CenterPoint Energy (CNP)

Updated August 21st, 2024 by Samuel Smith

Key Metrics

Current Price:	$26.9	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$17.0 B
Fair Value Price:	$25.9	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/15/24[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	12/13/24[2]
Dividend Yield:	3.0%	**5 Year Price Target**	$35	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 $17 billion.

CenterPoint Energy, Inc. (CNP) reported its second-quarter 2024 earnings, announcing earnings per share (EPS) of $0.36, which beat estimates by $0.04, and revenue of $1.91 billion, marking a 1.60% year-over-year increase and surpassing expectations by $85.90 million. The company reaffirmed its 2024 earnings guidance and provided an update on its response to Hurricane Beryl, emphasizing the steps being taken to improve emergency preparedness, response, and customer communications. CenterPoint's President and CEO, Jason Wells, highlighted the company's commitment to building and operating the most resilient coastal grid in the United States, with a focus on best-in-class communications. The company's plan, recently submitted to the Public Utility Commission of Texas, outlines three classes of priorities aimed at enhancing resiliency, customer communications, and strengthening partnerships. Key actions include accelerating the adoption of advanced construction standards, retrofitting existing assets, utilizing predictive modeling and AI technologies, and doubling the size of vegetation management crews to address the primary causes of damage and outages during Hurricane Beryl. CenterPoint reported income available to common shareholders of $228 million on a GAAP basis and $234 million on a non-GAAP basis, with EPS of $0.36 per diluted share for both measures. The company continues to evaluate its financial performance based on non-GAAP income and non-GAAP EPS, which management believes offers a more relevant comparison of current and future results across periods. For the quarter ended June 30, 2024, the company reported a consolidated income available to common shareholders of $228 million, translating to diluted EPS of $0.36 on a GAAP basis. Adjustments for ZENS-related mark-to-market gains or losses, as well as impacts from mergers and divestitures, resulted in a non-GAAP consolidated income of $234 million, or $0.36 per diluted share. These results were compared to the same quarter in 2023, where the company reported a GAAP income of $106 million, or $0.17 per share, and a non-GAAP income of $178 million, or $0.28 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.27	$1.10	$1.16	$1.37	$1.60	$1.79	$1.40	$1.64	$1.38	$1.50	***$1.62***	***$2.17***
DPS	$0.95	$0.99	$1.03	$1.07	$1.11	$1.15	$0.60	$0.65	$0.70	$0.77	***$0.80***	***$1.10***
Shares[3]	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9	629.8	631.6	***642.0***	***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

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

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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17	18.1	21.9	17.9	18.9	19	18.8	19.3	20.9	17.8	***16.6***	***16.0***
Avg. Yld.	4.4%	5.0%	4.1%	4.4%	3.7%	3.4%	2.3%	2.1%	2.4%	2.9%	***3.0%***	***3.2%***

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

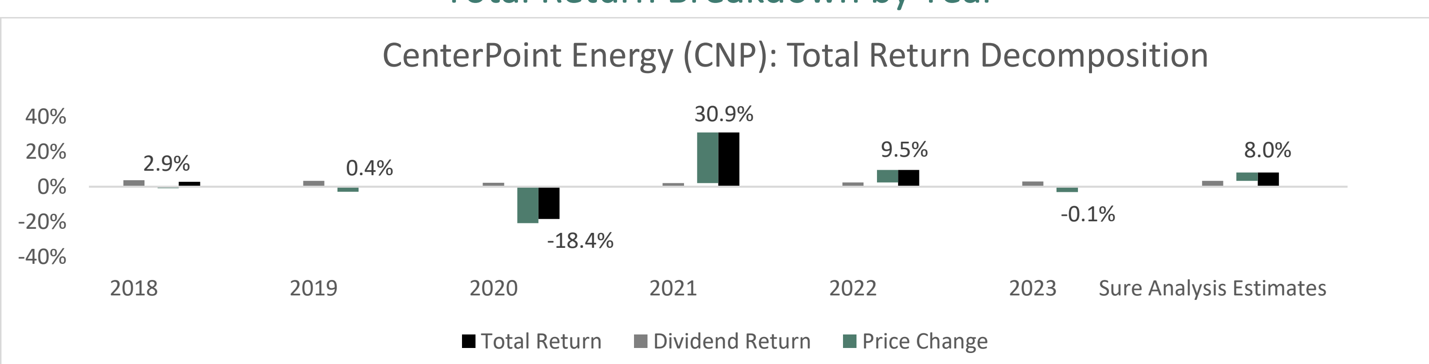
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	75%	90%	89%	78%	69%	64%	43%	40%	51%	51%	***49%***	***51%***

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 8%. 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. As a result, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,226	7,386	7,528	9,614	6,277	7,564	7,418	8,352	9,321	8,696
Gross Profit	2,336	2,277	2,533	2,563	2,502	2,770	2,929	3,207	3,397	3,686
Gross Margin	25.3%	30.8%	33.6%	26.7%	39.9%	36.6%	39.5%	38.4%	36.4%	42.4%
D&A Exp.	1,013	970	1,126	1,036	1,243	1,225	1,189	1,316	1,288	1,401
Operating Profit	935	933	1,023	1,136	868	1,071	1,224	1,363	1,566	1,760
Op. Margin	10.1%	12.6%	13.6%	11.8%	13.8%	14.2%	16.5%	16.3%	16.8%	20.2%
Net Profit	611	(692)	432	1,792	368	791	(773)	1,486	1,057	917
Net Margin	6.6%	-9.4%	5.7%	18.6%	5.9%	10.5%	-10.4%	17.8%	11.3%	10.5%
Free Cash Flow	25	286	509	(9)	485	(868)	(601)	(3,142)	(2,609)	(524)
Income Tax	274	(438)	254	(729)	155	30	80	110	360	170

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	23,200	21,290	21,829	22,736	27,009	35,529	33,471	37,679	38,546	39,715
Cash & Equivalents	298	264	341	260	4,231	241	147	230	74	90
Acc. Receivable	837	593	740	1,000	1,190	702	676	690	889	710
Inventories	379	347	312	397	394	472	500	608	876	770
Goodwill & Int.	840	840	911	941	932	4,940	4,747	4,338	4,294	4,160
Total Liabilities	18,652	17,829	18,369	18,048	18,951	27,170	25,123	28,261	28,501	30,048
Accounts Payable	716	483	657	963	1,240	884	853	1,196	1,352	917
Long-Term Debt	8,857	8,770	8,592	8,840	9,164	15,112	13,440	16,103	16,856	18,618
Total Equity	4,548	3,461	3,460	4,688	6,318	6,619	5,985	8,628	9,255	9,667
LTD/E Ratio	1.95	2.53	2.48	1.89	1.14	1.81	1.61	1.71	1.68	1.93

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	-3.1%	2.0%	8.0%	1.5%	2.5%	-2.2%	4.2%	2.8%	2.3%
Return on Equity	13.8%	-17.3%	12.5%	44.0%	5.8%	9.6%	-9.3%	16.7%	10.9%	9.3%
ROIC	4.7%	-5.4%	3.6%	14.0%	2.4%	3.9%	-3.4%	6.3%	4.0%	3.3%
Shares Out.	429.8	430.3	430.7	431.0	501.2	502.2	551.6	628.9	629.8	631.6
Revenue/Share	21.36	17.18	17.35	22.15	13.87	14.97	13.97	13.69	14.75	13.74
CF/Share	0.06	0.67	1.17	(0.02)	1.07	(1.72)	(1.13)	(5.15)	(4.13)	(0.83)

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