

DTE Energy Company (DTE)

\$114.70 (As of 07/30/20)

Price Target (6-12 Months): **\$122.00**

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: B

Growth: B

Momentum: D

Summary

DTE Energy ended the second quarter of 2020 with earnings exceeding the Zacks Consensus Estimate. It is investing steadily to enhance its renewable generation assets, to reap the benefits of the growing clean energy market. It currently expects to make capital investments of \$12 billion over the 2020-2024 period, in order to maintain and upgrade the reliability of its electric utility systems. 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. Going ahead, it may witness a reduction in sales and an increase in costs due to the COVID-19 impact. Further, the company underperformed the industry in the past year.

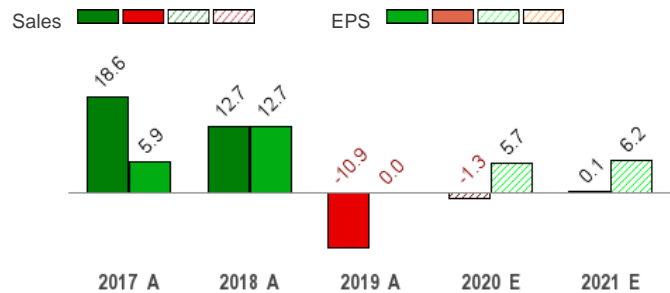
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.67 - \$71.21
20 Day Average Volume (sh)	1,143,783
Market Cap	\$22.1 B
YTD Price Change	-11.7%
Beta	0.59
Dividend / Div Yld	\$4.05 / 3.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.8%
Last Sales Surprise	-11.1%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	10/26/2020
Earnings ESP	-0.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,508 E
2020	3,022 A	2,583 A	3,136 E	3,186 E	12,501 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	\$2.18 E	\$1.18 E	\$2.38 E	\$1.32 E	\$7.07 E
2020	\$1.66 A	\$1.53 A	\$1.87 E	\$1.68 E	\$6.66 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	17.8
P/E F1	17.2
PEG F1	2.9
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

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 for the Electric Utility segment in 2019 were \$5,224 million.

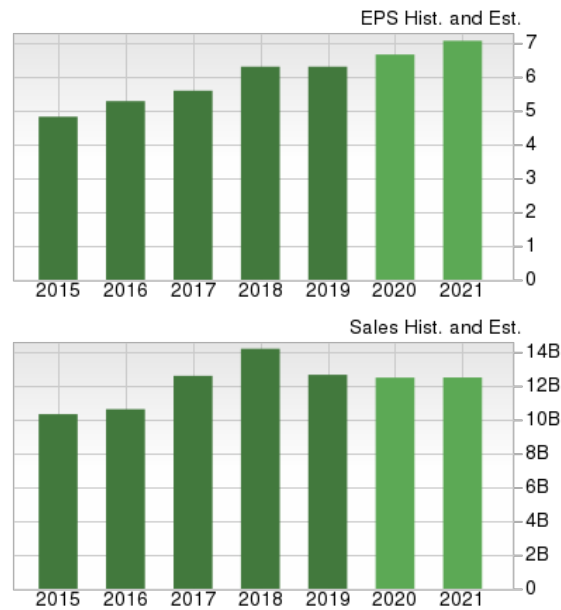
The Gas Utility segment consists of DTE Gas and Citizens. DTE Gas is a gas utility that specializes in purchasing, storing, transporting and distributing natural gas to residential, commercial and industrial customers in the state of Michigan. Operating revenues for the Gas Utility segment in 2019 were \$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 for this segment 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 for this segment in 2019 were \$1,560 million.

The Energy Trading division engages in marketing and trading of power and gas. Operating revenues for this segment 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, the company acquired three industrial energy service projects and two RNG projects in 2019, which are expected to boost long-term growth. 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.
- ▲ 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 the second quarter, the company commissioned the largest wind park in Michigan. The Polaris Wind park, which has 68 turbines and can power 64,000 homes, is a significant step toward the company's goal of reducing carbon emissions by 50% by 2030. Such developments should boost the company's position in the rapidly transforming energy market, wherein clean energy producing utilities are expected to gain significantly.

