CMS Energy Corporation (CMS)

$57.26 (As of 04/29/20)

Price Target (6-12 Months): **$61.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/01/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: C | Momentum: A	

Summary

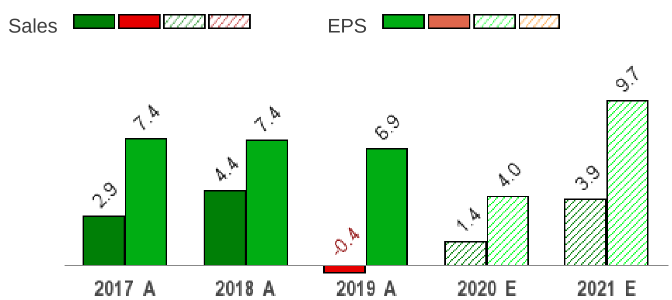
CMS Energy ended the first quarter of 2020 on a mixed note. While its earnings surpassed the Zacks Consensus Estimate, revenues failed to meet the mark. The company plans to spend $12.2 billion on infrastructure upgrades and replacements, and electric-supply projects during 2020-2024. It also has a large natural gas system in place. We appreciate CMS Energy's sustained efforts to expand its renewable portfolio.The company has outperformed its industry in the past year. However, it is witnessing some near-term challenges, thanks to the novel coronavirus outbreak. For instance, Consumers has experienced a decline in electric deliveries to commercial and industrial customers. Moreover, the company's current ratio is 0.96, which is less than 1, thereby indicating it may have not enough capital on hand to meet its short-term obligations.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$69.17 - $46.03
20 Day Average Volume (sh)	2,151,647
Market Cap	$16.4 B
YTD Price Change	-8.9%
Beta	0.28
Dividend / Div Yld	$1.63 / 2.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 26% (66 out of 253)
Last EPS Surprise	11.7%
Last Sales Surprise	-11.3%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	22.0
P/E F1	22.1
PEG F1	3.5
P/S TTM	2.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					7,218 E
2020	1,864 A	1,518 E	1,561 E	1,878 E	6,944 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	$1.11 E	$0.40 E	$0.61 E	$0.69 E	$2.84 E
2020	$0.86 A	$0.39 E	$0.70 E	$0.72 E	$2.59 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 04/29/2020. The reports text is as of 04/30/2020.

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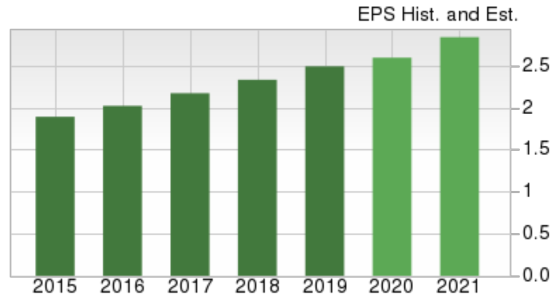
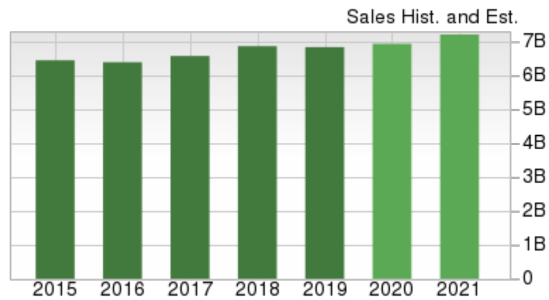
Overview

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 ambitious natural gas system expansion plan and robust investment in renewable project will stimulate earnings growth.

- 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 6.9% compared with the industry's rise of 1.4%. The company is currently focused on capacity maximization, reliability improvement, clean power generation and infrastructure upgrade. Amid the ongoing uncertainty presented by COVID-19, CMS Energy has kept its long-term investment plan intact. The companyhas 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%.

- 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.

- We appreciate CMS Energy's sustained efforts to expand its renewable portfolio. To this end, the companyaims to spend $1.8 billion in renewable, 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:

COVID-19 impacts and unfavorable financial ratio might be potential growth deterrents for the company.

- 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.

