

DTE Energy Company (DTE)

\$96.44 (As of 03/13/20)

Price Target (6-12 Months): **\$102.00**

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:B

Value: C

Growth: B

Momentum: D

Summary

DTE Energy is investing steadily to enhance its renewable generation assets. The company 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 \$12 billion over the 2020-2024 period. The company 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. Michigan's unemployment rate is higher than that of the national average, which may hurt this stock's growth in future. Further, the company underperformed its industry in past year.

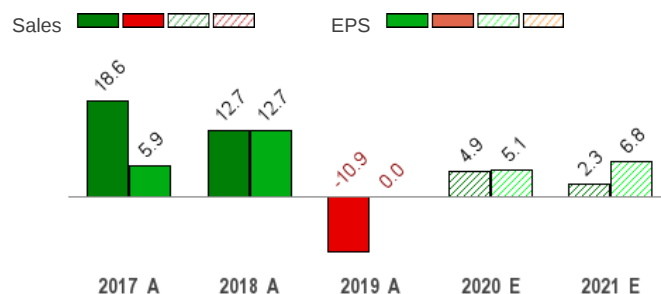
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.67 - \$79.92
20 Day Average Volume (sh)	2,048,999
Market Cap	\$18.5 B
YTD Price Change	-25.7%
Beta	0.46
Dividend / Div Yld	\$4.05 / 4.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	-20.8%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	04/22/2020
Earnings ESP	-13.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,599 E
2020					13,287 E
2019	3,514 A	2,888 A	3,119 A	3,148 A	12,669 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.95 E	\$1.24 E	\$1.84 E	\$2.03 E	\$7.07 E
2020	\$1.89 E	\$1.07 E	\$1.77 E	\$1.93 E	\$6.62 E
2019	\$2.05 A	\$0.99 A	\$1.91 A	\$1.35 A	\$6.30 A

*Quarterly figures may not add up to annual.

P/E TTM	15.3
P/E F1	14.6
PEG F1	2.4
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

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 2019 were \$5,224 million.

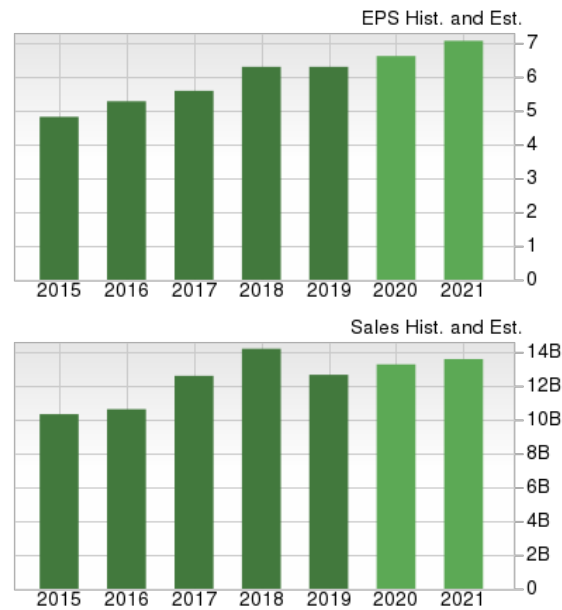
The Gas Utility segment consists of DTE Gas and Citizens. DTE Gas is a gas utility that purchases, stores, transports and distributes natural gas to residential, commercial and industrial customers in Michigan. Operating Revenues in 2019 were \$1,482 million.

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 2019 were \$501 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 2019 were \$1,560 million.