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 the second quarter of 2020 was \$579 million compared to \$552 million as of Mar 31, 2020. The company's short-term borrowings and current portion of long-term debt was worth \$1,584 million as of Jun 30. This is much higher than its cash reserve balance as of Jun 30. Moreover, the company's current ratio is 0.83, which is less than 1, thereby indicating that the company may not have enough capital in hand to meet its short-term obligations.

Further, its times interest earned ratio is 2.9 as of Jun 30, 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 affected investors' confidence in the stock. Notably, shares of the company have lost 11.1% in a year's time compared to the industry's 5.5% decline.

- ▼ During the second quarter, the COVID-19 pandemic led to a reduction in sales volumes for DTE Energy, from commercial and industrial customers and has also impacted the Power and Industrial Projects segment. Operation and maintenance expenses have also escalated due to increasing costs. Going ahead, the company is expected to witness further reduction in sales and an increase in costs due to the COVID-19 impact. Notably, the prolonged and ongoing turmoil caused by the COVID-19 pandemic may well be a serious concern for the stock, going forward. Since the pandemic is unlikely to die out anytime soon, it might turn out to be a major growth inhibitor for this stock, going ahead.
 - ▼ 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 19.41. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 17.01. 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 Q2 Earnings Beat, Operating Income Rises

DTE Energy Company (DTE) reported second-quarter 2020 operating earnings per share (EPS) of \$1.53, which beat the Zacks Consensus Estimate of \$1.31 by 16.8%.

The company reported GAAP earnings of \$1.44 per share, which came in 45.5% higher than the year-ago quarter's 99 cents.

Highlights of the Release

Operating net income in the reported quarter totaled \$277 million compared with \$183 million in the year-ago quarter.

The company partnered with General Motors on renewable energy investment, which will enable it to supply enough clean energy to General Motor's Southeast Michigan facilities by 2023.

DTE Energy has invested more than \$1.1 billion in Michigan-based companies in the first half of 2020, executing its commitment to the Pure Michigan Business Connect local supplier initiative.

Segmental Details

DTE Electric: The segment's operating earnings amounted to \$1.13 per share, up from 73 cents in the prior-year quarter.

DTE Gas: The segment recorded operating earnings of 5 cents per share compared with 2 cents in the prior-year quarter.

Non-Utility Operations: Operating earnings in the segment totaled 53 cents per share compared with 40 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 \$6.59 lies below the midpoint of the guided range.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	-11.05%
EPS Surprise	16.79%
Quarterly EPS	1.53
Annual EPS (TTM)	6.45

Recent News

On **Jul 9, 2020**, DTE Energy announced that the Michigan Public Service Commission (MPSC) has sanctioned its Renewable Energy Plan, thereby enabling the company to bring online an additional 353 megawatts (MW) of wind and solar projects by 2022. On completion of these projects, the company will be able to light up 620,000 homes with clean energy.

The authority has also approved the company's regulatory plans to keep its electric rates stable till 2022 in a bid to support customers tackling the effects of the coronavirus pandemic. Per the terms of the plan, DTE Energy will consistently invest in infrastructure and tree trimming programs.

On **May 22, 2020**, DTE Energy announced that it will invest \$7.5 million to support environmental and sustainable improvements in Wayne County, Michigan. The investment is a key part of an agreement reached with the Environmental Protection Agency (EPA) and the Sierra Club that resolves an ongoing dispute over how the EPA's new source review (NSR) rules would apply to new emission control investments for coal plant operations. The agreement enables DTE Electric to continue its progress toward net zero carbon emissions by 2050.

On **May 7, 2020**, Duke Energy announced that following a ten-month regulatory review process, the Michigan Public Service Commission (MPSC) has approved new electric rates for DTE Energy customers. The new funding includes investments that will help DTE improve electric reliability, support Michigan jobs, reduce carbon emissions and provide needed upgrades at the Ludington Pumped Storage Power Plant.

Valuation

DTE Energy's shares declined 11.7% in the year-to-date period and 11.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 11.9% and 12.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 5.5% whereas the sector is down 8.1%.

The S&P 500 index is up 1.3% in the year-to-date period and up 10.7% in the past year.

