

CMS Energy Corporation (CMS)

\$65.38 (As of 01/16/20)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

CMS Energy's regulated electric power operations in Michigan generate a relatively stable and growing earnings stream. It plans to spend \$11.2 billion on infrastructure upgrades and replacements, and electric supply projects from 2019 through 2023. 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 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 relating to ash disposal worth \$188 million from 2019 through 2023.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.76 - \$50.08
20 Day Average Volume (sh)	1,367,843
Market Cap	\$18.6 B
YTD Price Change	4.0%
Beta	0.06
Dividend / Div Yld	\$1.53 / 2.3%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.7%
Last Sales Surprise	-4.5%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	01/30/2020
Earnings ESP	-4.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					7,117 E
2019	2,059 A	1,445 A	1,546 A	1,924 E	6,968 E
2018	1,953 A	1,492 A	1,599 A	1,829 A	6,873 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.82 E	\$0.39 E	\$0.69 E	\$0.78 E	\$2.67 E
2019	\$0.75 A	\$0.33 A	\$0.73 A	\$0.72 E	\$2.49 E
2018	\$0.86 A	\$0.48 A	\$0.59 A	\$0.40 A	\$2.33 A

*Quarterly figures may not add up to annual.

P/E TTM	29.6
P/E F1	24.5
PEG F1	3.8
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

Overview

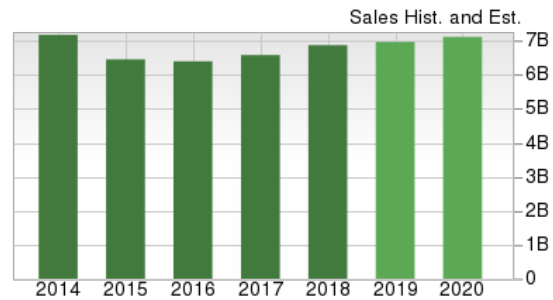
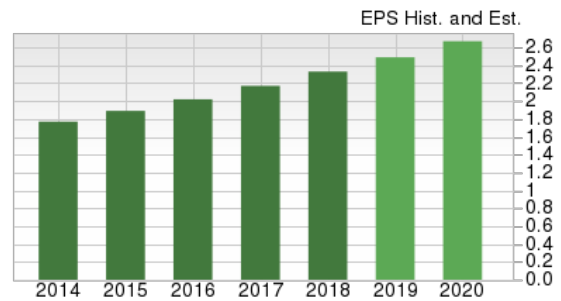
Jackson, MI-based CMS Energy Corporation (CMS), founded in 1886, is the holding company of Consumers Energy Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers is an electric and gas utility company that provides electricity and natural gas to residents of Michigan, and serves customers 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 31.9% compared with the industry's growth of 25.8%. The company is currently focused on capacity maximization, reliability improvement, clean power generation and infrastructure upgrade. Moreover, CMS Energy boasts a solid capital expenditure program, under which it plans to spend \$11.2 billion on infrastructure upgrades and replacements, and electric supply projects from 2019 through 2023.

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

These 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%. Moreover, capital investments have helped the company to reduce operation and maintenance costs by 3% over the 2014–2016 period. CMS Energy expects to reduce these costs by another 2% between 2017 and 2019.

- ▲ Under the electric utility operations, CMS Energy focuses on strengthening circuits and substations, replacing aging poles, and installing smart meters. Between 2019 and 2023, the company plans to invest around \$6.1 billion in its electricity operations, including \$4.2 billion in electricity distribution activities and \$1.9 billion in electric supply. The company expects overall sales growth of about 1% on a conservative side at its utility operations through 2021.

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 \$5.1 billion for its projects under gas infrastructure investment between 2019 and 2023, 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 \$600 million in solar projects, during the 2019-2023 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 by 2040. 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 remains 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 \$188 million from 2019 through 2023.

- ▼ 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 Q3 Earnings Beat Estimates, Improve Y/Y

CMS Energy reported third-quarter 2019 earnings per share (EPS) of 73 cents, up 23.7% from the year-ago quarter's reported figure of 59 cents. The bottom line also beat the Zacks Consensus Estimate of 71 cents by 2.8%.

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

Operational Performance

In the quarter under review, CMS Energy's operating revenues totaled \$1,546 million, which missed the Zacks Consensus Estimate of \$1,651 million by 6.4%. The top line also fell 3.3% on a year-over-year basis.

The company's operating expenses declined 8.4% to \$1,195 million in the quarter under review.

Operating income in the third quarter was \$351 million, up 19.4% from \$294 million in the year-ago quarter.

CMS Energy's interest charges were \$133 million, up 16.7% from \$114 million in the year-ago period.

Financial Condition

CMS Energy had cash and cash equivalents of \$403 million as of Sep 30, 2019, up from \$153 million as of Dec 31, 2018.

As of Sep 30, 2019, total debt, capital leases and financing obligations (excluding securitization debt) were \$12,931 million, up from \$11,500 million as of Dec 31, 2018.

At the end of the first nine months of 2019, cash from operating activities amounted to \$1,395 million compared with \$1,565 million in the year-ago period.

