CenterPoint Energy (CNP)

Updated October 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	$26.7	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$16.9B
Fair Value Price:	$24.0	**5 Year Growth Estimate:**	6.7%	**Ex-Dividend Date:**	11/15/23
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	12/14/23
Dividend Yield:	3.0%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 $16.9 billion.

The earnings report for Q3 2023 was released on October 26, 2023. CNP reported a GAAP and non-GAAP earnings of $0.40 per diluted share, marking a 25% increase compared to the corresponding quarter in 2022. The strong quarterly performance was mainly attributed to growth and regulatory recovery. Despite challenges like increased interest expenses, the company managed to raise its non-GAAP EPS guidance range for 2023 and initiated the 2024 non-GAAP EPS guidance range, showcasing a positive outlook. An additional highlight was the expansion of its 10-year capital plan to $43.9 billion, up by $500 million through 2030.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.20	$1.27	$1.10	$1.16	$1.37	$1.60	$1.79	$1.40	$1.64	$1.38	***$1.50***	***$2.07***
DPS	$0.83	$0.95	$0.99	$1.03	$1.07	$1.11	$1.15	$0.60	$0.65	$0.70	***$0.80***	***$1.10***
Shares[1]	428.8	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9	629.8	***631.2***	***650.0***

Management has traditionally pursued growth through acquisitions and organic customer growth. The company is currently pursuing a robust capital spending program through 2030 that is driving strong organic growth in earnings per share. This should enable them to pursue more consistent growth and command a mid-teens valuation multiple. We forecast mid-to-high single-digit annualized earnings per share and dividend per share growth over the next 5 years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.7	17	18.1	21.9	17.9	18.9	19	18.8	19.3	20.9	***17.8***	***16.0***
Avg. Yld.	3.7%	4.4%	5.0%	4.1%	4.4%	3.7%	3.4%	2.3%	2.1%	2.4%	***3.0%***	***3.3%***

CenterPoint's average price-to-earnings ratio for the past decade was approximately 16. Given that CenterPoint currently trades well above this level, we expect a headwind to total returns from multiple compression over the next half decade. We also expect the yield to rise slightly given the projected decline in the valuation alongside a steady payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	69%	75%	90%	89%	78%	69%	64%	43%	40%	51%	***53%***	***53%***

[1] Share count in millions

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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.