- Although CMS Energy's management remains confident that the company would be successful in fulfilling its desired long-term goals, it is witnessing some near-term challenges, thanks to the novel coronavirus outbreak. For instance, Consumers has experienced a decline in electric deliveries to commercial and industrial customers and anticipates increased uncollectible accounts, workforce-related costs, and miscellaneous expenses as well as other one-time costs in the near future, as a result of the pandemic. Moreover, the company fears that the COVID-19 pandemic may impact Consumers' ability to execute energy efficiency programs effectively and thereby might affect itsability to exceed its statutory savings targets and earn the energy waste reduction incentive for 2020.

- CMS Energy's cash and cash equivalent at the end of first quarter 2020 was $834 million, compared with $140 million at the end of 2019. Its current portion of long-term debt was worth $1,721 million as of Mar 31, 2020. This remains much higher than its cash reserve balance as of Mar 31, 2020. Moreover, the company's current ratio is 0.96, which is less than 1, thereby indicating it may have not enough capital on hand to meet its short-term obligations. This makes us skeptical about the firm's ability to meet debt obligations in the near future.

Last Earnings Report

CMS Energy Q1 Earnings Beat Estimates, Revenues Miss

Quarter Ending	03/2020
Report Date	**Apr 27, 2020**
Sales Surprise	**-11.28%**
EPS Surprise	**11.69%**
Quarterly EPS	**0.86**
Annual EPS (TTM)	**2.60**

CMS Energy reported first-quarter 2020 adjusted earnings per share (EPS) of 86 cents, which surpassed the Zacks Consensus Estimate of 77 cents by 11.7%.

Including one-time items, the company posted GAAP earnings of 85 cents per share in the reported quarter, up from 75 cents generated in the year-ago quarter.

The year-over-year uptick in the bottom line can be attributed to timely recovery of customer investments and cost management.

Operational Performance

In the quarter under review, CMS Energy's operating revenues totaled $1,864 million, which missed the Zacks Consensus Estimate of $2,101 million by 11.3%. The top line also fell 9.5% on a year-over-year basis.

The company's operating expenses declined 12% to $1,496 million in the quarter under review.

Operating income in the first quarter was $368 million, up 2.5% from $359 million in the year-ago quarter.

CMS Energy's interest charges were $137 million, up from $121 million in the year-ago period.

Financial Condition

CMS Energy had cash and cash equivalents of $834 million as of Mar 31, 2020, up from $140 million as of Dec 31, 2019.

As of Mar 31, 2020, total debt, capital leases and financing obligations (excluding securitization debt) were $14,086 million, up from $12,996 millionas of Dec 31, 2019.

At the end of first quarter 2020, cash from operating activities amounted to $201 million compared with $617 million in the year-ago quarter.

2020 Guidance

CMS Energy reiterated its 2020 adjusted earnings per share guidance in the range of $2.64-$2.68, as the ultimate impact of the coronavirus pandemic on Michigan's economy and the company's business remain uncertain. Currently, the Zacks Consensus Estimate for the company's current-year earnings is pegged at $2.60, lower than the company provided guidance.

The guidance range indicates 6-8% growth from the year-ago reported figure.

Valuation

CMS Energy's shares are down 8.3% in the year-to-date period, but are up 6.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 10.2% and 12.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 1.4% whereas the sector is down 14.7%.

The S&P 500 index is down 10.8% in the year-to-date period and 0.5% in the past year.

The stock is currently trading at 21.4X of forward 12-month earnings, which compares to 13.1X for the Zacks sub-industry, 12.3X for the Zacks sector and 20.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.6X and as low as 16.2X, with a 5-year median of 20.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $61 price target reflects 22.8X 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	21.38	13.09	12.3	20.16
	5-Year High	25.57	15.53	15.32	20.16
	5-Year Low	16.18	11.12	11.35	15.19
	5-Year Median	20.28	13.23	13.79	17.44
P/S F12M	Current	2.31	2.11	2.61	3.3
	5-Year High	2.75	1.54	3.29	3.44
	5-Year Low	1.21	1.88	1.75	2.54
	5-Year Median	1.95	2.11	2.04	3.01
EV/EBITDA TTM	Current	13.27	11.94	16.62	10.45
	5-Year High	14.58	13.43	19.48	12.87
	5-Year Low	9.06	7.8	10.59	8.27
	5-Year Median	10.52	10.26	13.32	10.45

