Xcel Energy Inc. (XEL)

Updated January 27th, 2022, by Eli Inkrot

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$38 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	03/12/22
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date[1]:**	04/20/22
Dividend Yield:	2.7%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	6.4%

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 eight 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. Xcel Energy is an industry leader in delivering renewable energy and in reducing carbon emissions. The $38 billion market capitalization company is listed on the NASDAQ Stock Exchange under the trading symbol XEL.

On February 17th, 2021, Xcel announced a $0.4575 quarterly dividend, marking a 6.4% year-over-year increase.

On January 27th, 2022, Xcel released Q4 and full year 2021 results for the period ending December 31st, 2021. For the quarter revenue equaled $3.355 billion, a 13.8% increase compared to Q4 20202, driven by an 8.0% increase in the Electric segment and a 38.6% increase in the much smaller Natural Gas segment. Net income equaled $315 million or $0.58 per share compared to $288 million or $0.54 per share in Q4 2020.

For the year Xcel generated $13.431 billion in revenue, a 16.5% increase compared to 2020. Net income equaled $1.597 billion or $2.96 per share, in the middle of prior guidance, compared to $1.473 billion or $2.79 in 2020.

Xcel also reiterated its 2022 guidance, anticipating $3.10 to $3.20 in earnings-per-share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.85	$1.91	$2.03	$2.10	$2.21	$2.30	$2.47	$2.64	$2.79	$2.96	***$3.15***	***$3.77***
DPS	$1.07	$1.11	$1.20	$1.28	$1.36	$1.44	$1.52	$1.62	$1.72	$1.83	***$1.83***	***$2.23***
Shares[2]	488	498	506	508	507	508	514	525	528	540	***550***	***570***

Xcel Energy's earnings-per-share have risen relatively consistently throughout the last decade, with an average growth rate of 5.6% per year. The last time Xcel had negative growth was in 2004-2005 when it saw a -5.5% decline in EPS. During the last financial crisis (2008-2009), Xcel was still able to grow its EPS despite a contracting economy. Given the guidance for this year, it appears Xcel is in 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 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.

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[1] Estimated date.
[2] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.8	15.0	15.4	16.5	18.5	20.2	18.9	22.3	23.9	22.5	***22.2***	***18.0***
Avg. Yld.	3.9%	3.9%	3.8%	3.7%	3.3%	3.1%	3.3%	2.7%	2.6%	2.8%	***2.7%***	***3.3%***

During the past decade shares of Xcel Energy have traded hands with an average P/E ratio of approximately 19 times earnings. We believe 18 times earnings is a fair starting multiple, taking into consider the high quality of the company, but average growth prospects. With shares presently trading near 22 times our estimate of this year's earnings, there is the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	58%	58%	59%	61%	62%	63%	62%	61%	62%	62%	***59%***	***59%***

