DTE Energy Co. (DTE)

Updated February 22nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$23.2 B
Fair Value Price:	$122	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	3/12/2021
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	4/15/2021
Dividend Yield:	3.6%	**5 Year Price Target**	$156	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.2%

Overview & Current Events

DTE Energy was founded 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 $23.2 billion.

In mid-February, DTE Energy reported (2/19/21) financial results for the fourth quarter of fiscal 2020. In the full year, operating earnings-per-share grew 14%, from $6.31 to $7.19, thanks to strong performance across all segments and cost-cutting measures. Management reaffirmed its guidance for earnings-per-share of $6.88-$7.26 this year. We expect the results to be towards the upper limit of this range thanks to the positive business momentum of the company and management's tendency to issue somewhat conservative initial guidance for the full year.

DTE Energy has also proceeded with the previously announced spin off its midstream business, which includes non-utility natural gas pipeline, storage and gathering operations. The spin-off, which is still expected to materialize in mid-2021, will render DTE Energy a pure play regulated electric and natural gas utility.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.67	$3.88	$3.76	$5.10	$4.44	$4.83	$5.73	$6.17	$6.31	$7.19	***$7.20***	***$9.19***
DPS	$2.32	$2.42	$2.59	$2.69	$2.84	$3.06	$3.36	$3.60	$3.78	$4.05	***$4.34***	***$5.54***
Shares[1]	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0	***200.0***	***210.0***

DTE Energy plans to invest $18 billion in growth projects over the next five years. As this amount is nearly equal to 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; in 2019, Ford and GE's Michigan subsidiaries decided to power their facilities with DTE's wind power generation.

We expect 5% 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 the low end of the guidance of the company for 5%-7% growth over the next five years but we prefer to be on the safe side.

[1] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.5	14.9	17.9	14.9	18.1	19.0	18.6	17.4	19.9	16.1	***16.7***	***17.0***
Avg. Yld.	4.7%	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.5%	***3.6%***	***3.5%***

DTE Energy has traded at elevated earnings multiples in recent years. The stock is currently trading at a price-to-earnings ratio of 16.7, which is slightly lower than its 10-year historical average of 17.0. If the stock trades at its average valuation level in five years, it will enjoy a modest 0.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	62%	61%	64%	53%	58%	57%	58%	56%	61%	56%	***60%***	***60%***

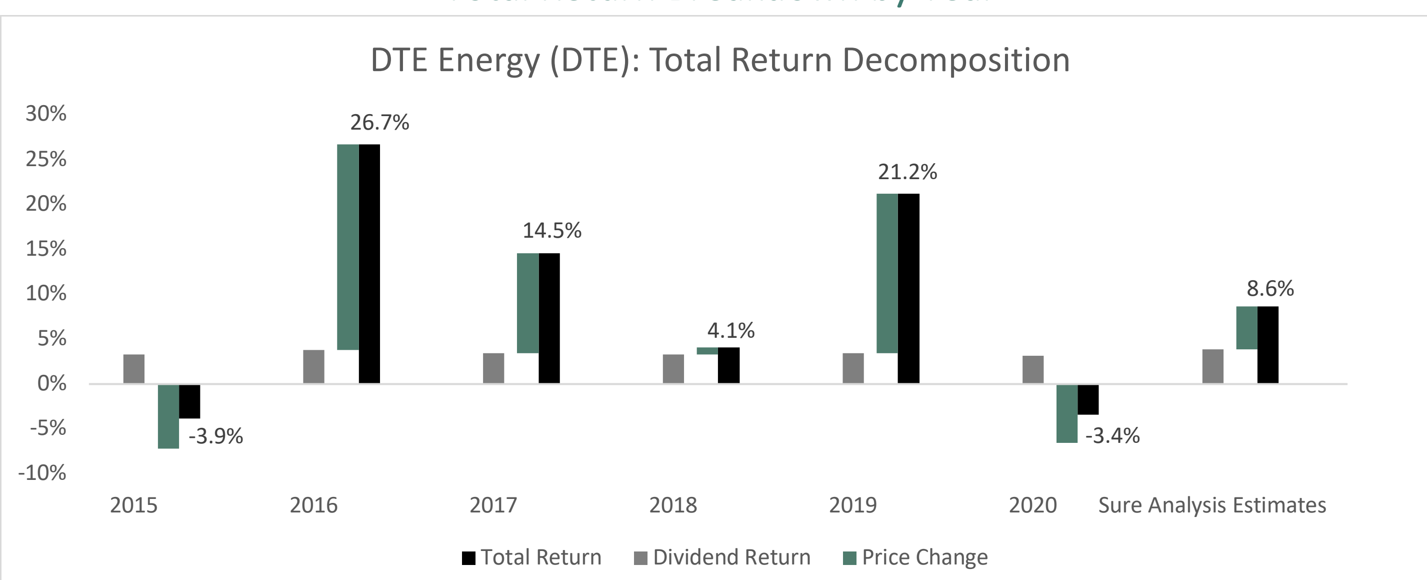
As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around this level for the foreseeable future. This payout ratio is much healthier than the payout ratio of most utilities. The 3.6% dividend yield of DTE Energy may not seem exciting on the surface but the company is likely to grow its dividend at an attractive 5%-9% annual rate over the next five years. As a result, the stock is suitable for income-oriented investors.

