Xcel Energy Inc. (XEL)

Updated April 27th, 2023, by Eli Inkrot

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$39 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/14/23
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	04/20/23
Dividend Yield:	3.0%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	20
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 (79% 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 $39 billion market capitalization company is listed on the NASDAQ Stock Exchange under the trading symbol XEL.

On February 22nd, 2023, Xcel announced a $0.52 quarterly dividend, marking a 6.7% year-over-year increase.

On April 27th, 2023, Xcel released Q1 results for the period ending March 31st, 2023. For the quarter, revenue equaled $4.08 billion, an 8.8% increase compared to Q1 2022. This result was driven by a 4.9% increase in the Electric segment and an 18.2% increase in the Natural Gas segment. Net income equaled $418 million or $0.76 per share compared to $380 million or $0.70 per share in Q1 2022.

Xcel also reaffirmed its 2023 guidance, reiterating its expectation of $3.30 to $3.40 in earnings-per-share.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.91	$2.03	$2.10	$2.21	$2.30	$2.47	$2.64	$2.79	$2.96	$3.17	***$3.35***	***$4.08***
DPS	$1.11	$1.20	$1.28	$1.36	$1.44	$1.52	$1.62	$1.72	$1.83	$1.95	***$2.08***	***$2.53***
Shares[1]	498	506	508	507	508	514	525	528	540	547	***555***	***575***

Xcel Energy's earnings-per-share have risen relatively consistently throughout the last decade, with an average growth rate of 5.5% 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 poised to continue posting steady results.

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. As of late Xcel has received regulatory approval in Colorado and the Upper Midwest to "dramatically increase the renewable energy available to our customers while retiring all of our coal-fired plants." In addition, the company is taking advantage of energy tax provisions in the Inflation Reduction Act.

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] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.0	15.4	16.5	18.5	20.2	18.9	22.3	23.9	22.5	22.3	***20.9***	***18.0***
Avg. Yld.	3.9%	3.8%	3.7%	3.3%	3.1%	3.3%	2.7%	2.6%	2.8%	2.8%	***3.0%***	***3.4%***

During the past decade shares of Xcel Energy have traded hands with an average P/E ratio of nearly 20 times earnings. We believe 18 times earnings is a fair starting multiple, taking into consideration the high quality of the company, but average growth prospects. With shares presently trading near 21 times our estimate of this year's earnings, there is the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58%	59%	61%	62%	63%	62%	61%	62%	62%	62%	***62%***	***62%***

