



## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Return on Capital Employed	3.9%	3.8%	4.0%	4.0%	4.1%
Return on Equity	10.4%	10.2%	10.5%	10.5%	10.8%
Operating Margin	20.1%	19.3%	19.4%	20.3%	21.3%
Free Cash Flow	(203)	(193)	(1,159)	(882)	16

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Cash Realization Ratio	2.7x	2.7x	2.5x	2.5x	2.4x
Asset Replacement Ratio	2.5x	2.2x	2.7x	2.4x	1.9x
Tax Rate	34.1%	32.1%	25.6%	26.8%	26.8%
Net Debt-to-Equity Ratio	133.9%	137.1%	140.5%	147.0%	144.6%
Interest Cover	3.6x	3.5x	3.4x	3.3x	3.3x

## Income Statement Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Sales	11,031	11,326	11,421	11,731	12,015
% Change	0.8%	2.7%	0.8%	2.7%	2.4%
Gross Profit	6,620	6,790	6,876	7,186	7,470
% Change	4.7%	2.6%	1.3%	4.5%	4.0%
EBITDA	3,517	3,685	3,759	4,118	4,417
% Change	12.5%	4.8%	2.0%	9.6%	7.3%
Net Interest & Other Income	(517)	(523)	(518)	(583)	(624)
<b>Net Income (Adjusted)</b>	<b>1,123</b>	<b>1,148</b>	<b>1,243</b>	<b>1,323</b>	<b>1,422</b>
% Change	5.8%	2.2%	8.3%	6.4%	7.5%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Net Income from Cont Operations (GAAP)	1,123	1,148	1,263	1,323	1,422
Depreciation & Amortization	1,319	1,495	1,547	1,731	1,855
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	610	483	241	193	199
Capital Expenditure	(3,256)	(3,319)	(4,210)	(4,130)	(3,460)
<b>Free Cash Flow</b>	<b>-203</b>	<b>-193</b>	<b>-1,159</b>	<b>-882</b>	<b>16</b>
% Change	68.5%	5.0%	-500.5%	23.9%	NM

## Balance Sheet Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Cash & Equivalents	84	83	85	85	85
Trade Receivables	1,506	1,561	1,495	1,535	1,572
Other Current Assets	1,251	1,329	1,338	1,366	1,391
Property, Plant & Equipment	32,842	34,329	36,992	39,391	40,996
Other Non-Current Assets	5,471	5,728	5,728	5,728	5,728
<b>Total Assets</b>	<b>41,155</b>	<b>43,030</b>	<b>45,638</b>	<b>48,104</b>	<b>49,772</b>
Short-Term Debt	648	1,271	1,271	1,271	1,271
Other Current Liabilities	2,600	2,817	2,817	2,817	2,817
Long-Term Debt	14,195	14,520	16,086	17,722	18,432
Other Non-Current Liabilities	12,693	12,967	13,169	13,429	13,689
<b>Total Liabilities</b>	<b>30,134</b>	<b>31,575</b>	<b>33,343</b>	<b>35,239</b>	<b>36,209</b>
<b>Total Equity</b>	<b>11,021</b>	<b>11,455</b>	<b>12,295</b>	<b>12,866</b>	<b>13,563</b>
<b>Total Equity &amp; Liabilities</b>	<b>41,155</b>	<b>43,030</b>	<b>45,638</b>	<b>48,104</b>	<b>49,772</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Electric Utilities

## Company Description

Xcel Energy is Midwest-based regulated utility company with operations in Minnesota, Michigan, North Dakota, South Dakota, Wisconsin, Colorado, Texas, and New Mexico. It provides electric and gas distribution, as well as electric transmission services to over 3.5 million customers.

## Investment Rationale

We have a Neutral rating on shares seeing positive catalysts as largely played out and reflected in Street expectations. While SPS wind project should lead to more longer dated improvement in SPS ROEs, delays in PSCo rate case, downward revisions to the mostly priced in CEP, as well as recent siting concerns in MN have us more cautious on the name.

## Stock Data

Average Daily Volume 3,235,696

## Quarterly Earnings Estimates

	2017	2018
Q1	0.47A	0.57A
Q2	0.45A	0.47E
Q3	0.97A	1.01E
Q4	0.37A	0.39E









## Price objective basis & risk

### Xcel Energy Inc (XEL)

Our PO is \$47. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2020E forward P/E multiples to derive a value for the different business segments, including the parent segment. We relied on a peer multiple of 17.2x, in line with current consensus expectations for 2020 forward P/E ratio utilities. We apply a 1x premium to NSPM, NSPW, and PSCo given the favorable regulatory environment in both subsidiaries' jurisdictions. We apply an in line multiple for SPS and PSCo. We see this multiple as appropriate as this subsidiary has meaningful growth opportunities, but suffers from regulatory drag given historical test years, which prevent timely recovery. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks to our investment thesis are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, execution delays, and weather anomalies.

### Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Av angrid	AGR	AGR US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Ex elon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Nex tDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	Nex tEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nex tEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Ev ergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Haw aiiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NRG Yield	NYLDA	NYLD/A US	Julien Dumoulin-Smith
	NRG Yield	NYLD	NYLD US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Ev ersource Energy	ES	ES US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith



**iQ<sup>method</sup> SM Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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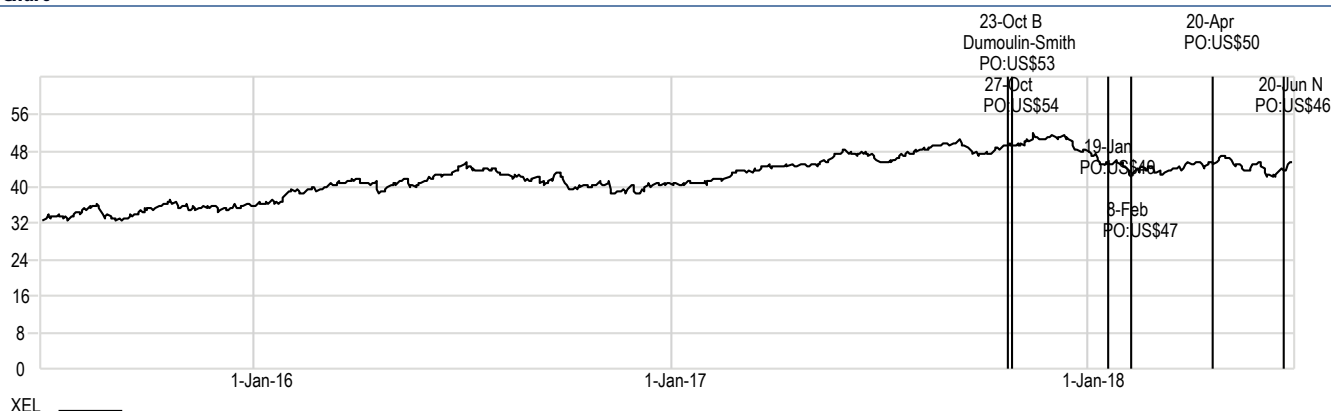
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of June 30, 2018 or such later date as indicated.

### Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.59%	Buy	49	71.01%
Hold	35	24.14%	Hold	27	77.14%
Sell	41	28.28%	Sell	25	60.98%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1639	55.35%	Buy	1044	63.70%
Hold	615	20.77%	Hold	390	63.41%
Sell	707	23.88%	Sell	340	48.09%

\* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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