DTE Energy Co. (DTE)

Updated February 11th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$116	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$22.5 B
Fair Value Price:	$105	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	3/17/2022
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	4/14/2022
Dividend Yield:	3.1%	**5 Year Price Target**	$134	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.3%

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. It operates all around the United States, with the majority of its business being conducted in Michigan. Now that DTE Energy has spun off its midstream segment, it operates under four reportable segments: Electric, Gas, 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 has a market capitalization of $22.5 billion.

On July 1st, 2021, DTE Energy completed the previously announced spin-off of its midstream business, which includes non-utility natural gas pipeline, storage and gathering operations. The spin-off has rendered DTE Energy a pure play regulated electric and natural gas utility. Due to the spin-off, the dividend of DTE Energy in 2021 was lower than in 2020, but the total dividend (including DTM's dividend) was higher.

In early February, DTE Energy reported (2/10/22) financial results for the fourth quarter of fiscal 2021. Operating earnings-per-share edged up 2%, from $1.03 to $1.05, due to much higher corporate expenses in the prior year's quarter, which more than offset the lower operating earnings in Electric and Gas. Thanks to positive business momentum, management slightly raised its guidance for annual earnings-per-share in 2022, from $5.70-$5.97 to $5.80-$6.00. Given management's tendency to issue conservative guidance, we expect earnings-per-share of at least $5.95 this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.88	$3.76	$5.10	$4.44	$4.83	$5.73	$6.17	$6.31	$7.19	$5.99	***$5.95***	***$7.59***
DPS	$2.42	$2.59	$2.69	$2.84	$3.06	$3.36	$3.60	$3.78	$4.05	$3.88	***$3.54***	***$4.52***
Shares[1]	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0	***194.0***	***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 at the low end of the guidance of management 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.9	17.9	14.9	18.1	19.0	18.6	17.4	19.9	16.1	19.4	***19.5***	***17.6***
Avg. Yld.	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.5%	3.3%	***3.1%***	***3.4%***

DTE Energy has traded at elevated earnings multiples in recent years. The stock is currently trading at a price-to-earnings ratio of 19.5, which is higher than its 10-year historical average of 17.6. If the stock trades at its average valuation level in five years, it will incur a -2.0% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	61%	64%	53%	58%	57%	58%	56%	61%	56%	65%	***59%***	***59%***

