



DTE Energy Co. (DTE)

Updated February 5th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	5.4%	Market Cap:	\$25.6 B
Fair Value Price:	\$111	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	3/13/2020
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date:	4/15/2020
Dividend Yield:	3.0%	5 Year Price Target	\$149	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	7.1%

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 70% 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 \$26 billion.

In early February, DTE Energy reported (2/5/20) financial results for the fourth quarter of fiscal 2019. In the year, earnings-per-share grew only 2%, as the rate hikes in the regulated segments were partly offset by lower earnings in the non-regulated segments. Management reiterated its guidance for this year's earnings-per-share of \$6.47-\$6.75 for 4.8% growth at the mid-point. Moreover, thanks to its promising outlook, management reaffirmed its expectations to grow earnings-per-share and the dividend at a 5%-7% average annual rate over the next five years.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.74	\$3.67	\$3.88	\$3.76	\$5.10	\$4.44	\$4.83	\$5.73	\$6.17	\$6.31	\$6.65	\$8.90
DPS	\$2.18	\$2.32	\$2.42	\$2.59	\$2.69	\$2.84	\$3.06	\$3.36	\$3.60	\$3.78	\$4.05	\$5.42
Shares¹	169.4	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185.0	187.0	195.0

DTE Energy plans to invest \$19 billion in growth projects over the next five years. As this amount is 73% of the market cap of the stock, it is evident that the company is heavily investing in its growth.

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. The company's renewable investments have already started paying off; about a year ago, 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 heavy investment in the regulated segments and renewable energy sales growth. This growth rate is in line with the guidance of the company.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.3	13.5	14.9	17.9	14.9	18.1	19.0	18.6	17.4	19.9	20.0	16.7
Avg. Yld.	4.8%	4.7%	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.0%	3.6%

¹ In millions.

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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 decade-high earnings multiple of 20.0, which is much higher than its 10-year historical average of 16.7. 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 -3.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	61%	62%	61%	64%	53%	58%	57%	58%	56%	61%	61%	61%

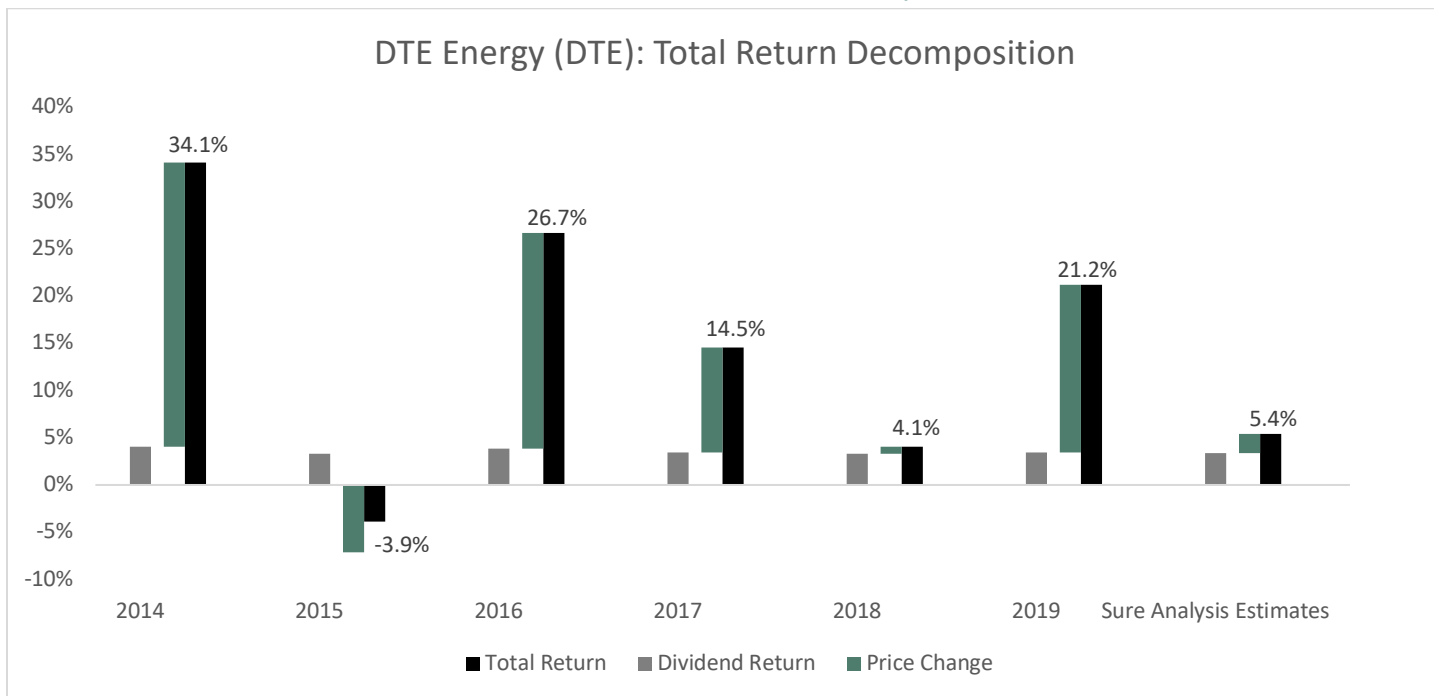
Thanks to its promising growth prospects, DTE Energy is trading near an all-time high level and thus it is offering a lackluster 3.0% dividend yield. On the other hand, the dividend appears safe while the company expects to grow its dividend by 7% per year in the next two years. As DTE Energy is primarily 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. This payout ratio is much healthier than the payout ratio of most utilities.

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 5.4% 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 rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	8525	8858	8791	9661	12301	10337	10630	12607	14212	
Gross Profit	2768	2709	2603	2628	3075	2561	2839	3173	3150	
Gross Margin	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	1018	1094	1145	852	976	1030	1124	
Operating Profit	1470	1421	1276	1194	1578	1345	1452	1687	1584	
Operating Margin	17.2%	16.0%	14.5%	12.4%	12.8%	13.0%	13.7%	13.4%	11.1%	
Net Profit	630	711	610	661	905	727	868	1134	1120	
Net Margin	7.4%	8.0%	6.9%	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%	
Free Cash Flow	726	524	389	278	-204	-104	39	-133	-33	
Income Tax	315	268	286	254	364	230	271	175	98	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	24896	26009	26339	25935	27899	28662	32041	33767	36288	
Cash & Equivalents	65	68	65	52	48	37	92	66	71	
Acc. Receivable	1753	720	650	727	731	656	708	758	789	
Inventories	662	791	761	628	804	803	772	779	811	
Goodwill & Int.	2176	2093	2153	2140	2120	2107	3128	3160	3142	
Total Liabilities	18129	18956	18928	17981	19557	19867	22542	23777	25571	
Accounts Payable	729	782	848	962	973	809	1079	1171	1329	
Long-Term Debt	8121	8109	8059	8232	9012	9717	11775	12914	14235	
Total Equity	6722	7009	7373	7921	8327	8772	9011	9512	10237	
D/E Ratio	1.21	1.16	1.09	1.04	1.08	1.11	1.31	1.36	1.39	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.6%	2.8%	2.3%	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%	
Return on Equity	9.7%	10.4%	8.5%	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%	
ROIC	4.3%	4.7%	4.0%	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%	
Shares Out.	169.4	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	
Revenue/Share	50.44	52.11	51.11	55.21	69.50	57.75	59.39	70.43	78.52	
FCF/Share	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.

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