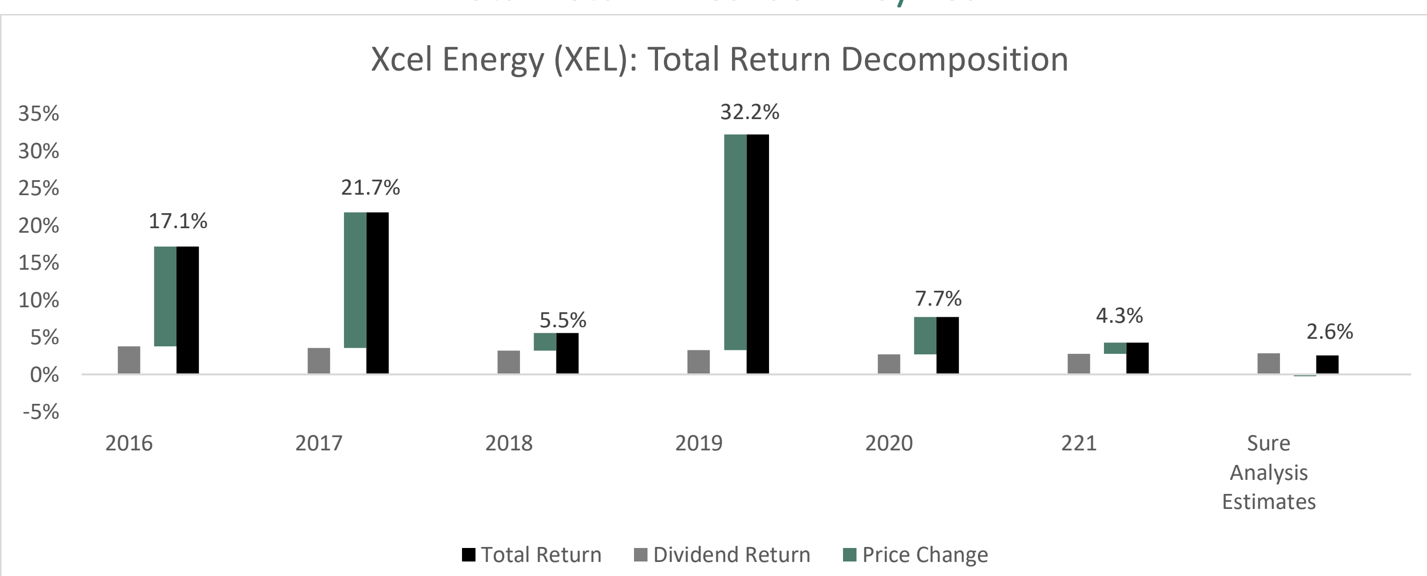
Xcel Energy's dividend appears safe. Dividend payouts have been steadily growing since 2003 and more recently, the company raised its dividend by 6.4% in 2021. Being primarily a regulated utility, revenue is protected by local regulators which gives Xcel growth certainty and protects its dividend. The 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 8% in the last year. Xcel Energy has put together a very stable operating history, with reasonable earnings and dividend growth over the years. Total return potential comes in at 2.6% per year, stemming from 4% growth and a 2.7% starting yield, offset by the possibility of a valuation headwind. This could be too conservative if shares continue trading north of 20 times earnings, but that is speculation at this point. Shares earn a hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	10655	10128	10915	11686	11024	11107	11404	11537	11529	11530
Gross Profit	3328	3418	3507	3735	3990	4320	4520	4453	4723	4964
Gross Margin	31.2%	33.7%	32.1%	32.0%	36.2%	38.9%	39.6%	38.6%	41.0%	43.1%
SG&A Exp.	5	7	8	7	4	---	---	---	---	---
D&A Exp.	1010	1046	1100	1151	1249	1436	1609	1781	1904	2082
Operating Profit	1777	1815	1839	1941	1996	2240	2223	1965	2104	2116
Operating Margin	16.7%	17.9%	16.9%	16.6%	18.1%	20.2%	19.5%	17.0%	18.2%	18.4%
Net Profit	841	905	948	1021	984	1123	1148	1261	1372	1473
Net Margin	7.9%	8.9%	8.7%	8.7%	8.9%	10.1%	10.1%	10.9%	11.9%	12.8%
Free Cash Flow	200	-565	-811	-540	-645	-143	-118	-835	-962	-2521
Income Tax	468	450	484	524	543	581	542	181	128	-6

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	29497	31141	33907	36958	38821	41155	43030	45987	50448	53960
Cash & Equivalents	61	82	107	80	85	85	83	147	248	129
Acc. Receivable	753	718	744	827	725	776	797	860	837	916
Inventories	618	536	577	597	609	604	610	548	544	535
Total Liabilities	21015	22267	24342	26743	28221	30134	31575	33765	37209	39380
Accounts Payable	902	959	1261	1173	961	1045	1243	1237	1294	1237
Long-Term Debt	10127	11004	11951	12777	13902	14842	15791	17247	18704	20650
Total Equity	8482	8874	9566	10214	10601	11021	11455	12222	13239	14580
D/E Ratio	1.19	1.24	1.25	1.25	1.31	1.35	1.38	1.41	1.41	1.42

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.0%	3.0%	2.9%	2.9%	2.6%	2.8%	2.7%	2.8%	2.8%	2.8%
Return on Equity	10.2%	10.4%	10.3%	10.3%	9.5%	10.4%	10.2%	10.7%	10.8%	10.6%
ROIC	4.6%	4.7%	4.6%	4.6%	4.1%	4.5%	4.3%	4.4%	4.5%	4.4%
Shares Out.	487	488	498	506	508	507	508	514	520	528
Revenue/Share	21.94	20.74	21.98	23.18	21.70	21.82	22.40	22.58	22.17	21.83
FCF/Share	0.41	-1.16	-1.63	-1.07	-1.27	-0.28	-0.23	-1.63	-1.85	-4.78

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