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 and is much more resilient in the current coronavirus crisis than the vast majority of stocks. The stock is ideal for risk-averse, income-oriented investors amid the uncertainty caused by the pandemic. However, the stock has rallied 56% off its bottom and thus it is now may offer an 8.6% average annual return over the next five years. As a result, we rate the stock as a hold.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	8858	8791	9661	12301	10337	10630	12607	14212	12669
Gross Profit	2709	2603	2628	3075	2561	2839	3173	3150	3399
Gross Margin	30.6%	29.6%	27.2%	25.0%	24.8%	26.7%	25.2%	22.2%	26.8%
D&A Exp.	N/A	1018	1094	1145	852	976	1030	1124	1263
Operating Profit	1421	1276	1194	1578	1345	1452	1687	1584	1746
Operating Margin	16.0%	14.5%	12.4%	12.8%	13.0%	13.7%	13.4%	11.1%	13.8%
Net Profit	711	610	661	905	727	868	1134	1120	1169
Net Margin	8.0%	6.9%	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%	9.2%
Free Cash Flow	524	389	278	-204	-104	39	-133	-33	-348
Income Tax	268	286	254	364	230	271	175	98	152

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	26009	26339	25935	27899	28662	32041	33767	36288	41882
Cash & Equivalents	68	65	52	48	37	92	66	71	93
Acc. Receivable	720	650	727	731	656	708	758	789	1642
Inventories	791	761	628	804	803	772	779	811	759
Goodwill & Int.	2093	2153	2140	2120	2107	3128	3160	3142	4857
Total Liabilities	18956	18928	17981	19557	19867	22542	23777	25571	30046
Accounts Payable	782	848	962	973	809	1079	1171	1329	1076
Long-Term Debt	8109	8059	8232	9012	9717	11775	12914	14235	17439
Total Equity	7009	7373	7921	8327	8772	9011	9512	10237	11672
D/E Ratio	1.16	1.09	1.04	1.08	1.11	1.31	1.36	1.39	1.49

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.8%	2.3%	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%	3.0%
Return on Equity	10.4%	8.5%	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%	10.7%
ROIC	4.7%	4.0%	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%	4.3%
Shares Out.	169.3	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185
Revenue/Share	52.11	51.11	55.21	69.50	57.75	59.39	70.43	78.52	68.48
FCF/Share	3.08	2.26	1.59	-1.15	-0.58	0.22	-0.74	-0.18	-1.88

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