



Xcel Energy Inc. (XEL)

Updated November 14th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	7.5%	Market Cap:	\$39 B
Fair Value Price:	\$64	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	12/27/24
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	1/18/25
Dividend Yield:	3.2%	5 Year Price Target	\$86	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 U.S. Its revenue is obtained mostly through two broad segments: regulated electric utilities (80% 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. It currently has a market capitalization of \$39 billion.

On February 21st, 2024, Xcel announced a \$0.5475 quarterly dividend, marking a 5.3% raise year-over-year.

In late October, Xcel reported (10/31/2024) financial results for the third quarter of fiscal 2024. Operating earnings-per-share edged up 2% over the prior year's quarter, from \$1.23 to \$1.25, thanks to rate hikes, which more than offset the effect of higher interest expense and depreciation. Xcel reiterated its positive guidance for 2024, expecting earnings-per-share of \$3.50-\$3.60. At the mid-point, this guidance implies 6% growth, in line with the historical growth of the utility.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.03	\$2.10	\$2.21	\$2.30	\$2.47	\$2.64	\$2.79	\$2.96	\$3.17	\$3.35	\$3.57	\$4.78
DPS	\$1.20	\$1.28	\$1.36	\$1.44	\$1.52	\$1.62	\$1.72	\$1.83	\$1.95	\$2.08	\$2.19	\$2.93
Shares²	506	508	507	508	514	525	528	540	547	554	560	580

Xcel Energy's earnings-per-share have risen relatively consistently throughout the last decade, with an average growth rate of 5.7% per year. The last time Xcel had negative growth was in 2004-2005 when it saw a -5.5% decline in earnings-per-share. During the last financial crisis (2008-2009), Xcel was still able to grow its bottom line, despite a contracting economy. Given the guidance for this year, it appears that Xcel is poised to continue growing consistently.

Xcel is focused on converting to renewable energy sources to supply power to customers and aims to be the industry's leading renewable energy provider. It has received regulatory approval in Colorado and the Upper Midwest to "dramatically increase the renewable energy available to our customers while retiring all coal-fired plants." In addition, Xcel is taking advantage of energy tax provisions in the Inflation Reduction Act. The company recently issued a 5-year capital plan of \$45 billion. As this amount exceeds the market cap of the stock, it is evident that Xcel is investing heavily in its growth. We expect average annual growth rate of earnings-per-share of 6.0% until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.4	16.5	18.5	20.2	18.9	22.3	23.9	22.5	22.2	19.0	19.3	18.0
Avg. Yld.	3.8%	3.7%	3.3%	3.1%	3.3%	2.7%	2.6%	2.8%	2.8%	3.3%	3.2%	3.4%

¹ Estimated date.

² In millions.

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During the past decade, Xcel Energy has traded hands with an average P/E ratio of 19.9. We believe that a fair earnings multiple for this stock is 18.0, taking into consideration the high quality of the company, but average growth prospects. The stock is currently trading at a P/E ratio of 19.3. If it trades at our assumed fair valuation level in five years, it will incur a -1.4% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	59%	61%	62%	63%	62%	61%	62%	62%	62%	62%	61%	61%

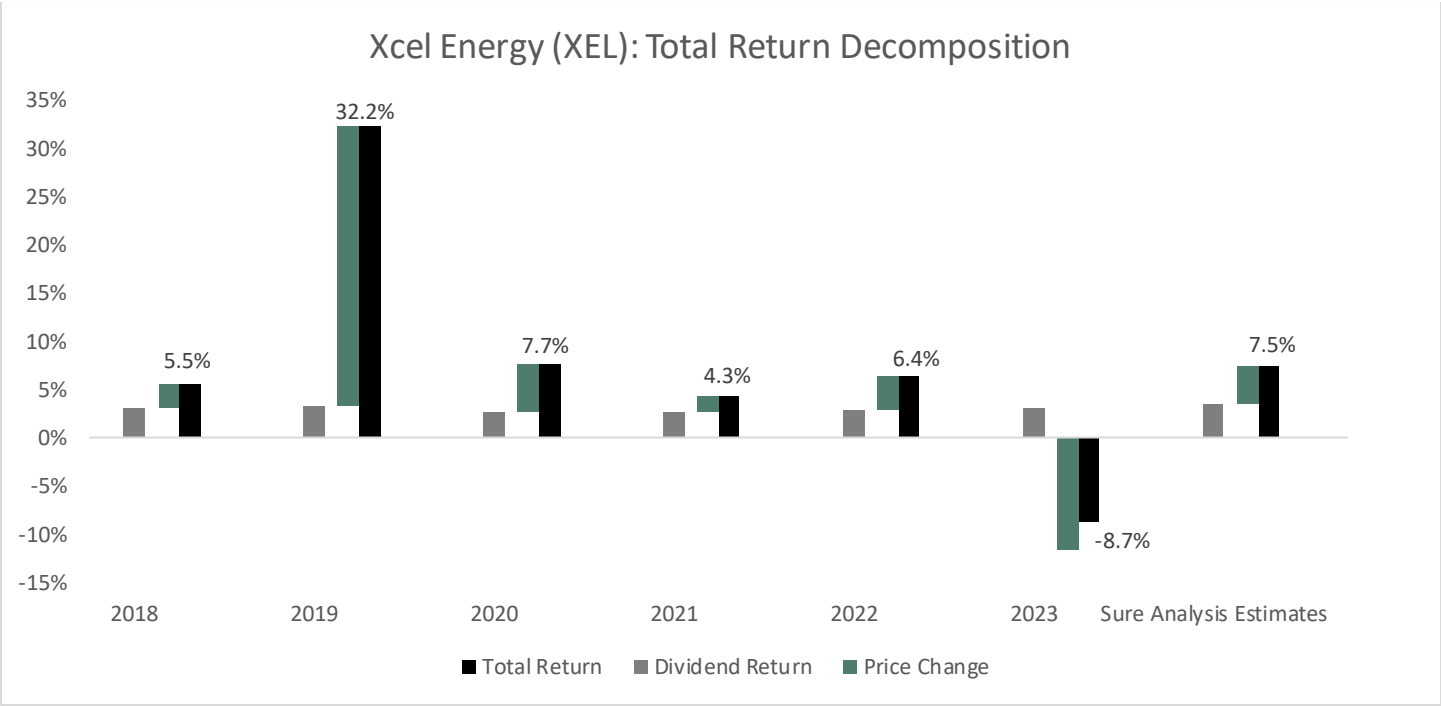
Xcel Energy’s dividend appears safe. Dividend payouts have been steadily growing since 2003. The company has raised its dividend by 5.3% this year. As a regulated utility, Xcel has revenue that is protected by local regulators and thus it enjoys reliable and fairly predictable earnings. The company has 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 the trends of regulations; 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