The stock is currently trading at 16.7X forward 12-month earnings, which compares to 14.3X for the Zacks sub-industry, 13.2X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.9X and as low as 11.5X, with a 5-year median of 18.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$122 price target reflects 17.8X 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	16.71	14.25	13.16	22.69
	5-Year High	20.94	15.53	15.32	22.69
	5-Year Low	11.46	11.12	11.4	15.25
	5-Year Median	18.3	13.23	13.78	17.52
P/S F12M	Current	1.77	2.34	2.73	3.59
	5-Year High	1.94	2.45	3.29	3.59
	5-Year Low	1.11	1.54	1.75	2.53
	5-Year Median	1.59	1.9	2.06	3.02
EV/EBITDA TTM	Current	7.95	12.88	18.52	12.11
	5-Year High	9.88	13.6	20.87	12.85
	5-Year Low	5.67	7.81	10.59	8.25
	5-Year Median	7.66	10.41	13.8	10.88

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameren Corporation (AEE)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	2
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	3
Entergy Corporation (ETR)	Neutral	2
FirstEnergy Corporation (FE)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	2
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	2	3
VGM Score	B	-	-	D	F	C
Market Cap	22.09 B	9.19 B	22.57 B	19.64 B	18.30 B	20.75 B
# of Analysts	6	3	14	5	5	5
Dividend Yield	3.53%	3.36%	1.83%	2.49%	2.55%	4.65%
Value Score	B	-	-	C	C	B
Cash/Price	0.03	0.07	0.07	0.00	0.05	0.06
EV/EBITDA	11.82	9.85	12.96	11.60	12.82	9.85
PEG Ratio	2.86	3.56	3.04	3.40	3.45	3.70
Price/Book (P/B)	1.86	1.63	3.13	2.39	3.50	1.26
Price/Cash Flow (P/CF)	8.86	8.15	12.61	10.15	10.67	5.59
P/E (F1)	17.14	17.95	22.06	22.98	24.14	12.37
Price/Sales (P/S)	1.86	1.94	2.42	3.39	2.75	1.66
Earnings Yield	5.81%	5.48%	4.31%	4.35%	4.15%	8.09%
Debt/Equity	1.47	1.03	0.75	1.14	2.42	1.17
Cash Flow (\$/share)	12.95	4.21	6.94	7.84	5.99	9.81
Growth Score	B	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	6.69%	5.07%	10.85%	7.69%	6.95%	2.41%
Proj. EPS Growth (F1/F0)	5.69%	0.63%	-7.75%	3.34%	6.35%	-5.62%
Curr. Cash Flow Growth	7.70%	6.30%	5.39%	2.50%	6.78%	7.87%
Hist. Cash Flow Growth (3-5 yrs)	4.88%	6.08%	8.55%	6.59%	7.74%	0.92%
Current Ratio	0.83	0.86	1.31	0.62	0.96	0.81
Debt/Capital	59.49%	50.57%	44.32%	53.27%	70.72%	53.91%
Net Margin	10.13%	10.46%	10.44%	13.51%	10.68%	9.42%
Return on Equity	10.50%	9.16%	14.73%	9.62%	14.68%	9.80%
Sales/Assets	0.28	0.22	0.52	0.20	0.25	0.19
Proj. Sales Growth (F1/F0)	-1.44%	0.00%	-1.95%	1.36%	-1.05%	3.58%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	-0.45%	-0.12%	-0.92%	-0.75%	-0.06%	2.03%
1 Week Price Chg	2.74%	0.30%	0.37%	0.99%	2.87%	-0.60%
4 Week Price Chg	4.30%	4.19%	4.14%	8.63%	6.02%	-1.21%
12 Week Price Chg	16.19%	9.62%	12.21%	14.21%	17.22%	0.62%
52 Week Price Chg	-11.12%	-10.87%	-1.73%	3.80%	8.37%	-25.73%
20 Day Average Volume	1,143,783	340,025	1,887,986	1,247,716	1,653,029	2,071,965
(F1) EPS Est 1 week change	1.01%	0.00%	0.00%	0.00%	0.00%	0.77%
(F1) EPS Est 4 week change	1.97%	0.00%	0.38%	0.93%	0.61%	0.41%
(F1) EPS Est 12 week change	2.17%	-0.34%	-0.07%	0.42%	0.18%	-0.22%
(Q1) EPS Est Mthly Chg	0.43%	0.00%	0.16%	2.44%	-2.83%	3.26%

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	B
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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