CenterPoint Energy (CNP)

Updated March 23rd, 2020 by Samuel Smith

Key Metrics

Current Price:	$12	**5 Year CAGR Estimate:**	16.7%	**Market Cap:**	$6.3B
Fair Value Price:	$16	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/19/20[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Dividend Payment Date:**	6/12/20[2]
Dividend Yield:	9.9%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	14
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	3.6%

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 $6.3 billion.

CenterPoint reported fourth quarter results on February 27th. Revenues grew by 6.4% year-over-year to $3.32 billion and unadjusted earnings surged by 30.8% year-over-year. The strong performance was driven largely in the utility business thanks to customer growth, disciplined cost management, favorable weather, and positive tax changes. The company also announced plans to sell its energy services and infrastructure services businesses in order to allow it to sharpen its focus on the core utility business as well as improving its business profile and earnings quality.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.07	$1.27	$1.35	$1.24	$1.42	$1.08	$1.03	$1.37	$1.60	$1.68	***$1.35***	***$1.64***
DPS	$0.78	$0.79	$0.81	$0.83	$0.95	$0.99	$1.03	$1.07	$1.11	$1.15	***$1.19***	***$1.30***
Shares[3]	424.7	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8	500.0	***500.0***	***505.0***

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. The company's sale of its energy and infrastructure services businesses proved to be very timely given what has taken place in the world since then via the coronavirus outbreak and the collapse of oil prices. Overall, we expect the company to be largely unaffected by the coronavirus outbreak and any related economic hardship as the company is now a pureplay utility company. As a result, we forecast annualized mid-single-digits growth over the next 5 years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.8	14.6	14.8	18.7	17.0	18.1	21.9	17.9	18.9	19.0	***8.9***	***12.0***
Avg. Yld.	5.3%	4.3%	4.0%	3.6%	3.9%	5.1%	4.7%	4.8%	3.7%	3.7%	***9.9%***	***6.6%***

CenterPoint's average price-to-earnings ratio from 2009 through 2018 has been approximately 16.9. We have decreased the company's fair value estimate to 12 times earnings per share given the current economic headwinds. Given that CenterPoint currently trades well below this level, we expect a huge tailwind to total returns from multiple expansion over the next half decade.

[1] Estimate
[2] Estimate
[3] Share count in millions

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	72.0%	62.0%	60.0%	66.0%	67.0%	92.0%	100%	68.0%	150%	68.5%	***88.0%***	***79.3%***

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. As CenterPoint's business is now purely a consumer necessity, we expect it to continue delivering very reliable performance in the face of recessions.

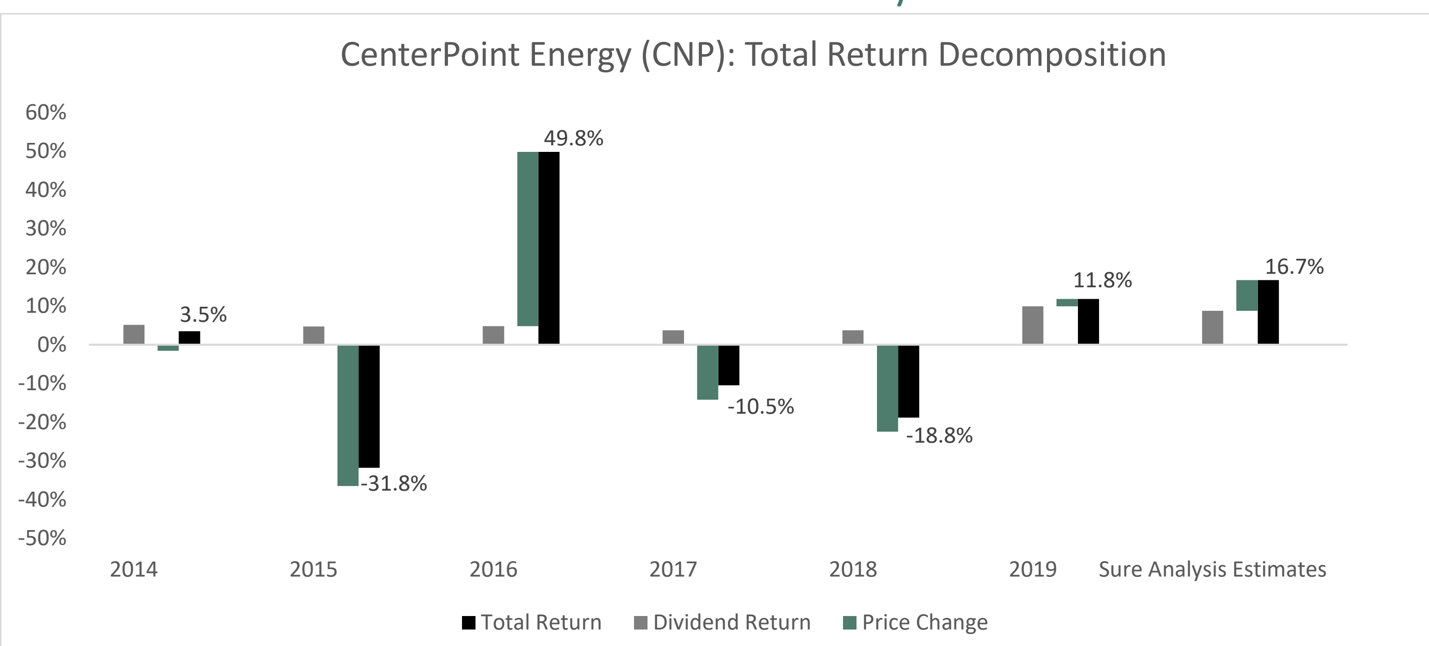
The recent sale of its ancillary service businesses will also strengthen the balance sheet considerably as management plans to use some of the proceeds to retire debt, further boosting its investment grade standing. Furthermore, as a pure play utility, the company's cash flow profile should be even more stable, making its leverage ratios safer and its interest costs more easily serviceable throughout economic cycles.

