



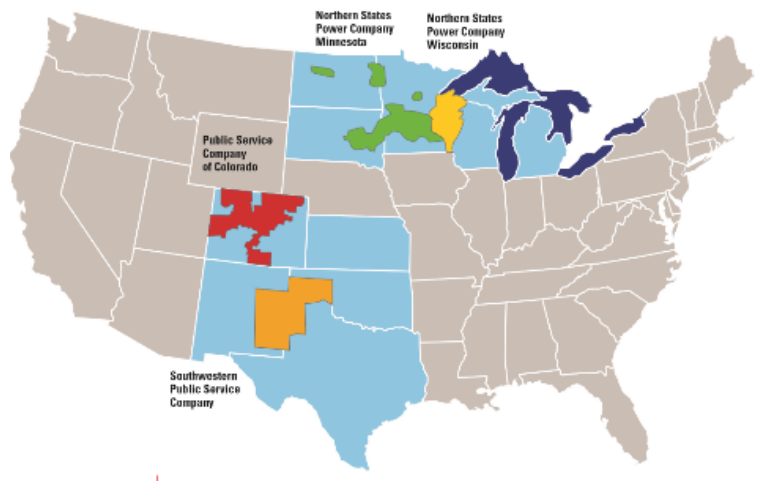
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Introduction

Xcel Energy, Inc owns and operates facilities that are involved in the generation, purchase, transmission, distribution, and sale of electricity and natural gas in the United States. Its primary business segments include regulated electric utility and regulated natural gas utility. Xcel and its subsidiaries provide power for a larger geographic region and serve residential, commercial, and industrial customers in Minnesota, Wisconsin, Michigan, North Dakota, South Dakota, Texas, New Mexico, and Colorado. The primary sources of power generation include coal, natural gas, nuclear, wind, and solar. Xcel has been shifting their focus over the last decade on the transition from fossil fuels to renewables and expect to shift to primarily renewables over the next 30 years. Xcel Energy, Inc. was founded in 1909 and is currently headquartered in Minneapolis, Minnesota.

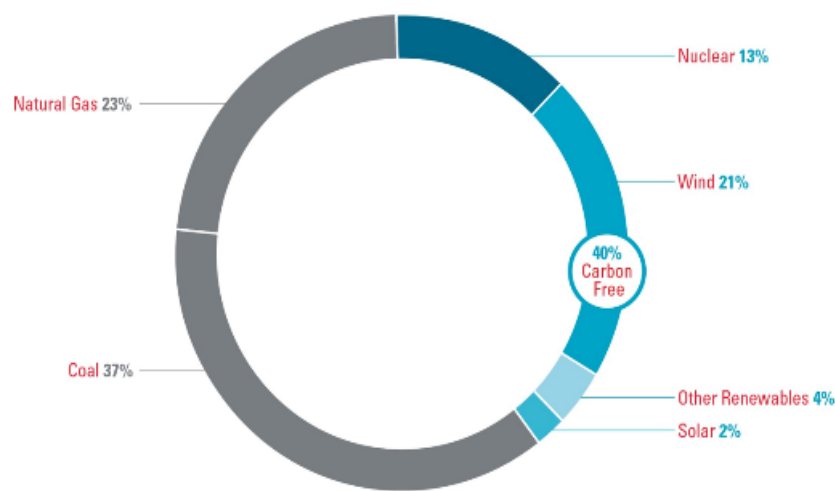
Xcel Energy, Inc. Primary Subsidiaries



Recommendation

We recommend a BUY for Xcel Energy, Inc. The utility sector consists of companies that consistently outperform the market during market contractions and Xcel is no different. Xcel has continuously made steps to improve the consumer experience by partnering with well-established tech companies as well as lower rates. Most importantly, Xcel has positioned itself as a leader in both the fossil fuel and renewable power generation areas. This puts them in a unique position to adjust their strategy in varying political environments. After valuation, we arrived at a price target of \$65.12 which represents an 25.9% upside from the closing price on Tuesday, November 27 of \$51.74.

