CenterPoint Energy (CNP)

Updated March 11th, 2021 by Samuel Smith

Key Metrics

Current Price:	$20.8	**5 Year CAGR Estimate:**	12.3%	**Market Cap:**	$11.4B
Fair Value Price:	$22.0	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	5/17/21[1]
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	3/11/21[2]
Dividend Yield:	3.2%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 $11.4 billion.

CenterPoint reported fourth quarter results on February 25th. Q4 GAAP EPS came in at $0.27. Revenue increased by 1.5% to $2.05 billion year-over-year. The company raised its FY2021 utility earnings per share guidance range to $1.24-$1.26 and reiterates its utility earnings per share guidance basis growth rate target of 6%-8% and 10% rate base compound annual growth rate. Meanwhile, CenterPoint Energy's recent contracting success demonstrates the long-term value of Enable's transportation assets while Golf Run Pipeline project continues to advance and is fully equipped to serve growing liquefied natural gas markets. Moreover, the partnership's business plan in 2020 is fully funded, including capital and distributions, while reducing total debt levels.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.27	$1.35	$1.24	$1.42	$1.08	$1.03	$1.37	$1.60	$1.68	$1.40	***$1.37***	***$2.01***
DPS	$0.79	$0.81	$0.83	$0.95	$0.99	$1.03	$1.07	$1.11	$1.15	$0.60	***$0.66***	***$1.30***
Shares[3]	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8	502.1	531.0	***531.0***	***550.0***

Management has traditionally pursued growth through acquisitions and organic customer growth. 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. The company recently agreed to sell its stake in Enable Midstream to Energy Transfer in exchange for more liquid Energy Transfer units. This is a significant step towards eventually fully exiting the midstream business and becoming a pureplay regulated utility. This should enable them to pursue more consistent growth and command a higher valuation multiple. We forecast annualized high-single-digits growth over the next 5 years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.6	14.8	18.7	17.0	18.1	21.9	17.9	18.9	19.0	18.8	***15.2***	***16.0***
Avg. Yld.	4.3%	4.0%	3.6%	3.9%	5.1%	4.7%	4.8%	3.7%	3.7%	2.4%	***3.2%***	***4.0%***

CenterPoint's average price-to-earnings ratio for the past decade was approximately 16. Given that CenterPoint currently trades below this level, we expect a slight tailwind to total returns from multiple expansion over the next half decade.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62.0%	60.0%	66.0%	67.0%	92.0%	100%	68.0%	150%	68.5%	42.9%	***48.2%***	***64.5%***

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.

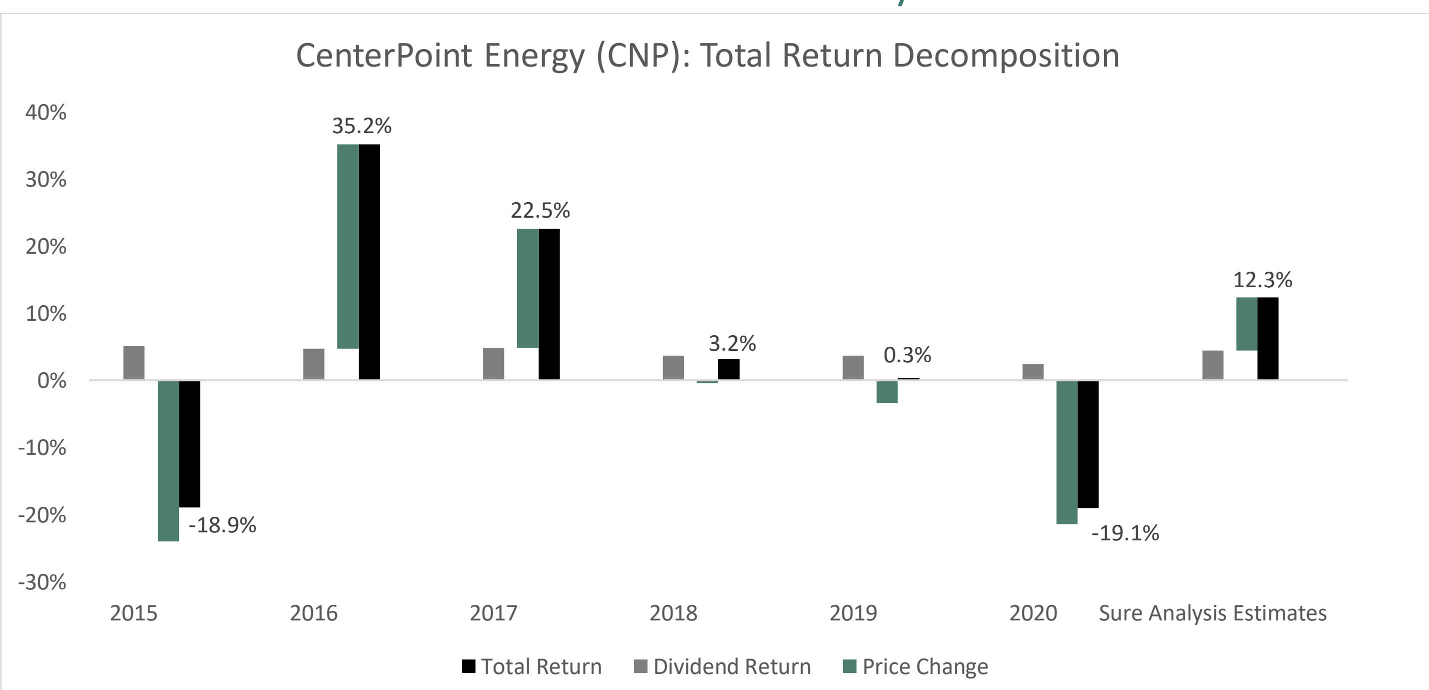
The recent sale of its ancillary service businesses will also strengthen the balance sheet considerably as management plans to use some of the proceeds to retire debt, further boosting its investment grade standing. Furthermore, as a pure play utility, the company's cash flow profile should be even more 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 but is in the process of selling it in exchange for Energy Transfer units as part of its long-term transition towards becoming a pureplay utility.

