DTE Energy Co. (DTE)

Updated April 29th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$136	**5 Year CAGR Estimate:**	2.5%	**Market Cap:**	$26.3 B
Fair Value Price:	$105	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	6/17/2022[1]
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.1%	**Dividend Payment Date:**	7/14/2022[1]
Dividend Yield:	2.6%	**5 Year Price Target**	$134	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $26.3 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 late April, DTE Energy reported (4/28/22) financial results for the first quarter of fiscal 2022. Operating earnings-per-share grew 15.5% over last year's quarter, from $2.00 to $2.31, thanks to 17% growth of earnings in the gas division and much higher earnings in energy trading. Despite the strong start in 2022, management reaffirmed its guidance for annual earnings-per-share of $5.80-$6.00 in 2022. Given management's tendency to issue conservative guidance, we still expect earnings-per-share of $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[2]	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 a sizable portion 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; 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 guidance for 5%-7% growth over the next five years but we prefer to be on the safe side.

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[1] Estimated date.

[2] 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	***22.9***	***17.6***
Avg. Yld.	4.2%	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.5%	3.3%	***2.6%***	***3.4%***

DTE Energy has traded at elevated earnings multiples in recent years. The stock has rallied 16% in less than three months, as it is considered a safe haven amid 40-year high inflation. As a result, DTE Energy is currently trading at a price-to-earnings ratio of 22.9, which is a 10-year high valuation level, much higher than the 10-year historical average of 17.6. If the stock trades at its average valuation level in five years, it will incur a -5.1% 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%***

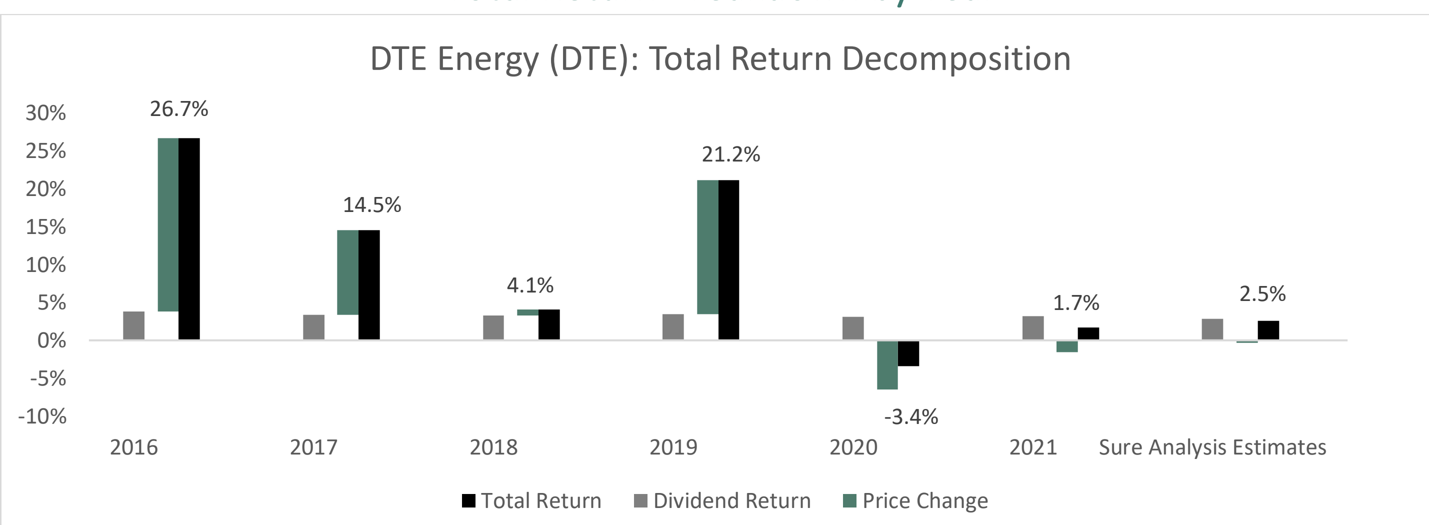
As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around this level for the foreseeable future. This payout ratio is much healthier than the payout ratio of most utilities. After its latest rally, DTE Energy is offering a dividend yield of only 2.6% but it 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 more than doubled off its bottom in 2020 and is now trading at a 10-year high valuation level. As a result, it may now offer just a 2.5% average annual return over the next five years and thus receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,791	9,661	12,301	10,337	10,630	12,607	14,212	12,168	11,423	14,964
Gross Profit	2,603	2,628	3,075	2,561	2,839	3,173	3,150	3,019	3,279	3,336
Gross Margin	29.6%	27.2%	25.0%	24.8%	26.7%	25.2%	22.2%	24.8%	28.7%	22.3%
D&A Exp.	1,018	1,094	1,145	852	976	1,030	1,124	1,263	1,443	1,459
Operating Profit	1,276	1,194	1,578	1,345	1,493	1,752	1,621	1,468	1,617	1,555
Operating Margin	14.5%	12.4%	12.8%	13.0%	14.0%	13.9%	11.4%	12.1%	14.2%	10.4%
Net Profit	610	661	905	727	868	1,134	1,120	1,169	1,368	907
Net Margin	6.9%	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%	9.6%	12.0%	6.1%
Free Cash Flow	389	278	(204)	(104)	39	(133)	(33)	(348)	(160)	(705)
Income Tax	286	254	364	230	271	175	98	71	37	(130)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	26,339	25,935	27,899	28,662	32,041	33,767	36,288	42,268	45,496	39,719
Cash & Equivalents	65	52	48	37	92	66	71	93	472	28
Acc. Receivable	650	727	731	656	708	758	1,789	1,642	1,773	1,922
Inventories	761	628	804	803	772	779	811	759	708	858
Goodwill & Int.	2,153	2,140	2,120	2,107	3,128	3,160	3,142	4,857	2,192	2,170
Total Liabilities	18,928	17,981	19,557	19,867	22,542	23,777	25,571	30,432	32,907	31,006
Accounts Payable	848	962	973	809	1,079	1,171	1,329	1,076	1,000	1,414
Long-Term Debt	8,059	8,232	9,012	9,717	11,775	12,914	14,235	17,439	19,484	18,144
Total Equity	7,373	7,921	8,327	8,772	9,011	9,512	10,237	11,672	12,425	8,705
LTD/E Ratio	1.09	1.04	1.08	1.11	1.31	1.36	1.39	1.49	1.57	2.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.3%	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%	3.0%	3.1%	2.1%
Return on Equity	8.5%	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%	10.7%	11.4%	8.6%
ROIC	4.0%	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%	4.3%	4.5%	3.1%
Shares Out.	172.4	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0
Revenue/Share	51.11	55.21	69.50	57.75	59.39	70.43	78.52	68.48	63.09	77.13
FCF/Share	2.26	1.59	(1.15)	(0.58)	0.22	(0.74)	(0.18)	(1.88)	(0.83)	(3.63)

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