Power Generation Sources



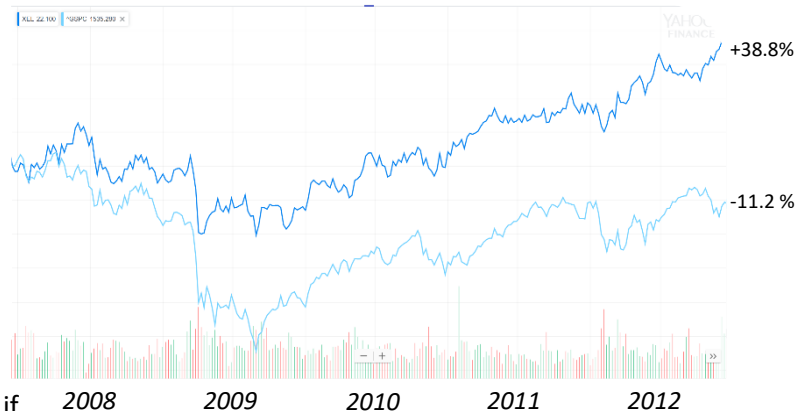
Investment Thesis

Xcel Energy has many reasons backing them to support an investment. As a leader in the utility sector in the United States, they have time and time again developed ways to grow as well as increase efficiency with their current holdings. This being said, we would like to focus in on a few reasons why Xcel is a strong investment and what distinguishes them from other utility companies.

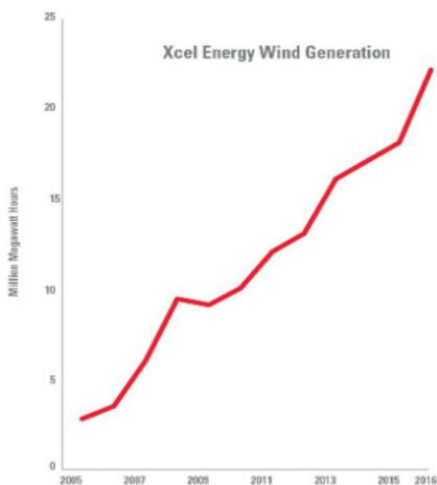
Current Market Stage/Defensive Strategy- Our analysis and research have led us to believe that the United States is currently in the late market stage. The utility sector provides a safer and more conservative investment opportunity relative to other sectors as the market begins to contract. Xcel, for example, experienced a significantly smaller impact from the housing market crash in 2008 relative to the market and we believe they are well positioned to outperform if there happens to be an economic downturn in the near future. An investment in Xcel also adds a layer of diversity to our current portfolio seeing as though we currently do not hold a traditional utility stock or many other defensive securities.

Adaptation to Technology- In our sector report, we talked about how important it was for companies in the utility sector to adapt to new technology and increase efficiency through digitization. With regards to digitization, Xcel has made extreme improvements and this is seen especially through their significant reduction in the number of regions that energy consumption is analyzed by an employee reading meters. Xcel has also developed an award-winning app that brings energy usage information to the consumer at a more efficient rate. Also, partnerships with tech companies such as Google and Nest have improved the consumer experience and set Xcel apart from other utility companies.

XEL vs S&P 500 During Last Recession



Leading in Multiple Areas of Power Generation- The main thing that puts Xcel ahead of other electric utility companies is their leadership in the areas of fossil fuels AND renewables. In the past, Xcel has continually been a leader in the production of energy via coal by minimizing emissions as well as making efficiency improvements. They are now shifting their gaze to the inevitable takeover of renewables, they continue to grow at a rapid rate. Xcel stands alone as the leader of the transition to renewable energy, and this can be seen in their "Steel for Fuel" strategy. This strategy involves making wind Xcel's primary source of power by 2021. In summary, Xcel is uniquely positioned with a foot in both fossil fuels and renewables, and, when future political changes occur, they will be able to adapt their strategy to increase margins and maintain growth.