The Energy Trading division engages in marketing and trading of power and gas. Operating Revenues in 2019 were \$4,610 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 \$12 billion over the 2020-2024 period. This includes \$4 billion for capital replacements and other projects, \$5 billion for distribution infrastructure, and \$3 billion for new generation. DTE Gas' total capital investments over the 2020-2024 period are estimated at \$3 billion, which comprises \$1.4 billion for base infrastructure, and \$1.6 billion for gas main renewal, meter move out and pipeline integrity programs.
- ▲ Apart from its utility operation, DTE Energy continues to make progress in its non-utility business, which provides diversity to its earnings stream. DTE Energy's Gas Storage and Pipelines' capital investments over the 2020-2024 period are estimated to be \$2.2 billion-\$2.7 billion for gathering and pipeline investments, and expansions. 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 acquired three industrial energy services projects and two RNG projects in 2019, which are expected to boost its long-term growth.
- ▲ 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 March 2019, DTE Energy announced updated plans for accelerating the reduction of carbon emissions to 32% by the early 2020s, at least 50% by 2030, and 80% by 2040 from the 2005 carbon emissions levels. In September 2019, DTE Energy expanded this commitment by announcing a net zero carbon emission goal by 2050 for DTE Electric. To this end, it is imperative to mention that DTE Electric has already retired five coal-fired generation units and plans to retire the remaining 12 coal-fired generating units — six through 2022 and the remaining by 2040. The retired facilities will be replaced with natural gas-fired generation and renewables. Such robust initiatives would allow the company to rapidly reduce carbon emission from its portfolio, thereby progressing a step ahead in the growing renewable energy market.
- ▲ To reap the benefits of the growing renewable energy market, DTE Energy purchased an 89-MW renewable energy project located in Michigan from Heritage Sustainable Energy in September 2019. 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. Moreover, DTE Electric is progressing on its voluntary renewable energy program. Such developments 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 fourth quarter was \$2,649 million. Management expects the company to generate cash from operations of \$ 3 billion for 2020. 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 Dec 31, 2019, the company paid out dividends worth \$692 million, up from \$620 million in the prior-year period. This effort of the company to maximize shareholder value is expected to attract investors.

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

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. On the other hand alternative electric suppliers charge market-based rates and 2008 energy legislation enacted by the State of Michigan have placed a 10% cap on the total potential retail access migration. However, even with this legislated cap, there are risks 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 3.9% in December, more than the national average rate of 3.5%. 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 may have caused the company's investors to lose confidence in this stock. In the past year, shares of DTE Energy have declined 19.2% compared with the industry's slip of 0.8%.
- ▼ 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 21.23. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is above the mid-point of 18.65 and also higher than the industry's average of 20.44. Therefore, the company's valuation from a P/E perspective looks stretched, when compared with its own range in the time period.

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 Q4 Earnings Beat Estimates, Increase Y/Y

DTE Energy Company reported fourth-quarter 2019 operating earnings per share of \$1.35, which surpassed the Zacks Consensus Estimate of \$1.29 by 4.7%. The bottom line improved 48.4% from 91 cents in the year-ago quarter.

In 2019, the company generated operating earnings per share of \$6.30, which surpassed the Zacks Consensus Estimate of \$6.22 by 1.3%. The full-year bottom line also improved 2.1% from \$6.17 in the prior year.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-20.80%
EPS Surprise	4.65%
Quarterly EPS	1.35
Annual EPS (TTM)	6.30

Highlights of the Release

Operating net income in the reported quarter totaled \$258 million compared with \$165 million in the year-ago quarter.

In 2019, the company invested \$2.1 billion with Michigan-based companies, exceeding its commitment to the Pure Michigan Business Connect local supplier initiative.

More than 10,000 residential customers have enrolled in DTE Energy's MIGreenPower, and some of Southeast Michigan's largest commercial customers have already signed up for 400 MW of voluntary wind energy, which is equivalent to powering over 135,000 homes with clean energy.

Segmental Details

Utility Operations

DTE Electric: The segment's operating earnings totaled \$128 million, up from \$60 million in the prior-year quarter.

DTE Gas: The segment recorded operating earnings of \$64 million compared with \$62 million in the prior-year quarter.

Non-Utility Operations: Operating earnings at this segment amounted to \$93 million compared with \$78 million in the year-ago quarter.

2020 Guidance

DTE Energy reiterated its 2020 operating earnings per share guidance in the range of \$6.47-\$6.75. The Zacks Consensus Estimate of \$6.59 for the company's full-year earnings lies below the midpoint of its guided range.

Recent News

On **Feb 19, 2020**, DTE Energy's business, DTE Energy Services announced that it has completed the \$100 million purchase of the Marina Thermal Facility from SJI, an energy services holding company based in Folsom, New Jersey.

Located in Atlantic City, the Marina Thermal Facility is an eight-megawatt combined heat and power generation facility that provides electricity and hot and chilled water to MGM's Borgata Hotel Casino & Spa and The Water Club.

The company also announced, on the same date, that SEEL, LLC (Solutions for Energy Efficient Logistics) has enrolled as the first minority-owned corporation to join DTE Energy's MIGreenPower program. Through MIGreenPower, SEEL will provide 100% clean energy to its Detroit-based headquarters, thereby extending its commitment to clean energy by organizing its employees to also enroll in the program.

Valuation

DTE Energy's shares declined 25% in the year-to-date period and 12.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12.1% and 14.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 0.8% whereas the sector is down 17.3%.

