

DTE Energy Company (DTE)

\$128.70 (As of 01/02/20)

Price Target (6-12 Months): **\$136.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

DTE Energy is investing steadily to enhance its renewable generation assets. DTE Electric currently expects to make capital investments of \$11.3 billion over the 2019-2023 period. DTE Energy further continues to make progress in its non-utility business, which provides diversity to its earnings stream. DTE Energy continues to make progress in its non-utility business, which provides diversity to its earnings stream. However, it faces increasingly stringent government regulations to curb emissions and operational risks. Its business depends on electric and gas rates fixed by the MPSC and the FERC, which cannot be revised without regulatory authorization. As a result, new regulations could change the way the company operates its business and might lead to additional expenses. Furthermore, it underperformed its industry in the past one year.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.37 - \$107.83
20 Day Average Volume (sh)	1,044,784
Market Cap	\$24.4 B
YTD Price Change	-0.9%
Beta	0.20
Dividend / Div Yld	\$4.05 / 3.1%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 27% (185 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.5%
Last Sales Surprise	-14.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	22.0
P/E F1	19.7
PEG F1	3.3
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					14,161 E
2019	3,514 A	2,888 A	3,119 A	3,766 E	13,466 E
2018	3,753 A	3,159 A	3,550 A	3,750 A	14,212 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$6.53 E
2019	\$2.05 A	\$0.99 A	\$1.91 A	\$1.21 E	\$6.20 E
2018	\$1.91 A	\$1.36 A	\$2.13 A	\$0.91 A	\$6.30 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

Detroit, MI-based DTE Energy Company (DTE), incorporated in 1995, is a holding company with subsidiaries engaged in regulated and unregulated energy businesses. The company's two largest regulated subsidiaries comprise DTE Electric Company and DTE Gas Company. DTE Energy also has three non-utility segments engaged in a variety of energy-related businesses. The company's unregulated businesses include gas storage and pipelines; power and industrial projects, and energy trading operations.

Regulated Business

The Electric Utility segment consists mainly of DTE Electric Company. DTE Electric Company is a regulated electric utility operating in southeastern Michigan, including Detroit, primarily through fossil fuel-powered plants. Operating Revenues in 2018 were \$5,298 million.

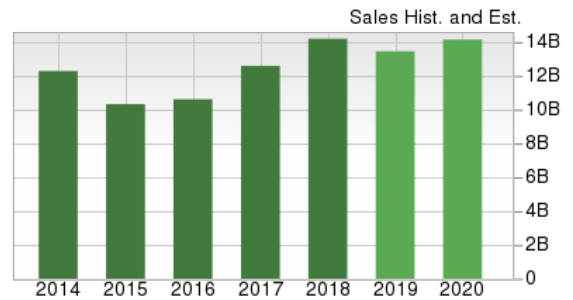
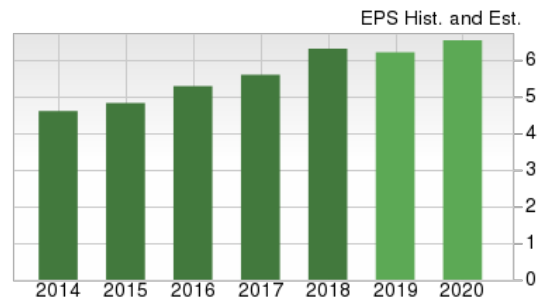
The Gas Utility segment consists of DTE Gas and Citizens. DTE Gas is a gas utility that purchases, stores, transports and distributes natural gas to residential, commercial and industrial customers in Michigan. Operating Revenues in 2018 were \$1,436 million.

Unregulated Business

The Gas Storage and Pipelines (GS&P) division is engaged in natural gas pipelines, gathering and storage businesses, through DTE Pipeline and DTE Gas Storage. Operating Revenues in 2018 were \$485 million.

The Power and Industrial Projects (P&I) segment comprise projects that deliver energy and utility services to industrial, commercial and institutional customers. Operating Revenues in 2018 were \$2,204 million.

The Energy Trading division engages in marketing and trading of power and gas. Operating Revenues in 2018 were \$5,557 million.