Management

Xcel Energy has an experienced leadership team that is ready to build off the company's success moving forward. Ben Fowke is Xcel's CEO, President, and Board Chairman, Bob Frenzel is Xcel's CFO, and Scott Wilensky is Senior Vice President and General Counsel. All three of these individuals have extensive experience in the utility industry, and Wilensky specifically has extensive regulatory experience from having served as Assistant Attorney General in Minnesota.

Moving on to Xcel's Board of Directors, we find a diverse group of professionals who have experience in a variety of fields including mining, energy, banking, agriculture, government affairs, management consulting, and more. The board Xcel has put in place sets them up well moving forward due to their connections to the utility sector, as well as their wide-ranging experiences outside of the sector.

Risks

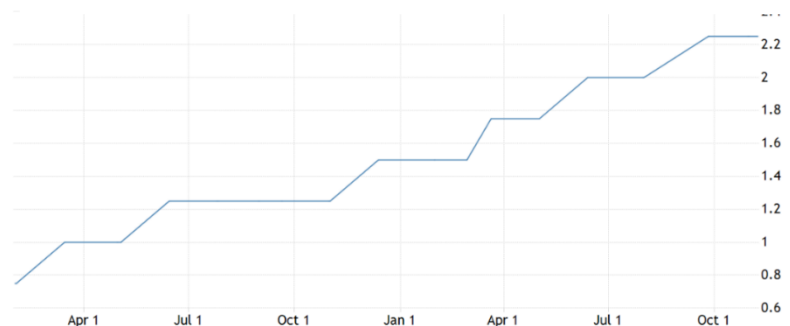
Power Rate Changes- One of the main ways that a utility company's revenue increases or decreases are through rate changes, which, due to Xcel's status as a government-regulated utility retailer, are controlled by the Public Utilities Boards in their states of operation. As a result of this, Xcel's revenues are dependent on where these utility boards want to set their rates, creating some uncertainty as to what revenues will look like in the future with expected rate adjustments.

Interest Rates- It is hard to find a company that has no risk exposure when it comes to changes in interest rates, and Xcel Energy is no exception. On one level, rising interest rates make low-growth utility stocks less attractive due to an investor's ability to simply invest in guaranteed fixed-income securities and earn the same returns, while falling interest rates make utility stocks more attractive due to their higher combined rates

of return with dividends and price growth. This leads to some stock price uncertainty when it comes to changing interest rates in the future. Along with this, businesses face a higher cost of borrowing in a high-interest rate environment, posing a possible price risk when it comes to maintaining and adding infrastructure in the future.

Political Pressures- Politics will always play a role in how utility companies operate. The main focus of this risk revolves around the constant battle between renewables and fossil fuels. Leaders in Washington have had an agenda that goes against what Xcel is trying to accomplish with renewable energy. This being said, there has been a recent shift that has supported the use of renewable energy. Ultimately, whatever policies or regulations that are enacted, Xcel will have to adjust their strategy to continue in their growth projections, and they have the right leadership and resources to do so