The S&P 500 index is down 15.5% in the year-to-date period and 3.1% in the past year.

The stock is currently trading at 14.3X forward 12-month earnings, which compares to 12.9X for the Zacks sub-industry, 11.7X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.9X and as low as 13.8X, with a 5-year median of 18.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$102 price target reflects 15.2X 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	14.34	12.59	11.66	15.74
	5-Year High	20.94	15.58	15.36	19.34
	5-Year Low	13.57	11.14	11.66	15.18
	5-Year Median	18.3	13.26	13.77	17.42
P/S F12M	Current	1.39	2.03	2.62	2.9
	5-Year High	1.94	2.45	3.31	3.44
	5-Year Low	1.14	1.54	1.76	2.54
	5-Year Median	1.57	1.87	2.03	3
P/B TTM	Current	1.57	1.71	3.1	3.65
	5-Year High	2.32	2.13	4.07	4.56
	5-Year Low	1.48	1.32	2.02	2.85
	5-Year Median	1.91	1.56	2.59	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 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	B	-	-	C	C	D
Market Cap	18.54 B	7.34 B	19.05 B	18.75 B	17.73 B	19.31 B
# of Analysts	5	2	13	5	4	3
Dividend Yield	4.20%	3.34%	2.31%	2.60%	2.61%	4.79%
Value Score	C	-	-	D	D	B
Cash/Price	0.00	0.04	0.05	0.00	0.01	0.00
EV/EBITDA	10.50	9.92	11.57	11.07	12.63	9.46
PEG Ratio	2.22	3.73	1.68	3.58	3.30	3.73
Price/Book (P/B)	1.57	1.56	2.56	2.28	3.50	1.23
Price/Cash Flow (P/CF)	7.45	7.39	10.18	9.72	10.42	5.38
P/E (F1)	13.29	16.90	14.94	21.88	23.39	11.78
Price/Sales (P/S)	1.46	1.89	2.02	3.17	2.59	1.56
Earnings Yield	6.86%	5.76%	6.67%	4.57%	4.28%	8.49%
Debt/Equity	1.36	1.06	0.70	1.09	2.38	1.15
Cash Flow (\$/share)	12.95	4.09	7.01	7.84	5.99	9.90
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	7.49%	4.91%	10.85%	8.19%	6.76%	1.39%
Proj. EPS Growth (F1/F0)	5.05%	4.16%	5.99%	3.88%	7.13%	-3.83%
Curr. Cash Flow Growth	7.70%	3.75%	6.15%	2.50%	6.78%	7.87%
Hist. Cash Flow Growth (3-5 yrs)	4.88%	5.53%	8.52%	6.59%	7.74%	0.92%
Current Ratio	0.77	0.82	1.24	0.57	0.86	0.64
Debt/Capital	57.57%	51.32%	42.57%	52.09%	70.41%	53.55%
Net Margin	9.23%	10.09%	11.64%	14.01%	9.93%	10.89%
Return on Equity	10.52%	9.63%	16.74%	10.29%	14.28%	11.73%
Sales/Assets	0.33	0.23	0.54	0.21	0.27	0.20
Proj. Sales Growth (F1/F0)	4.88%	1.77%	3.54%	5.57%	4.02%	4.42%
Momentum Score	D	-	-	C	C	D
Daily Price Chg	5.77%	5.11%	8.21%	5.18%	5.94%	1.56%
1 Week Price Chg	3.98%	4.78%	-0.67%	8.04%	12.36%	0.60%
4 Week Price Chg	-27.79%	-19.94%	-22.67%	-11.20%	-8.14%	-31.18%
12 Week Price Chg	-25.62%	-12.76%	-20.46%	0.93%	-0.02%	-27.47%
52 Week Price Chg	-22.46%	-9.50%	-10.79%	4.88%	13.13%	-16.86%
20 Day Average Volume	2,048,999	554,487	3,061,271	2,460,248	3,058,964	2,740,730
(F1) EPS Est 1 week change	-0.24%	0.00%	0.00%	0.00%	0.00%	-1.54%
(F1) EPS Est 4 week change	-0.18%	0.00%	-0.32%	0.58%	-0.02%	-3.30%
(F1) EPS Est 12 week change	0.48%	0.00%	-0.65%	0.24%	-0.28%	-1.65%
(Q1) EPS Est Mthly Chg	-11.50%	0.00%	-0.62%	-2.79%	1.79%	44.93%

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	B
Momentum Score	D
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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