Reasons To Buy:

▲ DTE Energy follows a disciplined capital spending program to maintain and upgrade the reliability of its electric utility systems. DTE Electric currently expects to make capital investments of \$11.3 billion over the 2019-2023 period. This includes \$4 billion for capital replacements and other projects, \$4.6 billion for distribution infrastructure, and \$2.7 billion for new generation. Additionally, the company is focused on its gas pipeline integrity projects. DTE Gas' total capital investments over the 2019-2023 period are estimated at \$2.5 billion, which comprises \$1.2 billion for base infrastructure, and \$1.3 billion for gas main renewal, meter move out and pipeline integrity programs. The company plans to accelerate more than \$450 million of main renewal capital over the next five years.

Investments in infrastructure projects, focus on expanding renewable portfolio and gradual recovery of Michigan's economy will likely drive DTE Energy's future performance.

▲ Apart from its utility operation, DTE Energy continues to make progress in its non-utility business, which provides diversity to its earnings stream. The company currently expects to spend \$4-\$5 billion over the 2019-2023 period for pipeline investments and expansion, including the NEXUS pipeline under the Gas Storage and Pipelines segment. Power and Industrial Projects' capital investments over the period are now expected to be \$1-\$1.4 billion for investments in cogeneration and industrial energy services, and renewable natural gas (RNG) projects. To this end, the company announced the inclusion of three new cogeneration projects, in additions to its current RNG projects, and finalizing two greenfield RNG projects in Wisconsin. As Reduced Emissions Fuel (REF) earnings are expected to subside in 2020 and 2022, the long-term plan for P&I is to replace these earnings as the company moves forward toward its 2023 earnings target range of \$125 million to \$135 million.

▲ DTE Energy is investing steadily to enhance its renewable generation assets. Over the next 15 years, DTE Electric plans to withdraw a portion of its coal-fired generation and boost the natural gas-fired generation and renewables mix. In this context, DTE Electric has already retired four coal-fired generation units and plans to retire the remaining 13 coal-fired generating units - seven through 2023 and the remaining units by 2040. The retired facilities will be replaced with natural gas-fired generation and renewables. DTE Energy also announced its industry leading plan to reduce methane emissions by 80% at DTE Gas by 2040. The company aims to achieve these reductions by replacing steel and cast-iron pipelines at an accelerated pace, and through best practices for compressor operations.

▲ The company took a significant step toward its goal of reducing carbon emissions by more than 80% by breaking ground on a natural gas-fueled plant worth \$1 billion, in August 2018. Per DTE Energy, the Blue Water Energy Center will be the most efficient power plant in the state, when it begins producing affordable and reliable low-emission electricity. In March 2018, DTE Electric filed its 2018 Renewable Energy Plan with the MPSC proposing approximately 1,000 additional megawatts of energy from new wind and solar projects to be completed by 2022. Such initiatives should boost the company's position in the rapidly transforming energy market, wherein clean energy producing utilities will gain more.

▲ DTE Energy's cash from operations at the end of the third quarter was \$1,901 million. Management expects the company to generate cash from operations of \$ 2.7 billion for 2019. Such stable financials should help the company execute investor-friendly moves and thus DTE Energy commits to maintain a stable and regular dividend payout. As of Sep 30, 2019, the company paid out dividends worth \$518 million, up from \$459 million in the prior-year period. This effort of the company to maximize shareholder value is expected to attract investors.

Reasons To Sell:

