CMS Energy Corp. (CMS)

Updated September 3rd, 2022, by Tiago Dias

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	0.4%	**Market Cap:**	$19.3 B
Fair Value Price:	$43	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/04/2022[1]
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.6%	**Dividend Payment Date:**	11/30/2022[1]
Dividend Yield:	2.7%	**5 Year Price Target**	$57	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

CMS Energy Corp. (CMS) is an energy company operating primarily in Michigan. It's the parent holding company of several subsidiaries, including Consumers, an electric and gas utility; and CMS Enterprises, a domestic power producer and marketer. Founded in 1987, this $19 billion market cap company has raised its dividend every year for 15 years.

CMS reported Q2 2022 earnings on July 28th, 2022. For the quarter, earnings-per-share equalled $0.50, lower than the $0.61 reported in the same period in 2021. The company has declared a $0.46 dividend for Q2, with an ex-dividend date of August 4th and payable by august 31st. The dividend is well covered by the company's earnings.

The company has reaffirmed its 2022 adjusted earnings guidance of $2.85 to $2.89 per share and reaffirmed its long-term adjusted EPS growth of 6 to 8 percent with continued confidence towards the high end of the range. The company has taken major steps forward with the regulatory approvals of its natural gas rate case settlement and the Integrate Resource Plan, eliminating coal generation by 2025. The management team believes that these approvals strengthen the company's financial outlook while driving decarbonization of its electric and gas systems.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.53	$1.66	$1.74	$1.89	$1.98	$2.17	$2.32	$2.39	$2.64	$2.58	***$2.85***	***$3.81***
DPS	$0.96	$1.02	$1.08	$1.16	$1.24	$1.33	$1.43	$1.53	$1.60	$1.74	***$1.84***	***$2.46***
Shares	264	266	275	277	279	281	283	283	289	289	***289.0***	***295.0***

Utility companies are often seen as stable businesses with low volatility in their dividends, at the expense of limited growth opportunities. CMS is no different from its peers, and its dividend has steadily and grown over the past decade. Unfortunately, this stability has also come at a great cost, and its revenue has been flat over this period, with earnings growth coming primarily from increased margins. As a mature company in a mature industry, we don't expect this situation to change much, though we do think that due to its plans for net zero carbon emissions by 2040, and its elimination of coal generation by 2025, the company will be better positioned than most to take advantage of the ongoing energy transition.

For these reasons we estimate 6% annual growth over the next 5 years, and estimate earnings of $3.81 per share in 2027, with a dividend per share of $2.46. This is in line with the lower end of the companies' own expectations.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.0	16.0	17.0	18.0	20.0	21.0	20.0	24.3	23.3	23.6	***23.5***	***15.0***
Avg. Yld.	4.2%	3.8%	3.6%	3.4%	3.0%	2.9%	3.0%	2.6%	2.6%	2.9%	***2.7%***	***4.3%***

CMS has traded hands with an average P/E ratio of about 20 times earnings in the last decade. This is a substantial premium for what is arguably a low-growth highly regulated business, and while it's possible that this premium will

[1] Estimated date.

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.

continue to be paid, such a situation would not be justified by the company's fundamentals and made even harder due to the ongoing interest rate hikes. As such we expect the company's valuation to be re-rated to the lower end of that historical range by 2027, ending that year at a 15 PE, in line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	61%	62%	61%	63%	61%	62%	64%	61%	67%	***65%***	***65%***

