Xcel Energy Inc. (XEL)

Updated October 24th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	-1.4%	**Volatility Percentile:**	7.3%
Fair Value Price:	$42	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	87.5%
% Fair Value:	154%	**5 Year Valuation Multiple Estimate:**	-8.3%	**Growth Percentile:**	27.7%
Dividend Yield:	2.5%	**5 Year Price Target**	$51	**Valuation Percentile:**	7.7%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	5.0%

Overview & Current Events

Xcel Energy's roots go back more than a century to 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 8 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 the dividend. Xcel Energy is an industry leader in delivering renewable energy and in reducing carbon emissions. The $34 billion market capitalization company is listed on the NASDAQ Stock Exchange under the trading symbol XEL.

On October 24th, 2019 Xcel released Q3 results for the period ending September 30th, 2019. Revenue for the quarter came in at $3.01 billion, representing a -1.1% decline compared to Q3 2018. Regulated Electric Utilities, which make up 92% of the company's revenue, also saw revenue decline -1.1%. Meanwhile, Xcel's earnings came in at $527 million or $1.01 per share compared to $491 million or $0.96 per share in the year ago period, reflecting higher electric margins due to non-fuel riders and regulatory rate outcomes.

Xcel also provided updated 2019 EPS guidance and introduced guidance for 2020. For this year the company now expects to earn between $2.60 and $2.65 (from $2.55 to $2.65 previously). For next year, Xcel anticipates generating between $2.73 and $2.83 in earnings-per-share.

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	$2.30	$2.47	***$2.62***	***$3.19***
DPS	$0.97	$1.00	$1.03	$1.07	$1.11	$1.20	$1.28	$1.36	$1.44	$1.52	***$1.62***	***$1.97***
Shares[1]	458	482	487	488	498	506	508	507	508	514	***520***	***535***

Xcel Energy's earnings-per-share rose relatively consistently throughout the last decade, with an average growth rate of just over 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 $22 billion in the next five years 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.

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Xcel Energy Inc. (XEL)

Updated October 24th, 2019 by Eli Inkrot

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	***24.6***	***16.0***
Avg. Yld.	5.1%	4.5%	4.2%	3.9%	3.9%	3.8%	3.7%	3.3%	3.1%	3.3%	***2.5%***	***3.9%***

During the past decade shares of Xcel Energy have traded hands with an average P/E ratio of approximately 16 times earnings. We believe this is a more or less fair starting multiple, taking into consider the high quality of earnings, but average growth prospects. With shares presently trading near 25 times our estimate of this year's earnings, there is the potential for a substantial valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	65%	64%	60%	58%	58%	59%	61%	62%	63%	62%	***62%***	***62%***

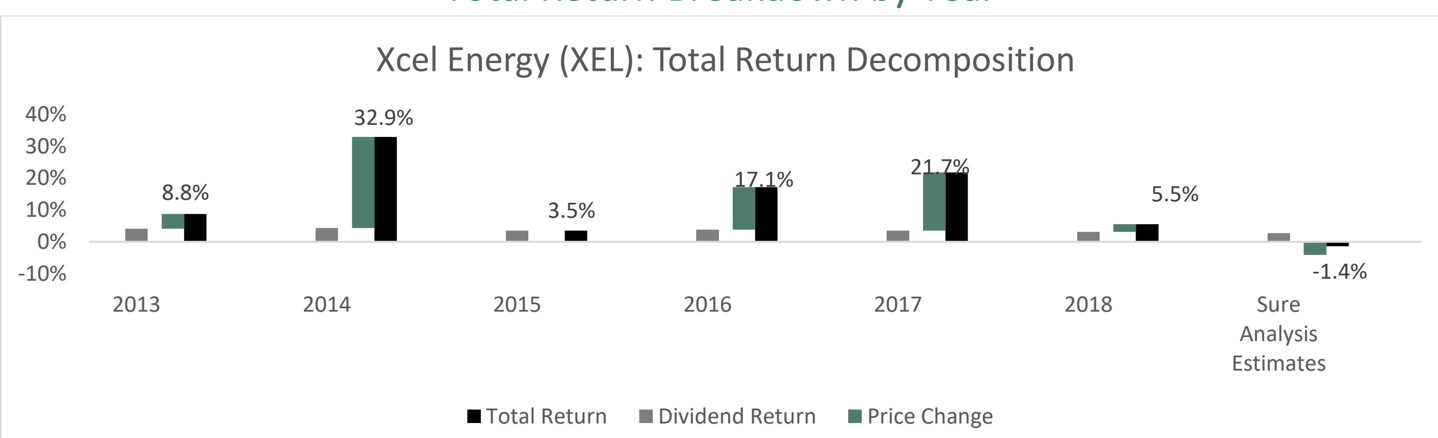
Xcel Energy's dividend appears safe. Dividend payouts have been steadily growing since 2003 and more recently, it raised its dividend by 6.6% in 2019. Being primarily a regulated utility, revenue is protected by local regulators which gives Xcel growth certainty and protects their dividend. The company has also been able to keep its payout ratio relatively close to 60% over the past decade; where we expect it to remain going forward.

To properly execute its high capital expenditure plans the company will need a favorable regulatory, political and public environment. 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.

Final Thoughts & Recommendation

Shares are up 3% since our last report and now trade at nearly 25 times our expectation of this year's earnings. Xcel Energy has put together a very stable operating history, with reasonable earnings and dividend growth over the years. We continue to expect this, with 4% projected intermediate-term growth and a 2.5% starting yield that ought to increase over time. That being said, the valuation – now sitting at its highest mark in the last decade – leaves a lot to be desired. So much so that the positives from growth and the dividend could be entirely offset and then some if the valuation were to revert to a more typical level. Granted shares could continue trading north of 20 times earnings, resulting in a better investment thesis, but that is a speculation we are not currently comfortable making. We rate shares as a sell at the current quotation.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Xcel Energy Inc. (XEL)

Updated October 24th, 2019 by Eli Inkrot

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.