- ▼ DTE Energy's business depends on electric and gas rates fixed by three MPSC and the FERC and cannot be revised without regulatory authorization. DTE Energy's ability to recover costs may be affected by the time lag between the incurrence of costs and the recovery of costs through customer rates. Any new interpretation could change the way the company operates its business and might lead to additional expenses.
 - ▼ The State of Michigan currently experiences a hybrid market, where the MPSC continues to regulate electric rates for DTE Electric customers, while alternative electric suppliers charge market-based rates. MPSC rate orders and energy legislation enacted by Michigan have recently placed a 10% cap on the total potential retail access migration. However, even with this legislated cap, there continues to be risk associated with the electric retail access program. Moreover, electric retail access migration is sensitive to market price and full-service electric price changes. The MISO regional energy market, including the State of Michigan, is expected to face capacity constraints primarily due to the retirement of coal-fired generation caused by increasingly stringent environmental requirements. Hence, the company needs to make hefty investments in new natural gas-fired generation and renewable.
 - ▼ DTE Energy's service territory is Michigan. The unemployment rate in the region was 4.2% in September, more than the national average rate. A deteriorating economy is likely to drag down future utility demand in the state, which in turn may weigh on the company's growth trajectory. This might have hurt investors' confidence in this stock's growth. Evidently, in the past year, shares of DTE Energy have only gained 22.5% compared with the industry's growth of 27.3%.
 - ▼ Despite investing substantially in renewable projects, highly stringent government regulations for curbing emissions are a major cause of concern. Compliance with these regulations can significantly increase capital spending, operating expenses and plant down times, and negatively affect the affordability of the rates charged to the company's customers.
- Moreover, the future environmental regulation of natural gas extraction techniques, including hydraulic fracturing, being discussed both at the United States federal level and by some states may affect the profitability of natural gas extraction businesses, which could affect demand and profitability of DTE Energy's gas transportation businesses.
- ▼ Alongside underperforming its industry in the past year, a comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 21.96. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is above the mid-point of 20.60 and also higher than the industry's average of 18.34.

DTE Energy still generates a significant portion of electricity from coal. Stringent regulations to curb emissions will require more investments in the installation of low-emission systems impacting margins

Last Earnings Report

DTE Energy Misses on Q3 Earnings, Hikes '19 EPS View

DTE Energy Company reported third-quarter 2019 operating earnings per share of \$1.91, which missed the Zacks Consensus Estimate of \$2 by 4.7%. The bottom line also declined 11.5% from \$2.13 in the year-ago quarter.

The year-over-year downside can be attributable to severe storm activities that resulted in increased expenses for the company related to electricity restoration.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-14.45%
EPS Surprise	-4.50%
Quarterly EPS	1.91
Annual EPS (TTM)	5.86

Highlights of the Release

During the quarter, the Michigan Public Service Commission provided conditional approval to DTE Energy's proposed purchase of three new Michigan wind parks, enhancing its renewable energy portfolio by almost 50% and addressing its commitment to provide clean, affordable and reliable power to its customers.

The company inked an agreement to acquire a midstream gathering and lateral system, which will enhance its Midstream's business and provide access to the growing Gulf Coast markets.

Operating net income in the reported quarter totaled \$351 million compared with \$388 million in the year- ago quarter.

Segmental Details

Utility Operations

DTE Electric: The segment's operating earnings totaled \$307 million, up from \$304 million in the prior-year quarter.

DTE Gas: The segment incurred an operating loss of \$38 million compared with a loss of \$28 million in the prior-year quarter.

Non-Utility Operations: The operating earnings at this segment amounted to \$127 million compared with \$142 million in the year-ago quarter.

2019 Guidance

DTE Energy raised its 2019 operating earnings per share guidance to \$6.06-\$6.40 from \$6.02-\$6.38 projected earlier. The Zacks Consensus Estimate of \$6.24 for the company's full-year earnings lies just above the midpoint of its guided range.

Recent News

On **Dec 20, 2019**, DTE Energy announced that Shiloh Industries has joined its MIGreenPower program, committing to power three facilities with 100% Michigan-made clean energy. The move will offset the equivalent of nearly 4,000 metric tons of carbon dioxide emissions, thereby enhancing Shiloh's dedication to sustainability and focus on the environment.

Through DTE Energy's MIGreenPower, Shiloh will provide clean energy for its Plymouth Technical Center and stamping plants in Roseville and Warren.

Valuation

DTE Energy's shares slipped 0.3% in the past six months and went up 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 7.6% and 5% in the six months period, respectively. Over the past year, the Zacks sub-industry is up 25.6% whereas the sector is up 7.2%.

The S&P 500 index is up 9.4% in the six months period and 29% in the past year.

The stock is currently trading at 20.74X forward 12-month earnings, which compares to 14.68X for the Zacks sub-industry, 13.61X for the Zacks sector and 19.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.94X and as low as 17.18X, with a 5-year median of 19.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$136 price target reflects 21.90X earnings value.

