

DTE Energy Company (DTE)

\$107.29 (As of 04/29/20)

Price Target (6-12 Months): **\$114.00**

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: C

Momentum: C

Summary

DTE Energy ended the first quarter of 2020 with earnings lagging the Zacks Consensus Estimate. The company is investing steadily to enhance its renewable generation assets. 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 the industry in past year.

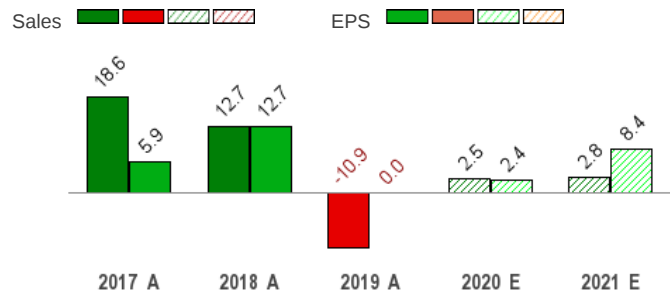
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.67 - \$71.21
20 Day Average Volume (sh)	1,235,244
Market Cap	\$20.7 B
YTD Price Change	-17.4%
Beta	0.59
Dividend / Div Yld	\$4.05 / 3.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 26% (66 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.7%
Last Sales Surprise	-12.5%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	18.2
P/E F1	16.6
PEG F1	2.8
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,354 E
2020	3,022 A	3,022 E	3,218 E	3,261 E	12,992 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	\$1.69 E	\$1.32 E	\$1.92 E	\$2.10 E	\$6.99 E
2020	\$1.66 A	\$1.14 E	\$1.86 E	\$1.74 E	\$6.45 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.

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.

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.

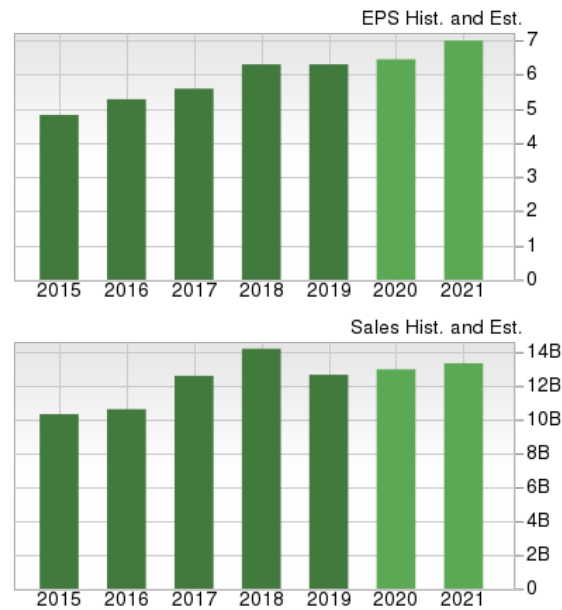
The Gas Utility segment consists of DTE Gas and Citizens. DTE Gas is a gas utility that purchases, stores, transports and distributes natural gas to residential, commercial and industrial customers in Michigan. Operating Revenues in 2019 were \$1,482 million.

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 service projects and two RNG projects in 2019, which are expected to boost long-term growth. During the first quarter of 2020, its Wisconsin RNG and Ford Motor projects started operating. Further, de-carbonization across the Energy sector continues to support RNG development and other associated opportunities for DTE Energy's Power and Industrial (P&I) business.
- ▲ 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. In April, its Polaris Wind park, providing clean energy to power more than 64,000 homes, started operations. It is the first of four new wind parks the company will commission in 2020. Such developments should boost the company's position in the rapidly transforming energy market, wherein clean energy producing utilities will gain more.

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:

- ▼ 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 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

- ▼ DTE Energy's cash and cash equivalents at the end of first quarter 2020 was \$552 million compared to \$93 million at the end of 2019. The company's short-term borrowings and current portion of long-term debt was worth \$1,518 million, as of Mar 31, 2020. This is much higher than its cash reserve balance, as of Mar 31, 2020. Moreover, the company's current ratio is 0.89, which is less than 1, thereby indicating not enough capital in hand to meet short-term obligations. Further, its times interest earned ratio is 2.9, as of Mar 31, 2020, compared to 3.1, as of Dec 31, 2019. This also makes us skeptical about the firm's ability to meet debt obligations in the near future. This, in turn, might have impacted investors' confidence in the stock. Notably, shares of the company have lost 13.5% in a year's time against the industry's 2% decline.
 - ▼ The prolonged and ongoing turmoil caused by the COVID-19 pandemic may impact the company, going forward. Notably, the pandemic has already inflicted an adverse impact on the company's existing and planned operations, supply chains and distribution systems, thereby, increasing its overall expenses. Going ahead, the company may also witness reduction in sales due to the Covid-19 impact. Currently, the company anticipates witnessing a 6-9% annual sales decrease for its commercial sales and an 18-22% annual sales decrease for its industrial sales. As a result of such impacts, its operating results would also take a hit and put pressure on earnings. Since the pandemic is unlikely to die out anytime soon, it might turn out to be a major growth inhibitor for this stock, in the near future.
 - ▼ 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 16.88. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 16.6. Therefore, the company's valuation from a P/E perspective looks stretched, when compared with its own range in the time period.
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Last Earnings Report

DTE Energy Earnings Miss Estimates in Q1,Down Y/Y

DTE Energy Company reported first-quarter 2020 operating earnings per share (EPS) of \$1.66, which missed the Zacks Consensus Estimate of \$1.78 by 6.7%. The bottom line fell 19% from \$2.05 in the year-ago quarter.

Highlights of the Release

Operating net income in the reported quarter totaled \$320 million compared with \$374 million in the year-ago quarter.

