DTE Energy Co. (DTE)

Updated March 12th, 2019 by Noah Horwood

Key Metrics

Current Price:	$123	**5 Year CAGR Estimate:**	5.5%	**Volatility Percentile:**	4.6%
Fair Value Price:	$102	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	82.8%
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Growth Percentile:**	52.3%
Dividend Yield:	3.2%	**5 Year Price Target**	$136	**Valuation Percentile:**	22.2%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	23.2%

Overview & Current Events

DTE Energy was founded over a century ago in 1849 as City of Detroit Gas. Since then, the company has changed its name multiple times and grown significantly. The company currently operates all around the United States with a majority of their business being conducted in Michigan. DTE Energy operates under five reportable segments: Electric, Gas, Gas Storages & Pipelines, Power & Industrial Projects, and Energy Trading. Their Electric and Gas segments are state-regulated utilities which contribute over 80% of total net income. The large percentage of income coming from regulated utilities gives the company growth certainty and supports the dividend. DTE Energy's overall strategic goal is, "Leading the Way to a Cleaner, Safer and Smarter Energy Future". The $22 billion market capitalization company is listed on the New York Stock Exchange under the ticker DTE.

On February 7th, 2019 DTE released Q4 and full year results for the period ending December 31, 2018. Operating earnings for the quarter totaled $332 million ($1.82 per share) against $307 million ($1.71 per share) in Q4 of 2017. For the year operating earnings totaled $1,594 million ($8.76) against $1,646 million ($9.18) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.24	$3.74	$3.67	$3.88	$3.76	$5.10	$4.44	$4.83	$5.73	$6.17	***$6.54***	***$8.75***
DPS	$2.12	$2.18	$2.32	$2.42	$2.59	$2.69	$2.84	$3.06	$3.36	$3.60	***$3.78***	***$4.82***
Shares	165.4	169.4	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	***182.0***	***195.0***

DTE had a very good 2018, led by revenue increasing over 12% and earning per share increasing by almost 10%. DTE has seen significant growth coming from its Gas Storage and Pipelines segment. In 2018, net income from DTE's Gas Storages and Pipelines operations grew almost 50% from $160 million to $233 million. The strong growth is driven by grid investment and pipeline replacement conducted in 2018 which is going to drive growth in this segment for the next five years.

Moving forward DTE has been making steps to produce more clean energy, which is where the utilities industry is generally headed in the foreseeable future. By 2030, the company's goal is to have over half of its energy produced coming from renewable sources. DTE Energy has announced plans to replace its coal fleet with renewable options which will cost $14 billion over the next five years. The company's renewable investments have already started paying off; in February, Ford and GE's Michigan subsidiaries decided to power their facilities with DTE's wind power generation.

We expect growth from: Gas, Storages and Pipelines segment; renewable energy sales growth; and replacement of aging infrastructure to drive an average annual growth rate 6% through the next half decade to 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.4	12.3	13.5	14.9	17.9	14.9	18.1	19.0	18.6	17.4	***18.8***	***15.6***
Avg. Yld.	6.3%	4.8%	4.7%	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	***3.2%***	***4.0%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

DTE Energy Co. (DTE)

Updated March 12th, 2019 by Noah Horwood

DTE Energy's price to earnings ratio has been steadily rising through the last decade. Comparing current P/E levels with the 10-year historical average of 15.6, it seems that DTE Energy is relatively overvalued. We expect valuation multiple compression to reduce total returns by 3.7 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	67%	61%	62%	61%	64%	53%	58%	57%	58%	56%	***58%***	***55%***

DTE Energy's dividend appears safe. Dividend payouts have been steadily growing for the last 40 years. The company issued its first dividend in March of 1980 for $0.40 per share and now offers $0.95 a share almost 40 years later. Being primarily a regulated utility, revenue is protected by local regulators which gives DTE Energy growth certainty and protects their attractive dividend. The company also has been able to keep its payout ratio relatively close to 60% over the past decade; the payout is expected to remain a bit below 60% going forward.