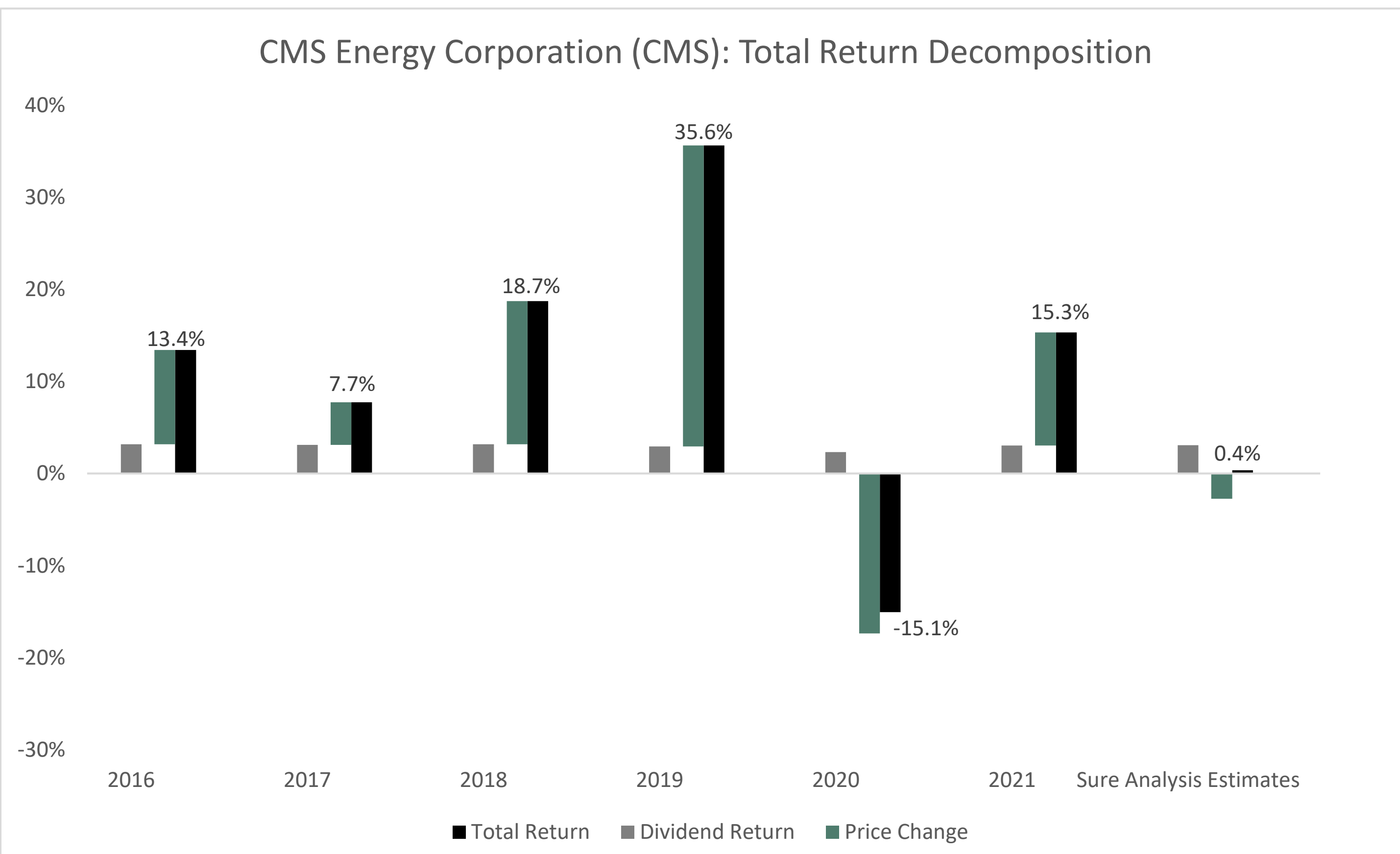
The core competitive advantage is also the thing that prevented its revenue growth over the past decade, CMS is a regulated utility. Regulated utilities receive government backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the same time, however, the stringent regulations they operate under make it difficult to grow the business, and operate it in an efficient manner, and any price increases are subject to political pressures.

While CMS has managed to navigate this successfully in the past, and its focus on carbon neutrality means they will likely see little in the way of political interference, such dangers are nonetheless present in this industry, and as such must be accounted for.

Final Thoughts & Recommendation

Despite a 2.7% dividend yield and an expected 6% EPS growth rate, we are forecasting total return potential of only 0.4% per annum, driven primarily by the re-rating of its valuation. As a result, the company's shares earn a Sell 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	6,253	6,566	7,179	6,456	6,399	6,583	6,873	6,624	6,418	7,329
Gross Profit	1,830	2,004	2,089	2,190	2,348	2,503	2,398	2,435	2,630	2,649
Gross Margin	29.3%	30.5%	29.1%	33.9%	36.7%	38.0%	34.9%	36.8%	41.0%	36.1%
D&A Exp.	598	628	685	750	811	881	933	989	1,043	1,114
Operating Profit	1,003	1,142	1,152	1,178	1,256	1,338	1,162	1,115	1,230	1,146
Op. Margin	16.0%	17.4%	16.0%	18.2%	19.6%	20.3%	16.9%	16.8%	19.2%	15.6%
Net Profit	382	452	477	523	551	460	657	680	755	1,353
Net Margin	6.1%	6.9%	6.6%	8.1%	8.6%	7.0%	9.6%	10.3%	11.8%	18.5%
Free Cash Flow	(35)	40	(162)	(39)	(150)	(75)	(517)	(434)	(1,164)	(390)
Income Tax	245	302	250	271	273	424	115	131	115	95

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,131	17,416	19,185	20,299	21,622	23,050	24,529	26,837	29,666	28,753
Cash & Equivalents	93	172	207	266	235	182	153	140	32	452
Acc. Receivable	865	924	892	785	821	1,044	978	903	872	943
Inventories	1,084	881	918	778	626	672	650	605	576	667
Total Liabilities	13,893	13,925	15,478	16,324	17,332	18,572	19,737	21,782	23,589	21,565
Accounts Payable	521	595	688	642	598	740	733	635	668	886
Long-Term Debt	7,361	7,833	8,616	9,355	9,924	10,396	11,708	13,171	12,335	12,428
Total Equity	3,194	3,454	3,670	3,938	4,253	4,441	4,755	5,018	5,496	6,407
LTD/E Ratio	2.30	2.27	2.35	2.38	2.33	2.34	2.46	2.62	2.24	1.87

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.3%	2.6%	2.6%	2.6%	2.6%	2.1%	2.8%	2.6%	2.7%	4.6%
Return on Equity	12.3%	13.6%	13.4%	13.7%	13.5%	10.6%	14.3%	13.9%	14.4%	22.7%
ROIC	3.7%	4.1%	4.0%	4.1%	4.0%	3.2%	4.2%	3.9%	4.1%	7.1%
Shares Out.	264	266	275	277	279	281	283	283	289	289
Revenue/Share	23.28	24.15	26.14	23.35	22.94	23.44	24.29	23.30	22.42	25.32
FCF/Share	(0.13)	0.15	(0.59)	(0.14)	(0.54)	(0.27)	(1.83)	(1.53)	(4.07)	(1.35)

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