CenterPoint Energy (CNP)

Updated November 15th, 2022 by Samuel Smith

Key Metrics

Current Price:	$29.1	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$18.3B
Fair Value Price:	$22.1	**5 Year Growth Estimate:**	6.2%	**Ex-Dividend Date:**	11/16/22
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Dividend Payment Date:**	12/08/22
Dividend Yield:	2.5%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 $18.3 billion.

CenterPoint reported third quarter results on November 1st. It reported Q3 earnings of $0.30 and $0.32 per diluted share on a GAAP and non-GAAP basis, respectively. Management reiterated full-year 2022 non-GAAP EPS guidance of $1.37-$1.39, representing an increase of 9% at the midpoint compared to full year 2021. Management also initiated 2023 non-GAAP guidance range of $1.48-$1.50, which represents an 8% growth over 2022 and further maintains growth targets of 8% for 2024 and the mid-to-high end of 6%-8% thereafter. CNP increased its long-term capital plan through 2030 by $2.3B to nearly $43B for further resiliency and grid modernization to benefit its customers and confirmed this plan will not require issuance of new equity. Meanwhile, management identified an additional ~$3B of capital opportunities and its future guidance targets do not include earnings impact of the total $5.3B increased capital opportunities.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.25	$1.20	$1.27	$1.10	$1.16	$1.37	$1.60	$1.79	$1.40	$1.64	***$1.39***	***$1.88***
DPS	$0.81	$0.83	$0.95	$0.99	$1.03	$1.07	$1.11	$1.15	$0.60	$0.65	***$0.72***	***$0.90***
Shares[1]	427.7	428.8	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9	***629.5***	***650.0***

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 volatility 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 mid-single-digit annualized growth over the next 5 years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.8	18.7	17	18.1	21.9	17.9	18.9	19	18.8	19.3	***20.9***	***16.0***
Avg. Yld.	4.1%	3.6%	3.9%	5.1%	4.6%	4.4%	3.7%	3.6%	2.3%	2.6%	***2.5%***	***3.0%***

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

[1] Share count in millions

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decade. We also expect the yield to rise meaningfully given the projected move down in the valuation, as well as the rising payout.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	69%	75%	90%	89%	78%	69%	64%	43%	40%	***52%***	***48%***

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.

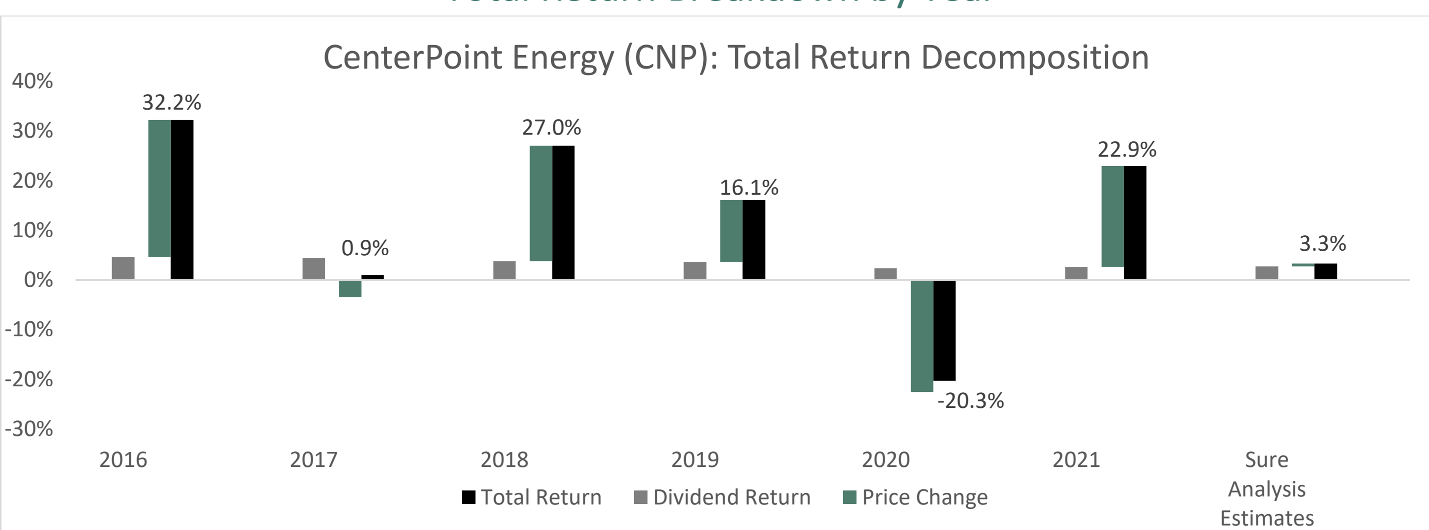
The recent sale of its ancillary service businesses will also strengthen the balance sheet considerably as management plans to use some of the proceeds to retire debt, further boosting its investment grade standing. Furthermore, as a pure play utility, the company's cash flow profile should be even more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