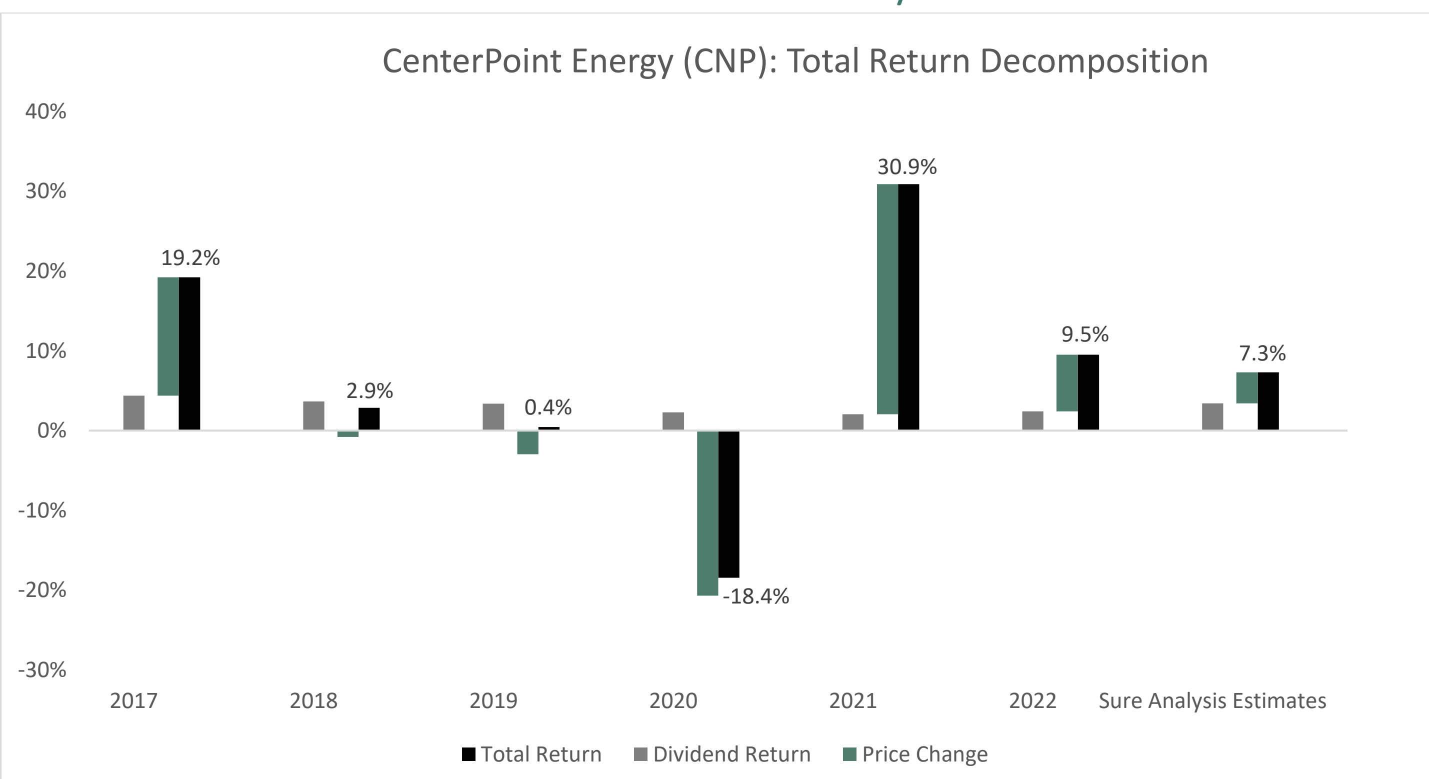
The recent sale of its ancillary service businesses will also strengthen the balance sheet considerably as management plans to use some of the proceeds to retire debt, further boosting its investment grade standing. Furthermore, as a pure play utility, the company's cash flow profile should be even more 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 is hovering 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 7.3%. 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 headwind to total returns, especially in a rising interest rate environment. As a result, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	8,106	9,226	7,386	7,528	9,614	6,277	7,564	7,418	8,352	9,321
Gross Profit	2,351	2,336	2,277	2,533	2,563	2,502	2,770	2,929	3,207	3,397
Gross Margin	29.0%	25.3%	30.8%	33.6%	26.7%	39.9%	36.6%	39.5%	38.4%	36.4%
D&A Exp.	954	1,013	970	1,126	1,036	1,243	1,225	1,189	1,316	1,288
Operating Profit	1,010	935	933	1,023	1,136	868	1,071	1,224	1,363	1,566
Op. Margin	12.5%	10.1%	12.6%	13.6%	11.8%	13.8%	14.2%	16.5%	16.3%	16.8%
Net Profit	311	611	(692)	432	1,792	368	791	(773)	1,486	1,057
Net Margin	3.8%	6.6%	-9.4%	5.7%	18.6%	5.9%	10.5%	-10.4%	17.8%	11.3%
Free Cash Flow	327	25	286	509	(9)	485	(868)	(601)	(3,142)	(2,609)
Income Tax	470	274	(438)	254	(729)	155	30	80	110	360

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	21,870	23,200	21,290	21,829	22,736	27,009	35,529	33,471	37,679	38,546
Cash & Equivalents	208	298	264	341	260	4,231	241	147	230	74
Acc. Receivable	851	837	593	740	1,000	1,190	702	676	690	889
Inventories	285	379	347	312	397	394	472	500	608	876
Goodwill & Int.	840	840	840	911	941	932	4,882	4,697	4,294	4,332
Total Liabilities	17,541	18,652	17,829	18,369	18,048	18,951	27,170	25,123	28,264	28,501
Accounts Payable	689	716	483	657	963	1,240	884	853	1,196	1,352
Long-Term Debt	8,357	8,857	8,770	8,592	8,840	9,164	15,112	13,440	16,103	16,856
Total Equity	4,329	4,548	3,461	3,460	4,688	6,318	6,619	5,985	8,625	9,255
LTD/E Ratio	1.93	1.95	2.53	2.48	1.89	1.14	1.81	1.61	1.71	1.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.4%	2.7%	-3.1%	2.0%	8.0%	1.5%	2.5%	-2.2%	4.2%	2.8%
Return on Equity	7.2%	13.8%	-17.3%	12.5%	44.0%	6.7%	12.2%	-12.3%	20.3%	11.8%
ROIC	2.3%	4.7%	-5.4%	3.6%	14.0%	2.4%	3.9%	-3.4%	6.3%	4.0%
Shares Out.	428.8	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9	629.8
Revenue/Share	18.81	21.36	17.18	17.35	22.15	13.87	14.97	13.97	13.69	14.75
CF/Share	0.76	0.06	0.67	1.17	(0.02)	1.07	(1.72)	(1.13)	(5.15)	(4.13)

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