

CMS Energy Corporation (CMS)

\$67.37 (As of 02/11/20)

Price Target (6-12 Months): **\$71.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

CMS Energy ended fourth-quarter 2019 on a disappointing note, with both earnings and revenues missing their respective Zacks Consensus Estimate. It plans to spend \$12.2 billion on infrastructure upgrades and replacements, and electric-supply projects from 2020 through 2024. Such initiatives will enable the company to provide reliable services to its customers and achieve its long-term EPS growth target at the midpoint of 7%. CMS Energy outperformed its industry in the past year. However, its consumer operations are subject to various state and federal environmental regulations. It also incurs significant costs related to construction, operation and closure of solid waste disposal facilities for coal ash. It estimates to incur cost of removal expenditures to comply with regulations relating to ash disposal worth \$134 million from 2020 through 2024.

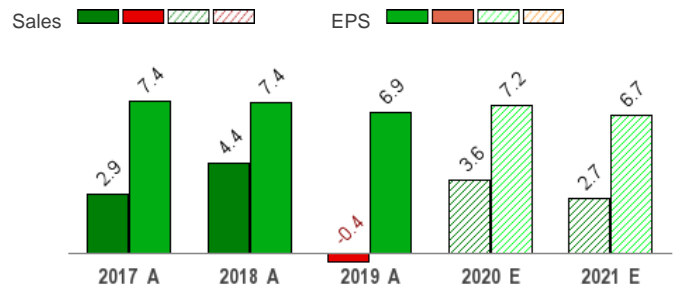
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.98 - \$52.40
20 Day Average Volume (sh)	1,853,821
Market Cap	\$19.1 B
YTD Price Change	7.2%
Beta	0.09
Dividend / Div Yld	\$1.63 / 2.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	-4.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	04/23/2020
Earnings ESP	1.8%
P/E TTM	27.1
P/E F1	25.2
PEG F1	4.0
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,287 E
2020	2,268 E	1,574 E	1,530 E	1,907 E	7,094 E
2019	2,059 A	1,445 A	1,546 A	1,795 A	6,845 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.86 E	\$0.39 E	\$0.75 E	\$0.86 E	\$2.85 E
2020	\$0.84 E	\$0.40 E	\$0.68 E	\$0.75 E	\$2.67 E
2019	\$0.75 A	\$0.33 A	\$0.73 A	\$0.68 A	\$2.49 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

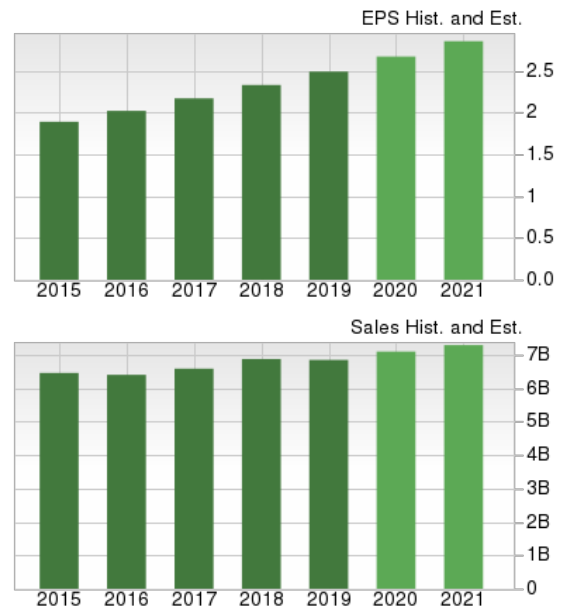
Jackson, MI-based CMS Energy Corporation (CMS), founded in 1886, is the holding company of Consumers Energy Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers is an electric and gas utility company that provides electricity and natural gas to residents of Michigan, and serves customers in all 68 counties of Michigan's Lower Peninsula. The Enterprises segment, through its subsidiaries and equity investments, is engaged primarily in independent power production.

CMS Energy operates principally in three business segments: Consumers electric utility, Consumers gas utility and Enterprises.

Consumers electric utility serves individuals and companies in the alternative energy, automotive, metal, chemical and food products industries, as well as a diversified group of other industries. Consumers' electric utility operations include the generation, purchase, distribution and sale of electricity. It is authorized to provide electric utility service in 62 of the 68 counties of Michigan's Lower Peninsula. Principal cities served include Battle Creek, Bay City, Cadillac, Flint, Grand Rapids, Jackson, Kalamazoo, Midland, Muskegon and Saginaw. Consumers' electric utility caters to a mix of residential, commercial and diversified industrial customers.