In the past, 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. Recently the payout ratio has fallen to hover around 50% as the company is retaining more cash flow to fund its aggressive growth pipeline.

Final Thoughts & Recommendation

The annualized total return estimate for CenterPoint is 3.3%. While the yield is decent and the business is 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. However, the elevated valuation multiple poses as a major headwind to total returns, especially in a rising interest rate environment. As a result, we rate the stock a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	7,452	8,106	9,226	7,386	7,528	9,614	6,277	7,564	7,418	8,352
Gross Profit	2,705	2,351	2,336	2,277	2,533	2,563	2,502	2,770	2,929	3,207
Gross Margin	36.3%	29.0%	25.3%	30.8%	33.6%	26.7%	39.9%	36.6%	39.5%	38.4%
D&A Exp.	1,050	954	1,013	970	1,126	1,036	1,243	1,225	1,189	1,316
Operating Profit	1,290	1,010	935	933	1,023	1,136	868	1,071	1,224	1,363
Op. Margin	17.3%	12.5%	10.1%	12.6%	13.6%	11.8%	13.8%	14.2%	16.5%	16.3%
Net Profit	417	311	611	(692)	432	1,792	368	791	(773)	1,486
Net Margin	5.6%	3.8%	6.6%	-9.4%	5.7%	18.6%	5.9%	10.5%	-10.4%	17.8%
Free Cash Flow	648	327	25	286	509	(9)	485	(868)	(601)	(3,142)
Income Tax	340	470	274	(438)	254	(729)	155	30	80	110

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	22,871	21,870	23,200	21,290	21,829	22,736	27,009	35,529	33,471	37,679
Cash & Equivalents	646	208	298	264	341	260	4,231	241	147	230
Acc. Receivable	768	851	837	593	740	1,000	1,190	702	676	690
Inventories	322	285	379	347	312	397	394	472	500	608
Goodwill & Int.	1,468	840	840	840	911	941	932	4,882	4,697	4,294
Total Liabilities	18,570	17,541	18,652	17,829	18,369	18,048	18,951	27,170	25,123	28,264
Accounts Payable	561	689	716	483	657	963	1,240	884	853	1,196
Long-Term Debt	9,795	8,357	8,857	8,770	8,592	8,840	9,164	15,112	13,440	16,103
Total Equity	4,301	4,329	4,548	3,461	3,460	4,688	6,318	6,619	5,985	8,625
LTD/E Ratio	2.28	1.93	1.95	2.53	2.48	1.89	1.14	1.81	1.61	1.71

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.9%	1.4%	2.7%	-3.1%	2.0%	8.0%	1.5%	2.5%	-2.2%	4.2%
Return on Equity	9.8%	7.2%	13.8%	-17.3%	12.5%	44.0%	6.7%	12.2%	-12.3%	20.3%
ROIC	3.0%	2.3%	4.7%	-5.4%	3.6%	14.0%	2.4%	3.9%	-3.4%	6.3%
Shares Out.	427.7	428.8	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9
Revenue/Share	17.33	18.81	21.36	17.18	17.35	22.15	13.87	14.97	13.97	13.69
CF/Share	1.51	0.76	0.06	0.67	1.17	(0.02)	1.07	(1.72)	(1.13)	(5.15)

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