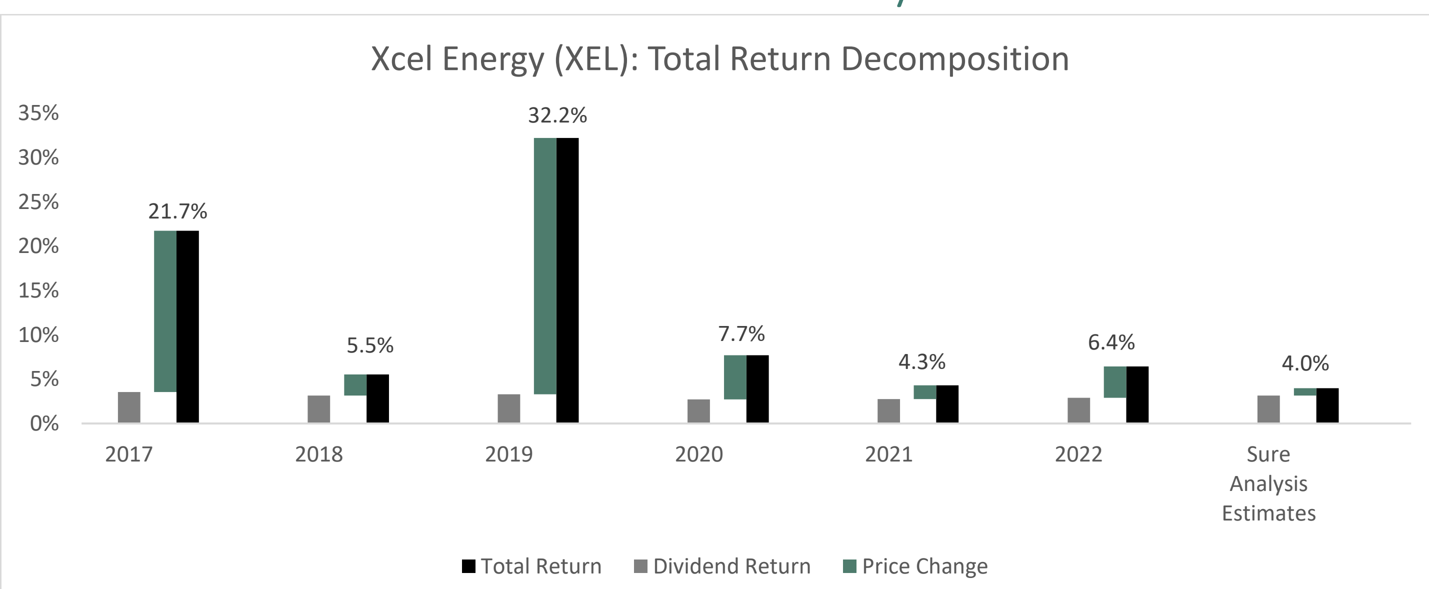
Xcel Energy's dividend appears safe. Dividend payouts have been steadily growing since 2003 and more recently, the company raised its dividend by 6.7% in 2023. Being primarily a regulated utility, revenue is protected by local regulators which gives Xcel growth certainty and protects its dividend. The company has also been able to keep its payout ratio relatively close to 60% over the past decade, which is 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 down -7% 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 4.0% per year, stemming from 4% growth and a 3.0% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10915	11686	11024	11107	11404	11537	11529	11530	13430	15310
Gross Profit	3507	3735	3990	4320	4520	4453	4723	4964	5258	5860
Gross Margin	32.1%	32.0%	36.2%	38.9%	39.6%	38.6%	41.0%	43.1%	39.2%	38.3%
SG&A Exp.	8	7	4	---	---	---	---	---	---	---
D&A Exp.	1100	1151	1249	1436	1609	1781	1904	2082	2257	2554
Operating Profit	1839	1941	1996	2240	2223	1965	2104	2116	2203	2428
Operating Margin	16.9%	16.6%	18.1%	20.2%	19.5%	17.0%	18.2%	18.4%	16.4%	15.9%
Net Profit	948	1021	984	1123	1148	1261	1372	1473	1597	1736
Net Margin	8.7%	8.7%	8.9%	10.1%	10.1%	10.9%	11.9%	12.8%	11.9%	11.3%
Free Cash Flow	-811	-540	-645	-143	-118	-835	-962	-2521	-2055	-706
Income Tax	484	524	543	581	542	181	128	-6	-70	-135

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	33907	36958	38821	41155	43030	45987	50448	53960	57850	61190
Cash & Equivalents	107	80	85	85	83	147	248	129	166	111
Acc. Receivable	744	827	725	776	797	860	837	916	1018	1373
Inventories	577	597	609	604	610	548	544	535	631	803
Total Liabilities	24342	26743	28221	30134	31575	33765	37209	39380	42240	44510
Accounts Payable	1261	1173	961	1045	1243	1237	1294	1237	1409	1804
Long-Term Debt	11951	12777	13902	14842	15791	17247	18704	20650	23380	24780
Total Equity	9566	10214	10601	11021	11455	12222	13239	14580	15610	16680
LTD/E Ratio	1.25	1.25	1.31	1.35	1.38	1.41	1.41	1.42	1.50	1.49

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.9%	2.9%	2.6%	2.8%	2.7%	2.8%	2.8%	2.8%	2.9%	2.9%
Return on Equity	10.3%	10.3%	9.5%	10.4%	10.2%	10.7%	10.8%	10.6%	10.6%	10.8%
ROIC	4.6%	4.6%	4.1%	4.5%	4.3%	4.4%	4.5%	4.4%	4.3%	4.3%
Shares Out.	498	506	508	507	508	514	520	528	540	547
Revenue/Share	21.98	23.18	21.70	21.82	22.40	22.58	22.17	21.83	24.87	27.99
FCF/Share	-1.63	-1.07	-1.27	-0.28	-0.23	-1.63	-1.85	-4.78	-3.81	-1.29

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