2018 Interest Rate Changes



Valuation

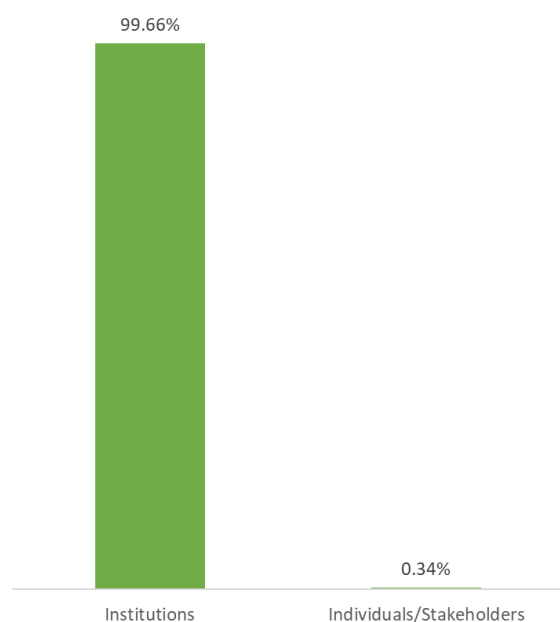
To help find the intrinsic value of Xcel Energy's stock, we utilized both a 3-stage Dividend Discount Model (DDM) and a Multiples approach to derive a weighted average target price, which we then used to come up with a target price range. For our DDM approach, we wanted to use three stages to more accurately portray the future growth path of Xcel's dividends. We calculated an estimated growth rate of 4.14%, which we kept in mind when deciding on our first, second, and third-stage growth rates, which were 3.5%, 4.5%, and 5.5%, respectively. Using a WACC of 6.2%, we derived a target price of \$58.89 from this model. For our Multiples approach, we used a wide-ranging set of industry average ratios to derive four different target prices. We then averaged these four target prices out to obtain one target price for this approach, which came out to be \$79.66. We then took a weighted average of our two target prices, using a 70-30 weight on the DDM and Multiples approaches, respectively, to obtain a final target price of \$65.12 which represents an 25.9% upside.

Peer Analysis

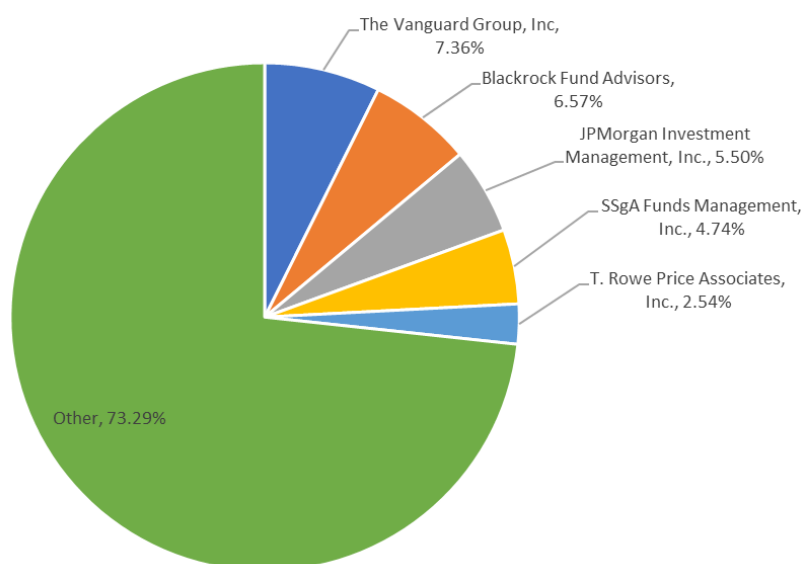
Company Name	Price	Market Cap	Sales	EBITDA	EV/EBITDA	EV/EBIT	Debt/Equity
ALLETE	\$ 78.84	\$ 4,064.00	\$ 1,419.30	\$ 349.10	32.06	15.58	72.69
Alliant Energy	\$ 44.29	\$ 10,377.00	\$ 3,382.20	\$ 1,198.20	23.20	13.60	120.52
WEC Energy Group	\$ 70.59	\$ 22,235.00	\$ 7,648.50	\$ 2,417.20	21.21	13.90	116.25
Atmos Energy	\$ 97.81	\$ 10,818.00	\$ 3,115.55	\$ 1,081.90	20.15	13.42	76.4
Entergy	\$ 85.86	\$ 15,464.00	\$ 10,968.48	\$ 3,768.40	19.17	8.82	203.62
Xcel Energy	\$ 51.10	\$ 26,143.00	\$ 11,394.00	\$ 3,732.10	20.85	11.38	137.85

Ownership of Shares

Insider vs. Institutional/Mutual Funds



Top 5 Shareholders



One Year Stock Price History