Final Thoughts & Recommendation

The annual total expected return estimate for CenterPoint is 12.3%. While the yield is decent and the business is somewhat defensive, the expected growth rate is the main driver of returns as it has one of the most attractive growth runways in the utilities sector. As a result, the risk-reward for CenterPoint is favorable as its stable utility business model and healthy balance sheet provide significant downside protection. As a result, we rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,450	7,452	8,106	9,226	7,386	7,528	9,614	6,277	7,564	7,418
Gross Profit	2,560	2,705	2,351	2,336	2,277	2,533	2,563	2,502	2,770	2,929
Gross Margin	30.3%	36.3%	29.0%	25.3%	30.8%	33.6%	26.7%	39.9%	36.6%	39.5%
D&A Exp.	886	1,050	954	1,013	970	1,126	1,036	1,243	1,311	1,191
Operating Profit	1,298	1,290	1,010	935	933	1,023	1,136	868	1,071	1,224
Op. Margin	15.4%	17.3%	12.5%	10.1%	12.6%	13.6%	11.8%	13.8%	14.2%	16.5%
Net Profit	1,357	417	311	611	(692)	432	1,792	368	791	(773)
Net Margin	16.1%	5.6%	3.8%	6.6%	-9.4%	5.7%	18.6%	5.9%	10.5%	-10.4%
Free Cash Flow	585	648	327	25	286	509	(9)	485	(868)	(601)
Income Tax	404	340	470	274	(438)	254	(729)	155	92	(274)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	21703	22871	21870	23200	21290	21829	22736	27009	35529	33471
Cash & Equivalents	220	646	208	298	264	341	260	4231	241	147
Acc. Receivable	773	768	851	837	593	740	1000	1190	702	676
Inventories	353	322	285	379	347	312	397	394	472	500
Goodwill & Int.	1696	1468	840	840	840	911	941	932	4882	4697
Total Liabilities	17481	18570	17541	18652	17829	18369	18048	18951	27170	25123
Accounts Payable	560	561	689	716	483	657	963	1240	884	853
Long-Term Debt	9187	9795	8357	8857	8770	8592	8840	9164	15112	13440
Total Equity	4222	4301	4329	4548	3461	3460	4688	6318	6619	5985
D/E Ratio	2.18	2.28	1.93	1.95	2.53	2.48	1.89	1.14	1.81	1.61

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.5%	1.9%	1.4%	2.7%	-3.1%	2.0%	8.0%	1.5%	2.5%	-2.2%
Return on Equity	36.6%	9.8%	7.2%	13.8%	-17.3%	12.5%	44.0%	6.7%	12.2%	-12.3%
ROIC	10.4%	3.0%	2.3%	4.7%	-5.4%	3.6%	14.0%	2.4%	3.9%	-3.4%
Shares Out.	426.0	427.4	429.0	429.0	430.0	431.0	431.0	448.8	502.1	531.0
Revenue/Share	19.70	17.33	18.81	21.36	17.18	17.35	22.15	13.87	14.97	13.97
CF/Share	1.36	1.51	0.76	0.06	0.67	1.17	(0.02)	1.07	(1.72)	(1.13)

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