DTE Energy Co. (DTE)

Updated November 21st, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$124	**5 Year CAGR Estimate:**	4.4%	**Volatility Percentile:**	3.4%
Fair Value Price:	$98	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	42.8%
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Growth Percentile:**	56.8%
Dividend Yield:	3.0%	**5 Year Price Target**	$131	**Valuation Percentile:**	30.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	31.4%

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 has grown significantly. The company currently operates all around the United States, with the majority of its business being conducted in Michigan. DTE Energy operates under five reportable segments: Electric, Gas, Gas Storages & Pipelines, Power & Industrial Projects, and Energy Trading. Its 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 reliable growth and supports the dividend. DTE Energy's overall strategic goal is to "Lead the Way to a Cleaner, Safer and Smarter Energy Future". The stock has a market capitalization of $24 billion.

In late October, DTE Energy reported (10/28/19) financial results for the third quarter of fiscal 2019. Its operating earnings-per-share decreased -10% over last year's quarter due to higher expenses in its gas business and the timing of taxes. However, thanks to positive business momentum, management raised its guidance for this year's earnings-per-share from $6.02-$6.38 to $6.06-$6.40. Management also provided early guidance for next year. It expects earnings-per-share of $6.47-$6.75 for 6.1% growth at the mid-point. Moreover, thanks to its promising outlook, the company raised its annual dividend 7%, from $3.78 to $4.05. As the new dividend will be paid next year, it will be included in our total return calculations from the next quarter.

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	***$6.25***	***$8.36***
DPS	$2.12	$2.18	$2.32	$2.42	$2.59	$2.69	$2.84	$3.06	$3.36	$3.60	***$3.78***	***$4.94***
Shares[1]	165.4	169.4	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	***185.0***	***195.0***

DTE Energy had a very good 2018, led by revenue growth over 12% and earnings-per-share growth of almost 10%. DTE Energy 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, which is going to drive growth in this segment for the next five years.

Moving forward, DTE has been taking steps to produce cleaner energy, which is where the utility industry is generally headed in the foreseeable future. The company's goal is to have over half of its energy produced coming from renewable sources by 2030. 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 6% average annual earnings-per-share growth over the next five years thanks to growth in the Gas Storages & Pipelines segment and also renewable energy sales growth. This growth rate is in line with the guidance of the company.

[1] In millions.

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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	***19.8***	***15.7***
Avg. Yld.	6.3%	4.8%	4.7%	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	***3.0%***	***3.8%***

DTE Energy's price-to-earnings ratio has steadily risen throughout the last decade. Thanks to its promising growth prospects, the stock is currently trading at a nearly decade-high earnings multiple of 19.8, which is much higher than its 10-year historical average of 15.7. DTE Energy seems richly valued right now. If the stock reverts to its average valuation level over the next five years, it will incur a -4.6% annualized drag in its returns.

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%	***60%***	***59%***

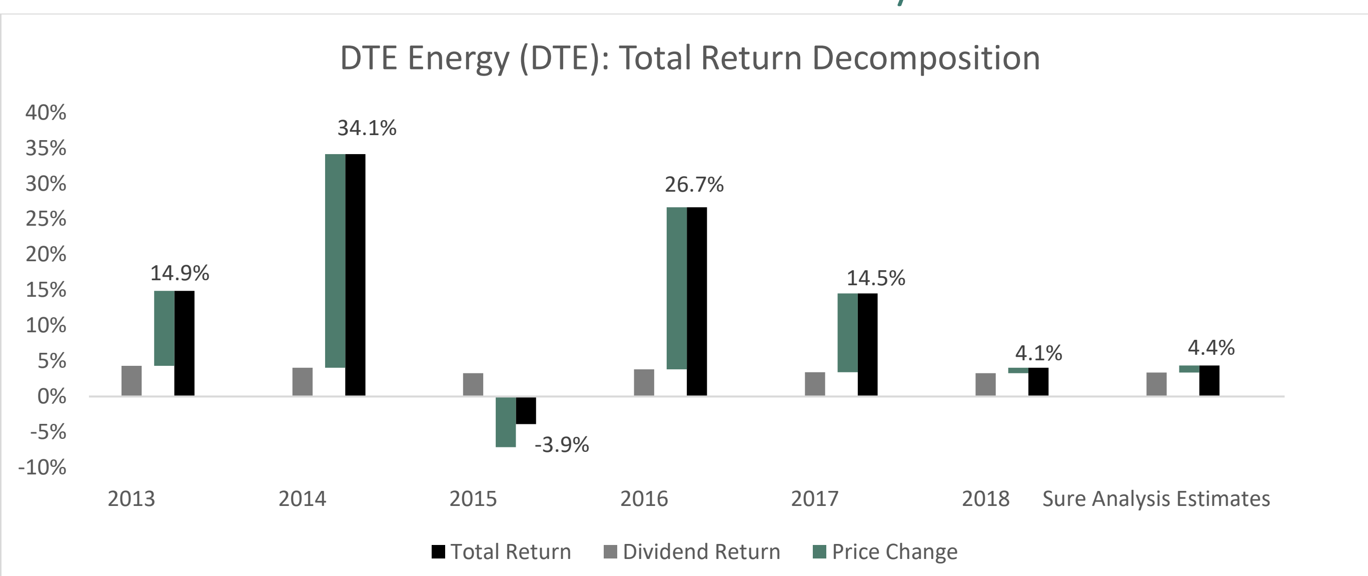
Thanks to its promising growth prospects, DTE Energy is trading near an all-time high level and thus it is offering a lackluster 3.0% dividend yield. On the other hand, the dividend appears safe. Dividend payouts have steadily grown in the last 40 years. As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around this level for the foreseeable future.

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 factor that protects the company from unexpected regulation changes is its proactive effort to reduce its carbon emissions.

Final Thoughts & Recommendation

DTE Energy is growing faster than most utilities but it is offering a lackluster dividend yield. Thanks to its positive business momentum, its growth prospects and low prevailing interest rates, the stock is now trading near an all-time high and at a rich valuation level. As a result, it may offer just a 4.4% average annual return over the next five years. Further, the stock will come under pressure if interest rates rise at some point in the future. We maintain our sell rating.

Total Return Breakdown by Year



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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.

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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.