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 16.7%. The reason we take such an optimistic view on CenterPoint is because we feel that the market is judging it by its name – which puts it in the beat up energy sector – rather than by the substance of its business, which after its dispositions is now a pureplay utility. As a result, 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. As a result, we view this stock as a very attractive buy for both aggressive and conservative investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	8785	8450	7452	8106	9226	7386	7528	9614	10589	12301
Gross Profit	2492	2560	2705	2351	2336	2277	2533	2563	2480	3,039
Gross Margin	28.4%	30.3%	36.3%	29.0%	25.3%	30.8%	33.6%	26.7%	23.4%	24.7%
D&A Exp.	864	886	1050	954	1013	970	1126	1036	1243	1,311
Operating Profit	1249	1298	1290	1010	935	933	1023	1136	831	1,274
Op. Margin	14.2%	15.4%	17.3%	12.5%	10.1%	12.6%	13.6%	11.8%	7.8%	10.4%
Net Profit	442	1357	417	311	611	-692	432	1792	368	791
Net Margin	5.0%	16.1%	5.6%	3.8%	6.6%	-9.4%	5.7%	18.6%	3.5%	6.4%
Free Cash Flow	-123	585	648	327	25	286	509	-9	485	(868)
Income Tax	263	404	340	470	274	-438	254	-729	146	138

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	20111	21703	22871	21870	23200	21290	21829	22736	27009	35439
Cash & Equivalents	199	220	646	208	298	264	341	260	4231	241
Acc. Receivable	835	773	768	851	837	593	740	1000	1190	1,249
Inventories	375	353	322	285	379	347	312	397	394	546
Goodwill & Int.	1696	1696	1468	840	840	840	911	941	932	5485
Total Liabilities	16913	17481	18570	17541	18652	17829	18369	18048	18951	27080
Accounts Payable	667	560	561	689	716	483	657	963	1240	1138
Long-Term Debt	9482	9187	9795	8357	8857	8770	8592	8840	9164	15112
Total Equity	3198	4222	4301	4329	4548	3461	3460	4688	6318	6619
D/E Ratio	2.97	2.18	2.28	1.93	1.95	2.53	2.48	1.89	1.14	1.81

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.2%	6.5%	1.9%	1.4%	2.7%	-3.1%	2.0%	8.0%	1.5%	2.5%
Return on Equity	15.1%	36.6%	9.8%	7.2%	13.8%	-17.3%	12.5%	44.0%	6.7%	12.2%
ROIC	3.5%	10.4%	3.0%	2.3%	4.7%	-5.4%	3.6%	14.0%	2.4%	3.9%
Shares Out.	424.7	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8	500
Revenue/Share	21.27	19.70	17.33	18.81	21.36	17.18	17.35	22.15	23.43	24.36
CF/Share	-0.30	1.36	1.51	0.76	0.06	0.67	1.17	-0.02	1.07	(1.72)

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