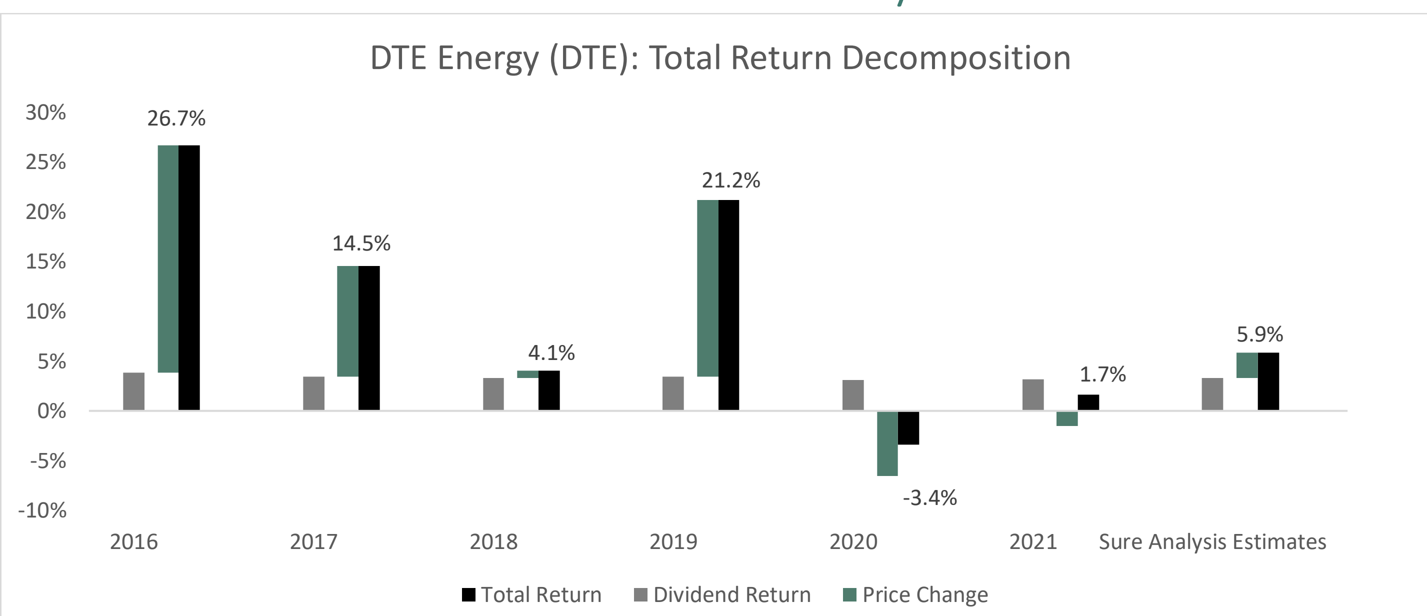
As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around this level for the foreseeable future. This payout ratio is much healthier than the payout ratio of most utilities. The 3.1% 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%-7% 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 to the pandemic than the vast majority of stocks. The stock is ideal for risk-averse, income-oriented investors. However, it has nearly doubled off its bottom in 2020 and it may now offer a 5.9% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,791	9,661	12,301	10,337	10,630	12,607	14,212	12,669	12,177
Gross Profit	2,603	2,628	3,075	2,561	2,839	3,173	3,150	3,399	3,874
Gross Margin	29.6%	27.2%	25.0%	24.8%	26.7%	25.2%	22.2%	26.8%	31.8%
D&A Exp.	1,018	1,094	1,145	852	976	1,030	1,124	1,263	1,443
Operating Profit	1,276	1,194	1,599	1,366	1,514	1,775	1,649	1,746	2,046
Operating Margin	14.5%	12.4%	13.0%	13.2%	14.2%	14.1%	11.6%	13.8%	16.8%
Net Profit	610	661	905	727	868	1,134	1,120	1,169	1,368
Net Margin	6.9%	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%	9.2%	11.2%
Free Cash Flow	389	278	(204)	(104)	39	(133)	(33)	(348)	(160)
Income Tax	286	254	364	230	271	175	98	152	167

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	26,339	25,935	27,899	28,662	32,041	33,767	36,288	42,268	45,496
Cash & Equivalents	65	52	48	37	92	66	71	93	514
Acc. Receivable	650	727	731	656	708	758	1,789	1,642	1,665
Inventories	761	628	804	803	772	779	811	759	716
Goodwill & Int.	2,153	2,140	2,120	2,107	3,128	3,160	3,142	4,857	4,805
Total Liabilities	18,928	17,981	19,557	19,867	22,542	23,777	25,571	30,432	32,907
Accounts Payable	848	962	973	809	1,079	1,171	1,329	1,076	1,029
Long-Term Debt	8,059	8,232	9,012	9,717	11,775	12,914	14,235	17,439	19,484
Total Equity	7,373	7,921	8,327	8,772	9,011	9,512	10,237	11,672	12,425
D/E Ratio	1.09	1.04	1.08	1.11	1.31	1.36	1.39	1.49	1.57

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.3%	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%	3.0%	3.1%
Return on Equity	8.5%	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%	10.7%	11.4%
ROIC	4.0%	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%	4.3%	4.5%
Shares Out.	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0
Revenue/Share	51.11	55.21	69.50	57.75	59.39	70.43	78.52	68.48	63.09
FCF/Share	2.26	1.59	(1.15)	(0.58)	0.22	(0.74)	(0.18)	(1.88)	(0.83)

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