Xcel Energy Inc. (XEL)

Updated August 22nd, 2019 by Noah Horwood

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	2.1%	**Volatility Percentile:**	7.8%
Fair Value Price:	$50	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	95.3%
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Growth Percentile:**	26.4%
Dividend Yield:	2.6%	**5 Year Price Target**	$60	**Valuation Percentile:**	18.9%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	10.2%

Overview & Current Events

Xcel Energy's roots go back more than a century through three predecessor companies: Northern States Power, Southwestern Public Service Company and Public Service Company of Colorado. In 1997, Public Service Company of Colorado and Southwestern Public Service Company merged to become New Century Energies, and then in 2000 the company merged with Northern States Power to form Xcel Energy. The company operates in eight western and midwestern states in the United States. Xcel's revenue is obtained mostly through two broad segments: regulated electric utilities (84% of total revenue) and regulated natural gas utilities (15% of total revenue). Since there is a large percentage of the company's revenue coming from regulated utilities this gives the company growth certainty and supports their healthy dividend. Xcel Energy is an industry leader in delivering renewable energy and in reducing carbon emissions. The $31.5 billion market capitalization company is listed on the NASDAQ Stock Exchange under the trading symbol XEL.

On August 1st, 2019 Xcel released Q2 results for the period ending June 30th, 2019. Earnings for the quarter totaled $238 million ($0.46 per share) against $265 million ($0.52 per share) in Q2 of 2018. Xcel's second quarter of 2019 EPS missed expectations by $0.07 and the company's revenue also missed expectations by $260 million, which led to a year-over-year decrease of 3.1%. Xcel recently declared a $0.405 dividend for shareholders of record on September 13th, which is payable October 20th.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.49	$1.56	$1.72	$1.85	$1.91	$2.03	$2.10	$2.21	$2.46	$2.47	***$2.69***	***$3.27***
DPS	$0.97	$1.00	$1.03	$1.07	$1.11	$1.20	$1.28	$1.36	$1.44	$1.52	***$1.59***	***$1.93***
Shares[1]	457.5	482.3	486.5	488.0	498.0	505.7	507.5	507.2	507.8	514.0	***517.0***	***521.5***

Xcel Energy's earnings-per-share (EPS) rose relatively consistently throughout the last decade, with an average growth of around 5% per year. The last time Xcel had negative growth with regards to its EPS was in 2004-2005 when it saw a 5.5% decline. During the last financial crisis (2008-2009), Xcel was still able to grow its EPS despite a declining market and contracting economy.

Moving forward, Xcel is focused on converting to renewable energy sources to supply power to customers. The company aims to be the industry's leading renewable energy provider. Xcel has plans in place to invest $20 billion throughout 2019-23 mainly on renewable options and other environmentally friendly endeavors. Xcel has already begun a few projects in the last year, including a $1.6 billion project in New Mexico and Texas on wind farms and a $1 billion project on their Colorado Energy Plan to build more wind and solar plants in the region. We expect growth from renewable energy sales and replacement of aging infrastructure to drive an average annual growth rate of 4.0% through the next half decade through 2024.

Xcel Energy's dividend appears safe. Dividend payouts have been steadily growing since 2003 and more recently, it raised its dividend by nearly 7% so far in 2019. The company issued its first dividend in March of 1980. Being primarily a

[1] Share count in millions

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regulated utility, revenue is protected by local regulators which gives Xcel growth certainty and protects their attractive dividend. The company also has been able to keep its payout ratio relatively close to 60% over the past decade; the payout is expected to remain around 60% going forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.7	14.1	14.2	14.8	15.0	15.4	16.5	18.5	20.2	18.9	***23.0***	***18.3***
Avg. Yld.	5.1%	4.5%	4.2%	3.9%	3.9%	3.8%	3.7%	3.3%	3.1%	3.3%	***2.6%***	***3.8%***

Xcel Energy's price to earnings ratio has been steadily rising through the last decade, with just 2017-18 showing a decline. Comparing current P/E levels with the 5-year multiple average of 18.3, it seems that Xcel is relatively overvalued at this point in time. We expect valuation multiple compression to reduce total returns by 4.5 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	61%	59%	56%	54%	54%	55%	57%	61%	62%	62%	***59%***	***59%***

