operations which was 31.8% of CenterPoint's 2017 net income.

Earnings for the fourth quarter came in 1 cent above expectations at $.36 per diluted share. Management delivered on their guidance of $1.60 earnings per share for the year 2018 before merger related costs. Merger related costs is also why reported earnings per share for 2018 are $0.74 when adjusted for GAAP. Management's guidance for earnings per share in 2019 are $1.60 to $1.70. This range of year-end earnings is also excluding merger related costs.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.01	$1.07	$1.27	$1.35	$1.24	$1.42	$1.08	$1.03	$1.37	$1.60	***$1.68***	***$2.21***
DPS	$0.76	$0.78	$0.79	$0.81	$0.83	$0.95	$0.99	$1.03	$1.07	$1.11	***$1.15***	***$1.33***
Shares	391.8	424.7	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8	***500.0***	***505.0***

Our earnings per share and dividend per share have been adjusted to remove costs associated with the pending Vectren merger along with a one-time disbursement in 2017. In 2015 and 2016 the Houston Electric segment suffered from mild weather and lower transmission related revenues.

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 5.8% annualized over the next 5 years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.8	13.8	14.6	14.8	18.7	17	18.1	21.9	17.9	18.9	***17.9***	***16.9***
Avg. Yld.	6.4%	5.3%	4.3%	4.0%	3.6%	3.9%	5.1%	4.7%	4.8%	3.7%	***3.8%***	***3.5%***

CenterPoint's average price-to-earnings ratio from 2009 through 2018 has been approximately 16.9. We believe this is a reasonable estimate of fair value going forward based on the company's growth prospects and stability as a regulated

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utility. This valuation multiple in 2024 would be a 1.1 percentage point drag on total returns. We view CenterPoint as trading just ahead of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	74.0%	72.0%	62.0%	60.0%	66.0%	67.0%	92.0%	100.0%	68.0%	150.0%	***68.5%***	***59.6%***

CenterPoint Energy's subsidies are established through state regulators as a natural gas distributor and power transmitter and distributor. The company also benefits from having already invested in the infrastructure to operate and maintain a large power operation.

Over the Great Recession earnings-per-share decreased from $1.30 in 2008 to $1.01 in 2009, a 22.3% drop. Dividends increased from $0.73 in 2008 to $0.76 in 2009 and $.78 in 2010. CenterPoint's core business being a consumer necessity allowed their dividend and financial performance to remain intact despite the recession.

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

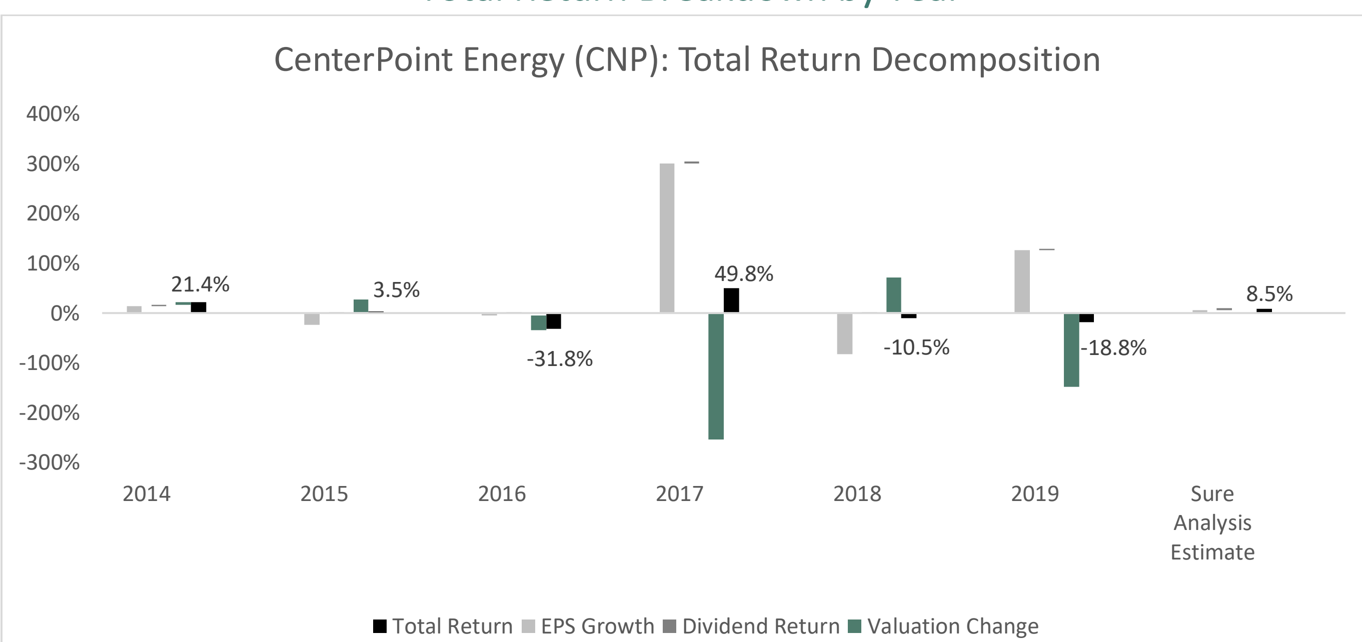
The payout ratio has hovered around 70% except for 2015 and 2016 which were dragged down by a large loss from Enable in 2015 and a loss in index debt securities in 2016. CenterPoint Energy has limited partner interests in Enable that operates and develops natural gas and crude oil infrastructure assets.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