Consumers gas utility operation includes purchase, transport, storage, distribution and sale of natural gas. This segment is authorized to provide gas utility services in 54 of the 68 counties in Michigan's Lower Peninsula. Principal cities include Bay City, Flint, Jackson, Kalamazoo, Lansing, Macomb, Midland, Royal Oak, Saginaw and Livonia.

Enterprises, through various subsidiaries and certain equity investments, is engaged primarily in domestic independent power production and marketing.



Reasons To Buy:

▲ CMS Energy's regulated electric power operations in Michigan generate a relatively stable and growing earnings stream. This may have led the company's share price to outperform its industry in the past year. The stock has gained 31% compared with the industry's growth of 25.6%. The company is currently focused on capacity maximization, reliability improvement, clean power generation and infrastructure upgrade. Moreover, CMS Energy has a solid capital-expenditure program, under which it plans to spend \$12.2 billion on infrastructure upgrades and replacements, and electric-supply projects from 2020 through 2024. These initiatives will enable the company to provide reliable services to its customers and achieve the long-term EPS growth target at the mid-point of 7%.

CMS Energy's ambitious natural gas system expansion and robust investment in infrastructure development project will stimulate earnings growth.

▲ Under the electric utility operations, CMS Energy is focused on strengthening circuits and substations, replacing aging poles, and installing smart meters. Between 2020 and 2024, the company plans to invest around \$7.2 billion in its electricity operations, which includes \$4.4 billion in electricity-distribution activities to strengthen circuits and substations, and replace poles and \$2.8 billion in electric-supply projects, primarily new renewable generation.

CMS Energy has a large natural gas system in place and plans to expand it over the next five years. To this end, the company plans to deploy around \$5 billion for its projects under gas infrastructure investment between 2020 and 2024, to enhance pipeline integrity and safety. These projects, which involve replacement of mains and services along with the enhancement of transmission and storage systems, should reduce the minor quantity of methane emissions released as gas is transported.

▲ We appreciate CMS Energy's sustained efforts to expand its renewable portfolio. To this end, the company, through its non-utility businesses, continues to pursue opportunities for the development of renewable generation projects. Looking ahead, per the company's latest capital-investment plan, CMS Energy aims to spend \$1.8 billion in renewables, during the 2020-2024 period. Notably, modest growth in demand for electricity has been witnessed lately in Michigan, driven by the state's growing economy. Considering increasing awareness in favor of clean energy across the globe, this growing demand is projected to boost adoption of renewable energy in the state.

To reap the benefits of this projected growth, the company's Consumers subsidiary has been taking noticeable initiatives. The subsidiary has issued a request for proposals in September 2019 to acquire up to 300 MW of new capacity from projects to be operational in Michigan's Lower Peninsula by May 2022. Over the long run, Consumers expects to reduce carbon emissions by more than 90% by 2040 and eliminate the use of coal to generate electricity during this time frame. Such initiatives are likely to boost CMS Energy's footprint in the growing renewable energy market space.

Reasons To Sell:

- ▼ Despite executing several pollution-control measures at its power generating facilities, increasing stringency of environmental regulations on curbing carbon emissions during electricity generation is a major concern. At present, coal accounts for about 23% of its total generation mix.

The company incurs significant costs related to the construction, operation and closure of solid waste disposal facilities for coal ash. It estimates to incur cost of removal expenditures to comply with regulations related to ash disposal worth \$134 million from 2020 through 2024.

- ▼ CMS Energy's businesses are sensitive to commodity prices. An upward movement in fuel prices could increase the company's cost of operations. Adverse decisions in regulatory cases may also negatively impact earnings. Profitability of regulated utilities depends upon rate relief at regular intervals in Michigan. Although the company can self-implement its requested rate hike for six months, an adverse rate case decision will force the company to refund the incremental bill charged to its customers.

- ▼ On Jan 30, 2019, Consumers experienced a fire at the Ray Compressor Station, which resulted in the Ray Storage Field being offline or operating at significantly reduced capacity, which negatively affected Consumers' natural gas supply and delivery capacity. This incident, which occurred during the extreme polar vortex weather condition, required Consumers to request voluntary reductions in customer load to implement contingency gas supply purchases and to implement a curtailment of natural gas deliveries for industrial and large commercial customers pursuant to Consumers' MPSC curtailment tariff. The curtailment and request for voluntary reductions of customer loads were canceled as of midnight, Feb 1, 2019. Consumers investigated the cause of the incident, and filed a report on the incident with the MPSC in April 2019.