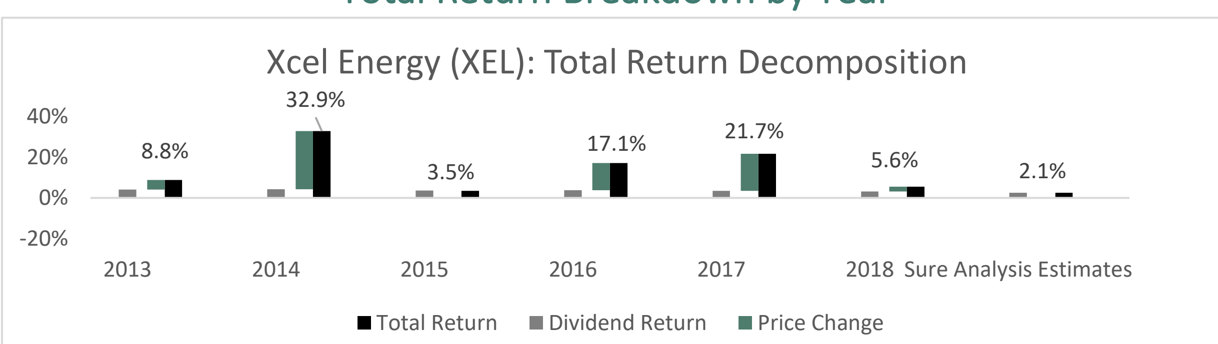
To properly execute its high capital expenditure plans the company will need favorable regulatory, political, and public support. The company's multiyear rate plan in Minnesota expires in 2019; they have been operating in the Minnesota area for many years, so the company has a solid relationship with regulators. If the regulators lower the rate base lower than what Xcel can sell their services for, the company will have a hard time meeting growth projections going forward. The investments that Xcel Energy is making in renewable energy are in line with where regulations have been moving; the company has been trying to be an industry leader in reducing carbon emissions which should give them an upper hand with regulatory, political, and public support.

Xcel Energy has been in line with others in the utilities industry. The company has increased capital expenditures by almost 19% from 2017-18. It is projected that the capex will increase by another 38% in 2019, from the increased number of projects underway throughout 2019. Increases in capex have led to higher debt levels which have risen by almost 9% from 2017-18. This would become a corporate risk if interest rates begin to move significantly higher.

Final Thoughts & Recommendation

Xcel Energy has been performing very well lately, generating a return of over 32% in the last 12 months. Overall, we expect total returns of 2.1% annually, mainly driven by their 4.0% expansion from future growth, 2.6% yield from the company's dividend and a 4.5% compression of total returns coming from our valuation analysis. As a result, we rate Xcel Energy as a weak hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	9644	10311	10655	10128	10915	11686	11024	11107	11404	11537
Gross Profit	4683	3051	3328	3418	3507	3735	3990	4320	4520	4453
Gross Margin	48.6%	29.6%	31.2%	33.7%	32.1%	32.0%	36.2%	38.9%	39.6%	38.6%
SG&A Exp.	182	7	5	7	8	7	4	N/A	N/A	N/A
D&A Exp.	916	978	1010	1046	1100	1151	1249	1436	1609	1781
Operating Profit	1469	1613	1777	1815	1839	1941	1996	2240	2223	1965
Operating Margin	15.2%	15.6%	16.7%	17.9%	16.9%	16.6%	18.1%	20.2%	19.5%	17.0%
Net Profit	681	756	841	905	948	1021	984	1123	1148	1261
Net Margin	7.1%	7.3%	7.9%	8.9%	8.7%	8.7%	8.9%	10.1%	10.1%	10.9%
Free Cash Flow	126	-322	200	-565	-811	-540	-645	-143	-118	-835
Income Tax	371	437	468	450	484	524	543	581	542	181

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	25306	27388	29497	31141	33907	36958	38821	41155	43030	45987
Cash & Equivalents	116	108	61	82	107	80	85	85	83	147
Acc. Receivable	730	718	753	718	744	827	725	776	797	860
Inventories	566	561	618	536	577	597	609	604	610	548
Total Liabilities	17918	19199	21015	22267	24342	26743	28221	30134	31575	33765
Accounts Payable	1084	980	902	959	1261	1173	961	1045	1243	1237
Long-Term Debt	8891	9785	10127	11004	11951	12777	13902	14842	15791	17247
Total Equity	7283	8084	8482	8874	9566	10214	10601	11021	11455	12222
D/E Ratio	1.20	1.20	1.19	1.24	1.25	1.25	1.31	1.35	1.38	1.41

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.7%	2.9%	3.0%	3.0%	2.9%	2.9%	2.6%	2.8%	2.7%	2.8%
Return on Equity	9.6%	9.8%	10.2%	10.4%	10.3%	10.3%	9.5%	10.4%	10.2%	10.7%
ROIC	4.2%	4.4%	4.6%	4.7%	4.6%	4.6%	4.1%	4.5%	4.3%	4.4%
Shares Out.	457.5	482.3	486.5	488.0	498.0	505.7	507.5	507.2	507.8	516.5
Revenue/Share	21.10	22.25	21.94	20.74	21.98	23.18	21.70	21.82	22.40	22.58
FCF/Share	0.28	-0.70	0.41	-1.16	-1.63	-1.07	-1.27	-0.28	-0.23	-1.63

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