Xcel Energy Inc. (XEL)

Updated July 30th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	-1.7%	**Market Cap:**	$36.8 B
Fair Value Price:	$44	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	09/12/20[1]
% Fair Value:	156%	**5 Year Valuation Multiple Estimate:**	-8.5%	**Dividend Payment Date:**	10/20/20[1]
Dividend Yield:	2.5%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	17
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	6.2%

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 (83% of total revenue last year) and regulated natural gas utilities (16% 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 $37 billion market capitalization company is listed on the NASDAQ Stock Exchange under the trading symbol XEL.

On July 30th, 2020 Xcel released Q2 2020 results for the period ending June 20th, 2020. Revenue for the quarter came in at $2.586 billion, representing a 0.3% increase compared to Q2 20291. Net income equaled $287 million or $0.54 per share compared to $238 million or $0.46 in the prior year period. Despite lower sales, the company achieved strong results primarily due to the positive impact of weather and cost management efforts.

Xcel also reaffirmed its $2.73 to $2.83 earnings-per-share guidance for the year, despite the ongoing pandemic.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.56	$1.72	$1.85	$1.91	$2.03	$2.10	$2.21	$2.30	$2.47	$2.64	***$2.75***	***$3.35***
DPS	$1.00	$1.03	$1.07	$1.11	$1.20	$1.28	$1.36	$1.44	$1.52	$1.60	***$1.72***	***$2.09***
Shares[2]	482	487	488	498	506	508	507	508	514	520	***535***	***560***

Xcel Energy's earnings-per-share rose relatively consistently throughout the last decade, with an average growth rate of 5.9% 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. Given the reaffirmed guidance for this year, it appears Xcel is good shape for this crisis as well.

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 few years, 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. Long-term Xcel plans to provide 100% carbon-free electricity by 2050. 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] Estimate.
[2] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.1	14.2	14.8	15.0	15.4	16.5	18.5	20.2	18.9	22.3	***25.0***	***16.0***
Avg. Yld.	4.5%	4.2%	3.9%	3.9%	3.8%	3.7%	3.3%	3.1%	3.3%	2.7%	***2.5%***	***3.9%***

During the past decade shares of Xcel Energy have traded hands with an average P/E ratio of approximately 17 times earnings. We believe 16 times earnings is a more or less fair starting multiple, taking into consider the high quality of the company, but average growth prospects. With shares presently trading near 25 times our estimate of this year's earnings, there is the potential for a significant valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	64%	60%	58%	58%	59%	61%	62%	63%	62%	61%	***63%***	***63%***

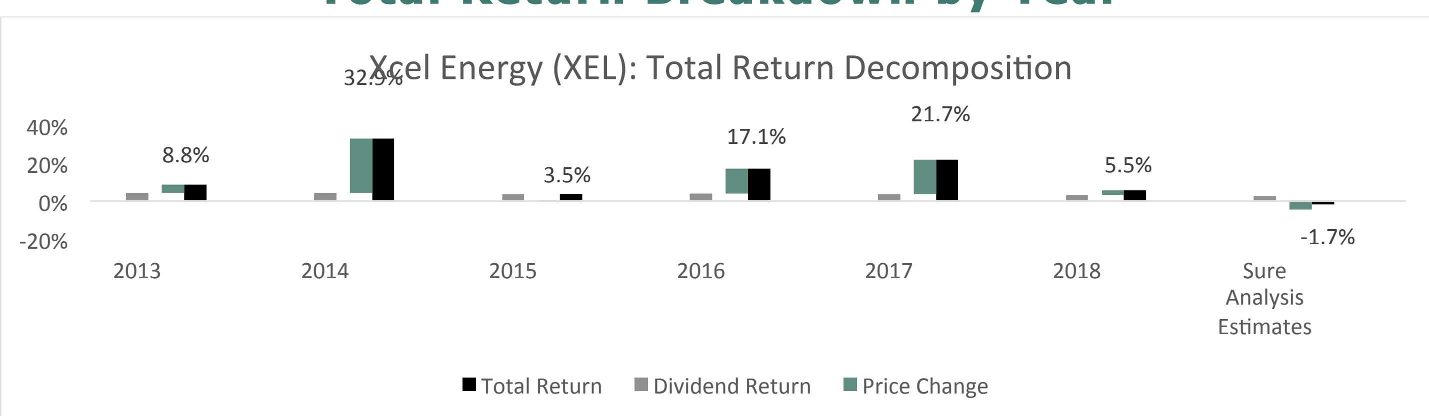
Xcel Energy's dividend appears safe. Dividend payouts have been steadily growing since 2003 and more recently, the company raised its dividend by 6.2% in 2020. Being primarily a regulated utility, revenue is protected by local regulators which gives Xcel growth certainty and protects its dividend. The 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 15% since our last report and now trade at 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 leaves a lot to be desired. So much so that the positives from growth and the dividend could be entirely offset 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.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10311	10655	10128	10915	11686	11024	11107	11404	11537	
Gross Profit	3051	3328	3418	3507	3735	3990	4320	4520	4453	
Gross Margin	29.6%	31.2%	33.7%	32.1%	32.0%	36.2%	38.9%	39.6%	38.6%	
SG&A Exp.	7	5	7	8	7	4				
D&A Exp.	978	1010	1046	1100	1151	1249	1436	1609	1781	
Operating Profit	1613	1777	1815	1839	1941	1996	2240	2223	1965	
Operating Margin	15.6%	16.7%	17.9%	16.9%	16.6%	18.1%	20.2%	19.5%	17.0%	
Net Profit	756	841	905	948	1021	984	1123	1148	1261	
Net Margin	7.3%	7.9%	8.9%	8.7%	8.7%	8.9%	10.1%	10.1%	10.9%	
Free Cash Flow	-322	200	-565	-811	-540	-645	-143	-118	-835	
Income Tax	437	468	450	484	524	543	581	542	181	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	27388	29497	31141	33907	36958	38821	41155	43030	45987	
Cash & Equivalents	108	61	82	107	80	85	85	83	147	
Acc. Receivable	718	753	718	744	827	725	776	797	860	
Inventories	561	618	536	577	597	609	604	610	548	
Total Liabilities	19199	21015	22267	24342	26743	28221	30134	31575	33765	
Accounts Payable	980	902	959	1261	1173	961	1045	1243	1237	
Long-Term Debt	9785	10127	11004	11951	12777	13902	14842	15791	17247	
Total Equity	8084	8482	8874	9566	10214	10601	11021	11455	12222	
D/E Ratio	1.20	1.19	1.24	1.25	1.25	1.31	1.35	1.38	1.41	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.9%	3.0%	3.0%	2.9%	2.9%	2.6%	2.8%	2.7%	2.8%	
Return on Equity	9.8%	10.2%	10.4%	10.3%	10.3%	9.5%	10.4%	10.2%	10.7%	
ROIC	4.4%	4.6%	4.7%	4.6%	4.6%	4.1%	4.5%	4.3%	4.4%	
Shares Out.	482	487	488	498	506	508	507	508	514	
Revenue/Share	22.25	21.94	20.74	21.98	23.18	21.70	21.82	22.40	22.58	
FCF/Share	-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.