In response, the MPSC issued an order in July 2019, directing Consumers to file additional reports regarding the incident and to include detail of the resulting costs in a future rate proceeding. As a result of the fire and the resulting curtailment, Consumers could be subject to various claims from impacted customers or claims for damages. Consumers may also be subject to regulatory penalties and disallowances of gas purchased, gas lost, and costs associated with repairs to the Ray Compressor Station. This, in turn, may hurt the company's operating results.

Stringent environmental regulations, volatile commodity prices and risks related to impending regulatory cases might be the growth deterrents for the company.

Last Earnings Report

CMS Energy Misses on Q4 Earnings, Tweaks EPS View

CMS Energy Corporation reported fourth-quarter 2019 adjusted earnings per share (EPS) of 68 cents, up 70% from the year-ago quarter reported figure of 40 cents. The bottom line however missed the Zacks Consensus Estimate of 69 cents.

Including one-time items, the company posted GAAP earnings of 58 cents per share in the reported quarter, up from 38 cents generated in the year ago quarter.

The year-over-year uptick in the bottom line can be attributed to higher operating income.

For 2019, the company posted adjusted earnings of \$2.49 per share, up from \$2.33 per share in 2018. The full-year bottom line came in line with the Zacks Consensus Estimate.

Operational Performance

In the quarter under review, CMS Energy's operating revenues totaled \$1,795 million, which missed the Zacks Consensus Estimate of \$1,877 million by 4.4%. The top line also fell 1.9% on a year-over-year basis.

For 2019, the company recorded operating revenues of \$6.85 billion, which missed the Zacks Consensus Estimate of \$6.94 billion by 1.3%. The full-year top line slipped 0.4% from the year ago count.

The company's operating expenses declined 6% to \$1,484 million in the quarter under review.

Operating income in the fourth quarter was \$311 million, up 24.4% from \$250 million in the year-ago quarter.

CMS Energy's interest charges were \$134 million, up 10.7% from \$121 million in the year-ago period.

Financial Condition

CMS Energy had cash and cash equivalents of \$140 million as of Dec 31, 2019, down from \$153 million as of Dec 31, 2018.

As of Dec 31, 2019, total debt, capital leases and financing obligations (excluding securitization debt) were \$12,996 million, up from \$11,500 million as of Dec 31, 2018.

At the end of 2019, cash from operating activities amounted to \$1,790 million compared with \$1,703 million in 2018.

2020 Guidance

CMS Energy raised the lower end its 2020 adjusted earnings per share guidance to the range of \$2.64-\$2.68 from the prior band of \$2.63-\$2.68. Currently, the Zacks Consensus Estimate for the company's current-year earnings is pegged at \$2.67, slightly higher than the midpoint of the company's new guided range.

However, the updated guidance range continues to reflect 6-8% growth from the year-ago quarter's reported figure.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-4.35%
EPS Surprise	-1.45%
Quarterly EPS	0.68
Annual EPS (TTM)	2.49

Recent News

On **Jan 16, 2020**, the Board of Directors of CMS Energy increased the quarterly dividend on the company's common stock to 40.75 cents per share, up from 38.25 cents per share. Based on the previous day's closing price for CMS Energy common stock, \$64.70, the dividend represents an annualized yield of 2.5 percent. The first quarter dividend for the common stock is payable Feb. 28, 2020, to shareholders of record Feb. 7, 2020.

On **Dec 4, 2019**, CMS Energy announced that Cross Winds Energy Park Phase III in Tuscola County has begun serving customers and contributing 76 new megawatts of clean, renewable energy in Michigan. The \$150 million Cross Winds Phase III that began commercial operations in December, has employed over 250 workers during the project's construction. Its 33 turbines' 76-megawatt capacity is enough to serve about 30,000 residents.

Valuation

CMS Energy's shares are up 13.5% in the past six months and 31% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 14.9% and 12.1% in the six months period, respectively. Over the past year, the Zacks sub-industry is up 25.6% whereas the sector is up 6.4%.

The S&P 500 index is up 16.4% in the six months period and 23.7% in the past year.

The stock is currently trading at 25.05X of forward 12-month earnings, which compares to 15.49X for the Zacks sub-industry, 14.33X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.53X and as low as 16.18X, with a 5-year median of 20.17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$71 price target reflects 26.4X forward 12-month earnings.