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
FirstEnergy Corporation **(FE)**	Outperform	3
Ameren Corporation **(AEE)**	Neutral	3
DTE Energy Company **(DTE)**	Neutral	3
Edison International **(EIX)**	Neutral	3
Eversource Energy **(ES)**	Neutral	2
Entergy Corporation **(ETR)**	Neutral	3
Alliant Energy Corporation **(LNT)**	Neutral	3
Pinnacle West Capital Corporation **(PNW)**	Neutral	3

Industry Comparison Industry: Utility - Electric Power

	CMS	X Industry	S&P 500	AEE	DTE	ETR
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	C
Market Cap	16.39 B	7.58 B	20.82 B	18.41 B	20.67 B	19.76 B
# of Analysts	4	3	14	5	5	4
Dividend Yield	2.85%	3.29%	2.07%	2.65%	3.77%	3.78%
Value Score	C	-	-	D	C	C
Cash/Price	0.01	0.05	0.06	0.00	0.00	0.02
EV/EBITDA	12.06	9.98	12.12	10.94	11.14	8.99
PEG Ratio	3.44	3.66	2.51	3.24	3.03	2.91
Price/Book (P/B)	3.22	1.48	2.74	2.24	1.74	1.92
Price/Cash Flow (P/CF)	9.56	8.24	11.23	9.52	8.29	6.00
P/E (F1)	21.97	17.85	19.26	21.87	16.64	17.84
Price/Sales (P/S)	2.46	1.91	2.16	3.12	1.70	1.82
Earnings Yield	4.52%	5.50%	5.03%	4.57%	6.01%	5.60%
Debt/Equity	2.38	1.06	0.72	1.09	1.36	1.67
Cash Flow ($/share)	5.99	4.27	7.01	7.84	12.95	16.39
Growth Score	C	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	6.76%	4.77%	10.88%	8.19%	7.49%	2.35%
Proj. EPS Growth (F1/F0)	4.12%	1.84%	-6.94%	1.85%	2.32%	2.13%
Curr. Cash Flow Growth	6.78%	3.66%	5.92%	2.50%	7.70%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	7.74%	5.53%	8.55%	6.59%	4.88%	0.41%
Current Ratio	0.86	0.83	1.23	0.57	0.77	0.54
Debt/Capital	70.41%	50.95%	43.90%	52.09%	57.57%	61.98%
Net Margin	10.68%	10.79%	11.15%	14.01%	9.10%	11.57%
Return on Equity	14.86%	9.86%	16.47%	10.29%	10.02%	11.02%
Sales/Assets	0.26	0.23	0.54	0.21	0.31	0.21
Proj. Sales Growth (F1/F0)	1.45%	0.00%	-1.52%	3.02%	2.55%	3.93%
Momentum Score	A	-	-	C	C	D
Daily Price Chg	-3.29%	0.67%	2.91%	0.50%	0.91%	-1.29%
1 Week Price Chg	-5.97%	-3.65%	-1.74%	-5.38%	-2.67%	-3.69%
4 Week Price Chg	2.78%	11.68%	21.33%	10.17%	21.81%	14.96%
12 Week Price Chg	-15.68%	-15.89%	-16.28%	-9.75%	-20.20%	-24.65%
52 Week Price Chg	4.15%	-7.38%	-7.57%	3.29%	-13.48%	2.60%
20 Day Average Volume	2,151,647	492,176	2,658,107	1,561,254	1,235,244	1,417,762
(F1) EPS Est 1 week change	1.67%	0.00%	0.00%	0.00%	0.60%	-0.18%
(F1) EPS Est 4 week change	-0.81%	-0.81%	-6.32%	-1.33%	-1.14%	-0.54%
(F1) EPS Est 12 week change	-0.92%	-1.76%	-12.93%	-1.39%	-1.08%	-1.30%
(Q1) EPS Est Mthly Chg	-4.92%	-1.72%	-11.84%	-3.03%	-0.58%	-2.02%

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	C
Growth Score	C
Momentum Score	A
VGM Score	B

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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