Final Thoughts & Recommendation

The total expected return estimate for CenterPoint is 8.5%. 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 $14.04 billion dollars in property, plant and equipment and long-term investments of $2.84 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	8281	8785	8450	7452	8106	9226	7386	7528	9614	10589
Gross Profit	3910	2492	2560	2705	2351	2336	2277	2533	2563	2480
Gross Margin	47.2%	28.4%	30.3%	36.3%	29.0%	25.3%	30.8%	33.6%	26.7%	23.4%
D&A Exp.	743	864	886	1050	954	1013	970	1126	1036	1243
Operating Profit	1124	1249	1298	1290	1010	935	933	1023	1136	831
Op. Margin	13.6%	14.2%	15.4%	17.3%	12.5%	10.1%	12.6%	13.6%	11.8%	7.8%
Net Profit	372	442	1357	417	311	611	-692	432	1792	368
Net Margin	4.5%	5.0%	16.1%	5.6%	3.8%	6.6%	-9.4%	5.7%	18.6%	3.5%
Free Cash Flow	681	-123	585	648	327	25	286	509	-9	485
Income Tax	176	263	404	340	470	274	-438	254	-729	146

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	19773	20111	21703	22871	21870	23200	21290	21829	22736	27009
Cash & Equivalents	740	199	220	646	208	298	264	341	260	4231
Acc. Receivable	790	835	773	768	851	837	593	740	1000	1190
Inventories	327	375	353	322	285	379	347	312	397	394
Goodwill & Int.	1696	1696	1696	1468	840	840	840	911	941	932
Total Liabilities	17134	16913	17481	18570	17541	18652	17829	18369	18048	18951
Accounts Payable	648	667	560	561	689	716	483	657	963	1240
Long-Term Debt	10077	9482	9187	9795	8357	8857	8770	8592	8840	9164
Total Equity	2639	3198	4222	4301	4329	4548	3461	3460	4688	6318
D/E Ratio	3.82	2.97	2.18	2.28	1.93	1.95	2.53	2.48	1.89	1.14

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.9%	2.2%	6.5%	1.9%	1.4%	2.7%	-3.1%	2.0%	8.0%	1.5%
Return on Equity	16.0%	15.1%	36.6%	9.8%	7.2%	13.8%	-17.3%	12.5%	44.0%	6.7%
ROIC	2.9%	3.5%	10.4%	3.0%	2.3%	4.7%	-5.4%	3.6%	14.0%	2.4%
Shares Out.	391.8	424.7	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8
Revenue/Share	22.50	21.27	19.70	17.33	18.81	21.36	17.18	17.35	22.15	23.43
CF/Share	1.85	-0.30	1.36	1.51	0.76	0.06	0.67	1.17	-0.02	1.07

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