The table below shows summary valuation data for CMS

Valuation Multiples - CMS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.05	15.49	14.33	19.3
	5-Year High	25.53	15.58	15.36	19.34
	5-Year Low	16.18	11.14	12.58	15.18
	5-Year Median	20.17	13.26	13.84	17.47
P/S F12M	Current	2.69	2.45	3.06	3.56
	5-Year High	2.73	2.45	3.31	3.56
	5-Year Low	1.21	1.54	1.71	2.54
	5-Year Median	1.91	1.87	1.98	3
P/B TTM	Current	3.78	1.96	4.27	4.33
	5-Year High	3.85	1.97	4.27	4.42
	5-Year Low	2.26	1.32	2.02	2.85
	5-Year Median	2.88	1.55	2.58	3.62

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

Ameren Corporation (AEE)	Neutral
DTE Energy Company (DTE)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
Pinnacle West Capital Corporation (PNW)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	CMS Neutral	X Industry	S&P 500	AEE Neutral	DTE Neutral	ETR Neutral
VGM Score	C	-	-	D	B	C
Market Cap	19.13 B	9.52 B	24.31 B	20.73 B	25.76 B	26.46 B
# of Analysts	4	2	13	4	3	3
Dividend Yield	2.42%	2.71%	1.78%	2.35%	3.02%	2.80%
Value Score	D	-	-	C	C	C
Cash/Price	0.01	0.04	0.04	0.00	0.00	0.04
EV/EBITDA	13.22	11.71	13.97	11.69	12.69	16.21
PEG Ratio	3.95	4.17	2.06	3.94	3.35	3.39
Price/Book (P/B)	3.78	1.87	3.24	2.52	2.18	2.63
Price/Cash Flow (P/CF)	11.25	9.68	13.65	10.94	10.35	7.09
P/E (F1)	25.21	20.70	19.12	24.35	20.11	23.72
Price/Sales (P/S)	2.79	2.44	2.67	3.45	2.03	2.42
Earnings Yield	3.96%	4.82%	5.23%	4.11%	4.97%	4.21%
Debt/Equity	2.38	1.08	0.70	1.05	1.36	1.69
Cash Flow (\$/share)	5.99	4.03	6.94	7.70	12.95	18.75
Growth Score	B	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	6.76%	4.47%	10.85%	8.26%	7.49%	4.11%
Proj. EPS Growth (F1/F0)	7.23%	5.14%	7.30%	5.57%	5.77%	3.96%
Curr. Cash Flow Growth	6.78%	6.89%	8.92%	12.97%	7.70%	0.51%
Hist. Cash Flow Growth (3-5 yrs)	7.74%	4.94%	8.36%	8.12%	4.88%	2.60%
Current Ratio	0.86	0.80	1.22	0.65	0.77	0.72
Debt/Capital	70.41%	51.52%	42.90%	51.33%	57.57%	62.21%
Net Margin	9.93%	9.76%	11.81%	13.34%	9.23%	7.38%
Return on Equity	14.28%	9.26%	16.98%	10.10%	10.52%	11.13%
Sales/Assets	0.27	0.24	0.54	0.22	0.33	0.22
Proj. Sales Growth (F1/F0)	3.64%	3.01%	3.90%	2.54%	5.48%	2.11%
Momentum Score	C	-	-	D	A	A
Daily Price Chg	-0.28%	0.20%	0.65%	0.35%	0.42%	0.00%
1 Week Price Chg	-2.00%	0.35%	2.47%	1.89%	0.75%	0.32%
4 Week Price Chg	5.45%	4.15%	1.35%	8.58%	2.89%	9.30%
12 Week Price Chg	9.65%	10.83%	5.63%	11.69%	8.40%	14.37%
52 Week Price Chg	27.62%	17.29%	16.19%	20.06%	12.16%	46.26%
20 Day Average Volume	1,853,821	310,849	1,995,746	1,456,322	1,035,175	1,066,167
(F1) EPS Est 1 week change	0.07%	0.00%	0.00%	0.00%	1.15%	0.28%
(F1) EPS Est 4 week change	-0.19%	0.00%	0.00%	-0.48%	1.16%	0.55%
(F1) EPS Est 12 week change	-0.19%	0.00%	-0.19%	-0.57%	1.50%	0.60%
(Q1) EPS Est Mthly Chg	1.20%	0.00%	0.00%	0.22%	NA	40.63%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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