The table below shows summary valuation data for DTE

Valuation Multiples - DTE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.74	14.68	13.61	19.06
	5-Year High	20.94	14.68	15.33	19.34
	5-Year Low	17.18	16.18	13.69	15.17
	5-Year Median	19.82	13.02	13.61	17.44
P/S F12M	Current	1.81	2.25	2.9	3.46
	5-Year High	1.83	2.25	3.26	3.48
	5-Year Low	1.51	1.5	1.7	2.54
	5-Year Median	1.62	1.83	1.95	3
P/B TTM	Current	2.24	1.76	3.97	4.41
	5-Year High	2.32	1.86	3.97	4.42
	5-Year Low	1.84	1.32	2.01	2.85
	5-Year Median	2.15	1.54	2.55	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 253)



Top Peers

Ameren Corporation (AEE)	Neutral
CMS Energy Corporation (CMS)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
Xcel Energy Inc. (XEL)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	DTE Neutral	X Industry	S&P 500	AEE Neutral	CMS Neutral	EIX Neutral
VGM Score	D	-	-	C	C	F
Market Cap	24.37 B	9.29 B	23.76 B	18.71 B	17.52 B	26.67 B
# of Analysts	4	2	13	5	5	4
Dividend Yield	3.15%	2.81%	1.78%	2.60%	2.48%	3.43%
Value Score	C	-	-	C	C	D
Cash/Price	0.00	0.04	0.04	0.00	0.02	0.02
EV/EBITDA	12.99	11.30	13.97	10.88	13.47	27.25
PEG Ratio	3.30	3.67	2.02	3.51	3.59	2.99
Price/Book (P/B)	2.23	1.76	3.38	2.28	3.51	1.74
Price/Cash Flow (P/CF)	10.13	9.08	13.70	9.88	10.98	7.36
P/E (F1)	19.80	19.60	18.83	21.87	23.07	16.22
Price/Sales (P/S)	1.84	2.22	2.68	3.11	2.55	2.15
Earnings Yield	5.07%	5.08%	5.30%	4.58%	4.33%	6.17%
Debt/Equity	1.28	1.06	0.72	1.05	2.43	1.11
Cash Flow (\$/share)	12.70	4.03	6.94	7.70	5.62	10.10
Growth Score	D	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	7.64%	4.40%	10.56%	8.26%	6.54%	0.35%
Proj. EPS Growth (F1/F0)	5.28%	5.68%	7.41%	6.58%	7.43%	-3.32%
Curr. Cash Flow Growth	10.89%	7.23%	14.83%	12.97%	6.77%	-8.10%
Hist. Cash Flow Growth (3-5 yrs)	4.53%	4.95%	9.00%	8.12%	8.07%	1.37%
Current Ratio	0.77	0.81	1.23	0.65	1.06	0.78
Debt/Capital	56.15%	51.35%	42.92%	51.33%	70.82%	52.64%
Net Margin	8.24%	9.70%	11.08%	13.34%	9.03%	-1.60%
Return on Equity	9.93%	9.47%	17.10%	10.10%	12.80%	11.98%
Sales/Assets	0.36	0.24	0.55	0.22	0.27	0.21
Proj. Sales Growth (F1/F0)	5.16%	3.15%	4.20%	4.37%	2.28%	3.12%
Momentum Score	C	-	-	A	A	B
Daily Price Chg	-0.90%	-0.60%	0.33%	-0.98%	-1.80%	-1.37%
1 Week Price Chg	-0.75%	-0.15%	0.13%	-0.35%	-0.89%	0.04%
4 Week Price Chg	2.66%	1.97%	3.31%	1.28%	-0.21%	4.26%
12 Week Price Chg	-1.22%	0.26%	9.70%	-1.04%	-4.07%	0.26%
52 Week Price Chg	18.79%	19.41%	30.28%	19.41%	27.50%	30.86%
20 Day Average Volume	1,044,784	262,578	1,603,615	1,603,615	1,391,951	1,814,496
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.14%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.08%	0.00%	0.99%
(F1) EPS Est 12 week change	0.48%	-0.12%	-0.57%	-0.38%	0.75%	1.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.77%

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	D
Momentum Score	C
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.

Disclosures

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