2019 Guidance

CMS Energy reaffirmed its adjusted earnings per share guidance of \$2.47-\$2.51 for 2019, indicating 6-8% growth from the year-ago quarter's reported figure. Currently, the Zacks Consensus Estimate for the company's full-year earnings is pegged at \$2.49, in line with the midpoint of the company's projected guided range.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-4.52%
EPS Surprise	17.74%
Quarterly EPS	0.73
Annual EPS (TTM)	2.21

Recent News

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 11.9% in the past six months and 31.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 8.7% and 5.7% in the six months period, respectively. Over the past year, the Zacks sub-industry is up 25.8% whereas the sector is up 6.4%.

The S&P 500 index is up 11.5% in the six months period and 24.9% in the past year.

The stock is currently trading at 24.37X of forward 12-month earnings, which compares to 14.81X for the Zacks sub-industry, 13.64X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.24X and as low as 16.18X, with a 5-year median of 20.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$69 price target reflects 25.72X 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	24.37	14.81	13.64	18.96
	5-Year High	25.24	14.81	15.33	19.34
	5-Year Low	16.18	11.19	12.61	15.17
	5-Year Median	20.1	13.09	13.68	17.44
P/S F12M	Current	2.6	2.3	2.91	3.53
	5-Year High	2.6	2.3	3.26	3.53
	5-Year Low	1.21	1.5	1.7	2.54
	5-Year Median	1.88	1.83	1.95	3
P/B TTM	Current	3.72	1.88	4.1	4.5
	5-Year High	3.78	1.88	4.1	4.5
	5-Year Low	2.26	1.32	2.01	2.85
	5-Year Median	2.88	1.55	2.55	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 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	D	-	-	C	D	D
Market Cap	18.56 B	9.42 B	24.61 B	19.49 B	25.17 B	24.88 B
# of Analysts	5	2	13	5	4	4
Dividend Yield	2.34%	2.71%	1.74%	2.50%	3.05%	2.98%
Value Score	D	-	-	C	C	C
Cash/Price	0.02	0.04	0.04	0.00	0.00	0.04
EV/EBITDA	13.95	11.40	14.24	11.19	13.27	15.61
PEG Ratio	3.83	3.91	2.07	3.68	3.39	3.20
Price/Book (P/B)	3.72	1.83	3.38	2.37	2.31	2.48
Price/Cash Flow (P/CF)	11.64	9.36	13.75	10.29	10.46	6.66
P/E (F1)	24.45	19.82	19.09	22.79	20.36	22.42
Price/Sales (P/S)	2.70	2.34	2.68	3.24	1.90	2.28
Earnings Yield	4.08%	4.91%	5.24%	4.38%	4.91%	4.46%
Debt/Equity	2.43	1.08	0.72	1.05	1.28	1.69
Cash Flow (\$/share)	5.62	4.03	6.94	7.70	12.70	18.75
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	6.54%	4.40%	10.56%	8.26%	7.64%	4.11%
Proj. EPS Growth (F1/F0)	7.23%	5.41%	7.57%	6.27%	4.99%	5.04%
Curr. Cash Flow Growth	6.77%	7.23%	14.73%	12.97%	10.89%	0.51%
Hist. Cash Flow Growth (3-5 yrs)	8.07%	4.93%	9.00%	8.12%	4.53%	2.60%
Current Ratio	1.06	0.81	1.24	0.65	0.77	0.72
Debt/Capital	70.82%	51.70%	42.99%	51.33%	56.15%	62.21%
Net Margin	9.03%	9.75%	11.14%	13.34%	8.24%	7.38%
Return on Equity	12.80%	9.57%	17.16%	10.10%	9.93%	11.13%
Sales/Assets	0.27	0.24	0.55	0.22	0.36	0.22
Proj. Sales Growth (F1/F0)	2.14%	3.33%	4.16%	4.32%	5.17%	1.19%
Momentum Score	D	-	-	B	C	D
Daily Price Chg	1.05%	0.61%	0.89%	1.29%	0.70%	0.98%
1 Week Price Chg	1.20%	0.44%	0.39%	1.22%	-0.05%	1.58%
4 Week Price Chg	4.78%	3.43%	2.65%	4.98%	2.51%	4.55%
12 Week Price Chg	1.44%	2.91%	7.55%	2.22%	2.95%	3.05%
52 Week Price Chg	28.25%	18.12%	22.12%	18.12%	17.43%	45.24%
20 Day Average Volume	1,367,843	277,517	1,536,375	1,288,625	921,453	1,191,146
(F1) EPS Est 1 week change	-0.19%	0.00%	0.00%	-0.05%	-0.05%	0.00%
(F1) EPS Est 4 week change	-0.19%	0.00%	0.00%	0.10%	-0.05%	0.00%
(F1) EPS Est 12 week change	0.30%	-0.13%	-0.40%	-0.60%	1.00%	0.04%
(Q1) EPS Est Mthly Chg	-1.81%	0.00%	0.00%	0.00%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	D
VGM Score	D

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.

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