The stock of Xcel has rallied 33% in about four months, primarily thanks to expectations for lower interest rates going forward. High interest rates greatly reduce the present value of future earnings and thus they exert pressure on the valuation of stocks. In addition, they render the yields of utilities less attractive, as investors can find decent yields elsewhere. We view this headwind as temporary. Xcel has put together a very stable operating history, with consistent growth of earnings and dividends over the years. Despite its recent rally, the stock can still offer a 7.5% average annual total return over the next five years, stemming from 6% growth and a 3.2% dividend, partly offset by a -1.4% valuation headwind. We lower our rating from “buy” to “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	11686	11024	11107	11404	11537	11529	11530	13430	15310	14206
Gross Profit	3735	3990	4320	4520	4453	4723	4964	5258	5860	5979
Gross Margin	32.0%	36.2%	38.9%	39.6%	38.6%	41.0%	43.1%	39.2%	38.3%	42.1%
SG&A Exp.	7	4	---	---	---	---	---	---	---	---
D&A Exp.	1151	1249	1436	1609	1781	1904	2082	2257	2554	2567
Operating Profit	1941	1996	2240	2223	1965	2104	2116	2203	2428	2588
Operating Margin	16.6%	18.1%	20.2%	19.5%	17.0%	18.2%	18.4%	16.4%	15.9%	18.2%
Net Profit	1021	984	1123	1148	1261	1372	1473	1597	1736	1771
Net Margin	8.7%	8.9%	10.1%	10.1%	10.9%	11.9%	12.8%	11.9%	11.3%	12.5%
Free Cash Flow	-540	-645	-143	-118	-835	-962	-2521	-2055	-706	-527
Income Tax	524	543	581	542	181	128	-6	-70	-135	-146

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	36958	38821	41155	43030	45987	50448	53960	57850	61190	64079
Cash & Equivalents	80	85	85	83	147	248	129	166	111	129
Acc. Receivable	827	725	776	797	860	837	916	1018	1373	1315
Inventories	597	609	604	610	548	544	535	631	803	711
Total Liabilities	26743	28221	30134	31575	33765	37209	39380	42240	44510	46463
Accounts Payable	1173	961	1045	1243	1237	1294	1237	1409	1804	1668
Long-Term Debt	12777	13902	14842	15791	17247	18704	20650	23380	24780	26250
Total Equity	10214	10601	11021	11455	12222	13239	14580	15610	16680	17616
LTD/E Ratio	1.25	1.31	1.35	1.38	1.41	1.41	1.42	1.50	1.49	1.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.9%	2.6%	2.8%	2.7%	2.8%	2.8%	2.8%	2.9%	2.9%	2.8%
Return on Equity	10.3%	9.5%	10.4%	10.2%	10.7%	10.8%	10.6%	10.6%	10.8%	10.3%
ROIC	4.6%	4.1%	4.5%	4.3%	4.4%	4.5%	4.4%	4.3%	4.3%	4.2%
Shares Out.	506	508	507	508	514	520	528	540	547	552
Revenue/Share	23.18	21.70	21.82	22.40	22.58	22.17	21.83	24.87	27.99	25.74
FCF/Share	-1.07	-1.27	-0.28	-0.23	-1.63	-1.85	-4.78	-3.81	-1.29	-0.95

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

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