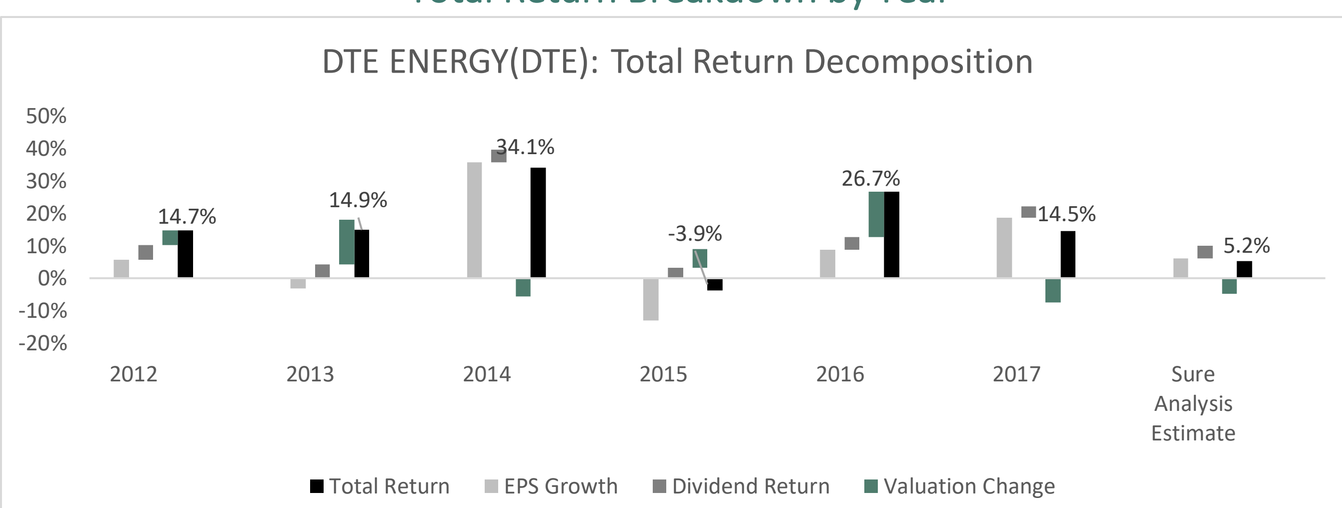
Being a regulated utility, DTE Energy has relatively low risks, as the company is protected by local regulators in each area where it operates. Since DTE Energy has been operating in the Michigan area for so long the company has favorable relationships with local regulators which take away some risk of new regulation surprises. Another circumstance that hedges the company from unexpected regulation changes is proactively trying to reduce the carbon the company is producing by making new renewable sources and reducing their coal fleet.

Due to the 2017 tax overhaul, which made it easier for utilities to borrow money, most utility companies have been increasing their capital expenditures. DTE Energy has been in line with others in the industry, the company has increased capital expenditures by over 30% since 2016. It is projected that their capex will increase by another 12% in 2019. Increases in capex have led to higher debt levels which have risen by over 20% since 2016. This would become a corporate risk if interest rates begin to move significantly higher.

Final Thoughts & Recommendation

DTE Energy has been performing very well lately, generating a total return of over 25% in the last 12 months. The company has an attractive dividend and has been growing EPS well above the industry average. Despite strong recent performance, shares are currently trading above their fair value and at a P/E ratio over their historic average. Overall, we expect total returns of just 4.4% annually here. As a result, we rate DTE Energy as a sell at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

DTE Energy Co. (DTE)

Updated March 12th, 2019 by Noah Horwood

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	8014	8525	8858	8791	9661	12301	10337	10630	12607	14212
Gross Profit	4896	2768	2709	2603	2628	3075	2561	2839	3173	3150
Gross Margin	61.1%	32.5%	30.6%	29.6%	27.2%	25.0%	24.8%	26.7%	25.2%	22.2%
D&A Exp.	N/A	N/A	N/A	1018	1094	1145	852	976	1030	1124
Operating Profit	1229	1470	1421	1276	1194	1578	1345	1452	1687	1584
Operating Margin	15.3%	17.2%	16.0%	14.5%	12.4%	12.8%	13.0%	13.7%	13.4%	11.1%
Net Profit	532	630	711	610	661	905	727	868	1134	1120
Net Margin	6.6%	7.4%	8.0%	6.9%	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%
Free Cash Flow	784	726	524	389	278	-204	-104	39	-133	-33
Income Tax	247	315	268	286	254	364	230	271	175	98

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	24195	24896	26009	26339	25935	27899	28662	32041	33767	36288
Cash & Equivalents	52	65	68	65	52	48	37	92	66	71
Acc. Receivable	1655	1753	720	650	727	731	656	708	758	789
Inventories	509	662	791	761	628	804	803	772	779	811
Goodwill & Int.	2078	2176	2093	2153	2140	2120	2107	3128	3160	3142
Total Liabilities	17879	18129	18956	18928	17981	19557	19867	22542	23777	25571
Accounts Payable	723	729	782	848	962	973	809	1079	1171	1329
Long-Term Debt	8317	8121	8109	8059	8232	9012	9717	11775	12914	14235
Total Equity	6278	6722	7009	7373	7921	8327	8772	9011	9512	10237
D/E Ratio	1.32	1.21	1.16	1.09	1.04	1.08	1.11	1.31	1.36	1.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.2%	2.6%	2.8%	2.3%	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%
Return on Equity	8.7%	9.7%	10.4%	8.5%	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%
ROIC	3.6%	4.3%	4.7%	4.0%	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%
Shares Out.	165.4	169.4	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0
Revenue/Share	48.87	50.44	52.11	51.11	55.21	69.50	57.75	59.39	70.43	78.52
FCF/Share	4.78	4.30	3.08	2.26	1.59	-1.15	-0.58	0.22	-0.74	-0.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.