CenterPoint Energy (CNP)

Updated May 30th, 2019 by Samuel Smith

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	9.8%	**Volatility Percentile:**	3.6%
Fair Value Price:	$28	**5 Year Growth Estimate:**	5.8%	**Momentum Percentile:**	71.7%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	51.7%
Dividend Yield:	4.0%	**5 Year Price Target**	$38	**Valuation Percentile:**	43.8%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	45.3%

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 capitalization of $14.3 billion and a recently declared dividend of $0.2875. This is an increase of 3.6%, and management has consistently increased it by about that amount over the past few years.

CenterPoint reported first quarter results on May 9th. Earnings came in 6 cents below expectations at $0.46 per diluted share, but the company still reaffirmed its annual guidance. First quarter results at Houston Electric and the Energy Services segment were negatively impacted by mild weather. Given that weather-driven results do not reflect on the quality of the underlying assets, the quality of the business remains solid. However, a more meaningful disappointment from the quarter was that the Vectren merger did not yield any profit after merger expenses were excluded, despite contributing to results for two entire months.

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 estimates 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	***16.9***	***16.9***
Avg. Yld.	6.4%	5.3%	4.3%	4.0%	3.6%	3.9%	5.1%	4.7%	4.8%	3.7%	***4.0%***	***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 utility. Given that this is where CenterPoint currently trades, we expect minimal impact on total returns from multiple expansion or contraction for the foreseeable future.

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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 $0.78 in 2010. CenterPoint's core business being a consumer necessity allowed their dividend and financial performance to remain intact despite the recession.

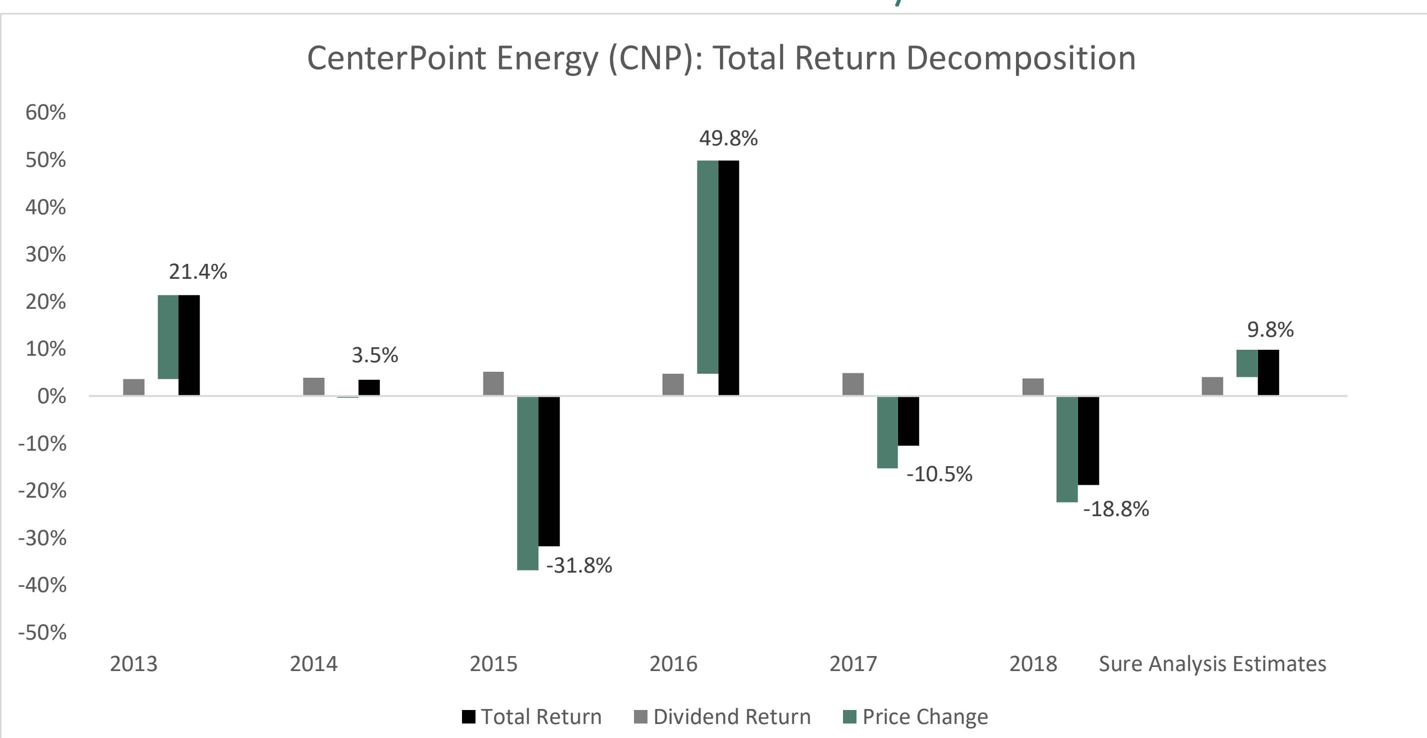
Total debt after the merger will be $2.5 billion dollars. The current interest rate on debt is about 3.8% and CenterPoint currently has an interest coverage ratio of about 3.4, well above the general 2.5 warning threshold.

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 the majority of Enable.

Final Thoughts & Recommendation

The annual total expected return estimate for CenterPoint is 9.8%, stemming from its 4% dividend yield and 5.8% expected annual growth rate. The risk for CenterPoint is low thanks to its stable utility business model and healthy balance sheet. Its dividend has been steadily increasing over time and its payout ratio should go down post-merger. We view this stock as 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.