



DSR STOCK CARD

10/14/2022

XCEL ENERGY (XEL)

Business Model

Xcel Energy manages utilities serving 3.7 million electricity customers and 2.1 million natural gas customers in eight states. Its utilities are Northern States Power, which serves customers in Minnesota, North Dakota, South Dakota, Wisconsin, and Michigan; Public Service Company of Colorado; and Southwestern Public Service Company, which serves customers in Texas and New Mexico. It is one of the largest renewable energy generators in the U.S. with one third of its electricity sales coming fully from renewable energy.

The Company in a Nutshell

- Utilities operate in regulated markets, which are typically more stable than unregulated markets.
- XEL has successfully increased its dividend payment every year since 2003.
- Management targets a payment increase of 5 to 7% annually for the next few years.

Investment Thesis

Utilities are known for being very stable. Xcel expects to become 100% carbon-free by 2050. We think XEL's capital spending plan of \$26B from 2022 to 2026 should lead to rate base growth of approximately 6% annually through to 2026, with spending primarily targeted at electric transmission & distribution in MN and CO. The company has taken an early lead in renewable energy, which should pay off going forward. The utility enjoys a favorable geographic position as Minnesota and Colorado are among the best wind resources in the U.S. There is \$18B of the \$26B CAPEX that will be dedicated to these states. Xcel should also benefit as the Biden Administration prioritizes transitioning to a greener electric grid. We think XEL will benefit from its expanding regulated rate base. With this growth, we should also expect strong dividend growth moving forward.

VALUATION

Dividend Growth Rate Years 1-10: 6%

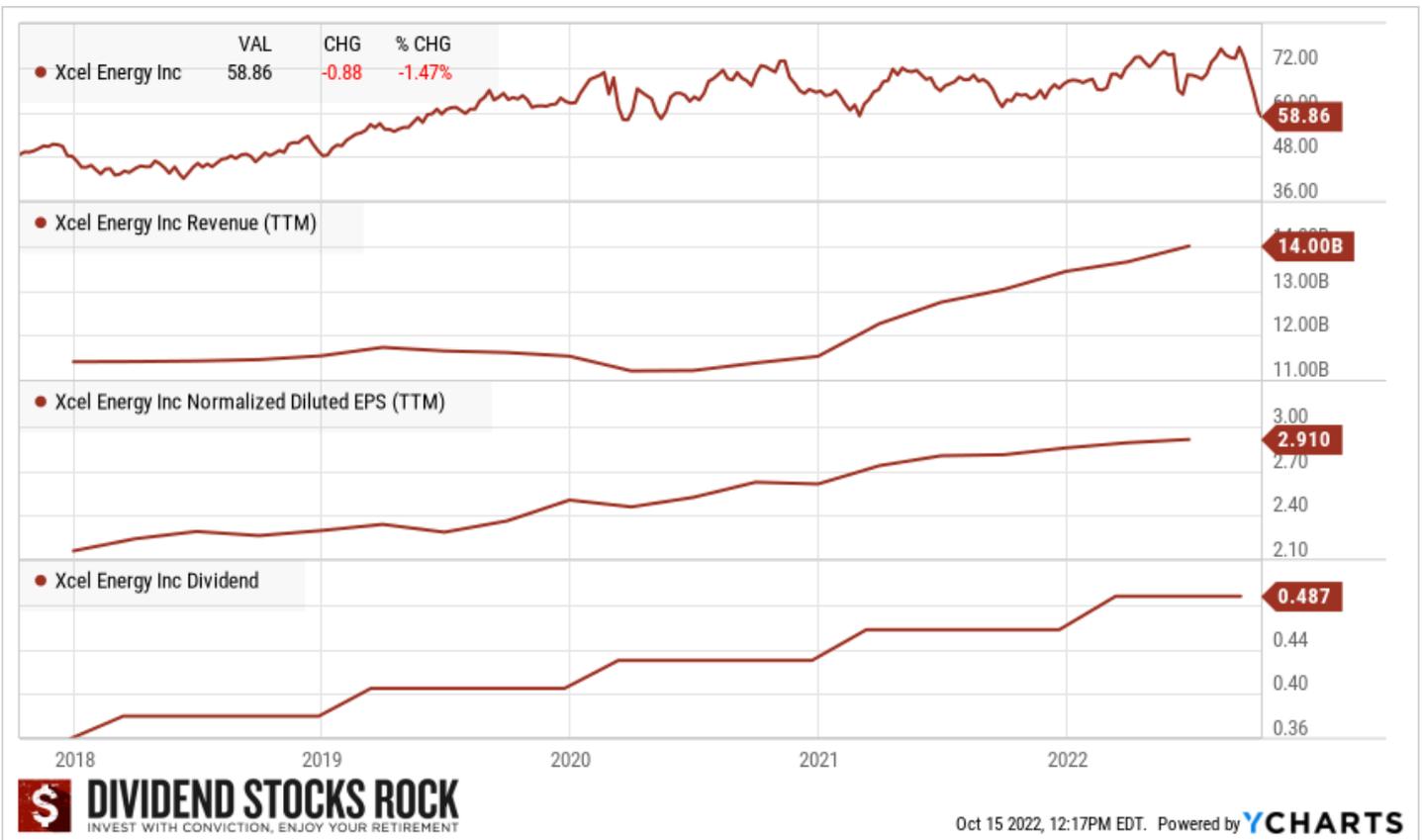
Terminal Dividend Growth Rate: 6%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$77.59	\$58.19	\$46.56
10% Premium	\$71.13	\$53.34	\$42.68
Intrinsic Value	\$64.66	\$48.50	\$38.80
10% Discount	\$58.19	\$43.65	\$34.92
20% Discount	\$51.73	\$38.80	\$31.04



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Potential Risks

XEL is moving forward with a massive investment plan of \$26B. Utilities usually expect regulators to approve rate increases commensurate with the money they invest. In a low-interest rate environment, debt costs less, and regulators consider the lower cost of capital in their rate increase assessments. Regulators also exist to protect consumers, which could lead to less profitable projects going forward. Unfavorable regulatory rulings and weather patterns, weaker economic conditions, and higher interest rates present a real risk to utilities. We had a good illustration of the impact of regulation with the recent decisions from Colorado’s regulators to cut XEL’s returns on their latest projects. Unfortunately, the stock also seems to be on the expensive side.

Dividend Growth Perspective

Xcel raised its dividend by 6.58% in 2019 and kept the same trend in 2020 (+6.17%), 2021 (+6.5%), and 2022 (6.5%). This is stable dividend growth. Management has expressed plans to keep its 5-7% dividend growth target going forward with a 60-70% payout ratio. The dividend growth policy is fueled by an impressive investment plan of \$26B over the coming years. Renewable energy is expected to contribute the highest to Xcel’s growth moving forward, but there are still many sources of stable income from their existing customer base. Xcel should remain on its streak of dividend increases for many years to come.