The company is providing assistance to low-income and vulnerable customers. It has ranked among top 10 energy companies in the United States for energy efficiency programs.

Segmental Details

Utility Operations

DTE Electric: The segment's operating earnings amounted to 49 cents per share, down from 81 cents in the prior-year quarter.

DTE Gas: The segment recorded operating earnings of 63 cents per share compared with 83 cents in the prior-year quarter.

Non-Utility Operations: Operating earnings in the segment totaled 60 cents per share compared with 44 cents in the year-ago quarter.

2020 Guidance

DTE Energy reaffirmed its 2020 operating earnings per share guidance in the range of \$6.47-\$6.75. The Zacks Consensus Estimate of \$6.48 for the company's full-year earnings lies below the midpoint of its guidance.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-12.48%
EPS Surprise	-6.74%
Quarterly EPS	1.66
Annual EPS (TTM)	5.91

Recent News

On **Apr 21, 2020**, DTE Energy launched a new Personalized Service Protection program to help customers experiencing financial hardship due to COVID-19. The plan is available immediately and helps ensure impacted customers can retain the energy service they need during this ongoing, unprecedented crisis.

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 17.4% in the year-to-date period and 13.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 10.9% and 13.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 2%, whereas the sector is down 17.6%.

The S&P 500 index is down 11.4% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 16.1X 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 20.9X and as low as 11.5, with a 5-year median of 18.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 17.1X 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	16.13	13.09	12.3	20.16
	5-Year High	20.94	15.53	15.32	20.16
	5-Year Low	11.46	11.12	11.35	15.19
	5-Year Median	18.3	13.23	13.79	17.44
P/S F12M	Current	1.58	2.11	2.61	3.3
	5-Year High	1.94	2.45	3.29	3.44
	5-Year Low	1.11	1.54	1.75	2.54
	5-Year Median	1.58	1.88	2.04	3.01
EV/EBITDA TTM	Current	7.37	11.94	16.62	10.45
	5-Year High	9.88	13.43	19.48	12.87
	5-Year Low	5.34	7.8	10.59	8.27
	5-Year Median	7.65	10.26	13.32	10.78

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
CMS Energy Corporation (CMS)	Neutral	3
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	2
Entergy Corporation (ETR)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	DTE	X Industry	S&P 500	AEE	CMS	EIX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	C
Market Cap	20.67 B	7.58 B	20.82 B	18.41 B	16.39 B	21.89 B
# of Analysts	5	3	14	5	4	3
Dividend Yield	3.77%	3.29%	2.07%	2.65%	2.85%	4.22%
Value Score	C	-	-	D	C	B
Cash/Price	0.00	0.05	0.06	0.00	0.01	0.00
EV/EBITDA	11.14	9.98	12.12	10.94	12.06	10.12
PEG Ratio	2.69	3.66	2.51	3.24	3.18	4.08
Price/Book (P/B)	1.74	1.48	2.74	2.24	3.22	1.40
Price/Cash Flow (P/CF)	8.29	8.24	11.23	9.52	9.56	6.10
P/E (F1)	16.16	17.85	19.26	21.87	22.09	13.51
Price/Sales (P/S)	1.70	1.91	2.16	3.12	2.46	1.77
Earnings Yield	6.01%	5.50%	5.03%	4.57%	4.52%	7.40%
Debt/Equity	1.36	1.06	0.72	1.09	2.38	1.15
Cash Flow (\$/share)	12.95	4.27	7.01	7.84	5.99	9.90
Growth Score	C	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	7.49%	4.77%	10.88%	8.19%	6.76%	1.39%
Proj. EPS Growth (F1/F0)	2.32%	1.84%	-6.94%	1.85%	4.12%	-4.89%
Curr. Cash Flow Growth	7.70%	3.66%	5.92%	2.50%	6.78%	7.87%
Hist. Cash Flow Growth (3-5 yrs)	4.88%	5.53%	8.55%	6.59%	7.74%	0.92%
Current Ratio	0.77	0.83	1.23	0.57	0.86	0.64
Debt/Capital	57.57%	50.95%	43.90%	52.09%	70.41%	53.55%
Net Margin	9.10%	10.79%	11.15%	14.01%	10.68%	10.89%
Return on Equity	10.02%	9.86%	16.47%	10.29%	14.86%	11.73%
Sales/Assets	0.31	0.23	0.54	0.21	0.26	0.20
Proj. Sales Growth (F1/F0)	2.55%	0.00%	-1.52%	3.02%	1.45%	2.93%
Momentum Score	C	-	-	C	A	B
Daily Price Chg	0.91%	0.67%	2.91%	0.50%	-3.29%	-2.93%
1 Week Price Chg	-2.67%	-3.65%	-1.74%	-5.38%	-5.97%	-4.53%
4 Week Price Chg	21.81%	11.68%	21.33%	10.17%	2.78%	17.75%
12 Week Price Chg	-20.20%	-15.89%	-16.28%	-9.75%	-15.68%	-21.93%
52 Week Price Chg	-13.48%	-7.38%	-7.57%	3.29%	4.15%	0.13%
20 Day Average Volume	1,235,244	492,176	2,658,107	1,561,254	2,151,647	2,468,458
(F1) EPS Est 1 week change	0.60%	0.00%	0.00%	0.00%	1.67%	0.00%
(F1) EPS Est 4 week change	-1.14%	-0.81%	-6.32%	-1.33%	-0.81%	-0.07%
(F1) EPS Est 12 week change	-1.08%	-1.76%	-12.93%	-1.39%	-0.92%	-3.19%
(Q1) EPS Est Mthly Chg	-0.58%	-1.72%	-11.84%	-3.03%	-4.92%	-3.68%

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	C
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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