CMS Energy Corp. (CMS)

Updated February 5th, 2023, by Tiago Dias

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	3.0%	**Market Cap:**	$18.3 B
Fair Value Price:	$46	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/10/2023
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	02/28/2023
Dividend Yield:	3.1%	**5 Year Price Target**	$61	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $18 billion market cap company has raised its dividend every year for 15 years.

CMS reported Q4 and FY 2022 earnings on February 2nd, 2022. For the quarter, earnings-per-share equalled $0.58, lower than the $2.20 reported in the same period in 2021. Full year earnings stand at $2.85 compared to the $4.66 reported for 2021. The company has declared a $0.4875 dividend, with an ex-dividend date of February 10th and payable by February 28th. The dividend is covered by the company's earnings.

The company has raised its 2023 earnings guidance of $3.06 to $3.12 per share and affirmed a long-term adjusted EPS growth of 6 to 8 percent. The CEO Garrick Rochow is satisfied with the positive performance in 2022, and believes the company is well positioned for 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.66	$1.74	$1.89	$1.98	$2.17	$2.32	$2.39	$2.64	$2.58	$2.85	**$3.06**	**$4.09**
DPS	$1.02	$1.08	$1.16	$1.24	$1.33	$1.43	$1.53	$1.60	$1.74	$1.84	**$1.95**	**$2.61**
Shares	266	275	277	279	281	283	283	289	289	291	**292.0**	**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 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 $4.09 per share in 2028, with a dividend per share of $2.61. This is in line with the lower end of the company's own expectations.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	16.0	17.0	18.0	20.0	21.0	20.0	24.3	23.3	23.6	22.4	**20.6**	**15.0**
Avg. Yld.	3.8%	3.6%	3.4%	3.0%	2.9%	3.0%	2.6%	2.6%	2.9%	2.8%	**3.1%**	**4.2%**

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 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 2028, ending that year at a 15 PE, in line with the market average.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	61%	62%	61%	63%	61%	62%	64%	61%	67%	65%	**64%**	**64%**

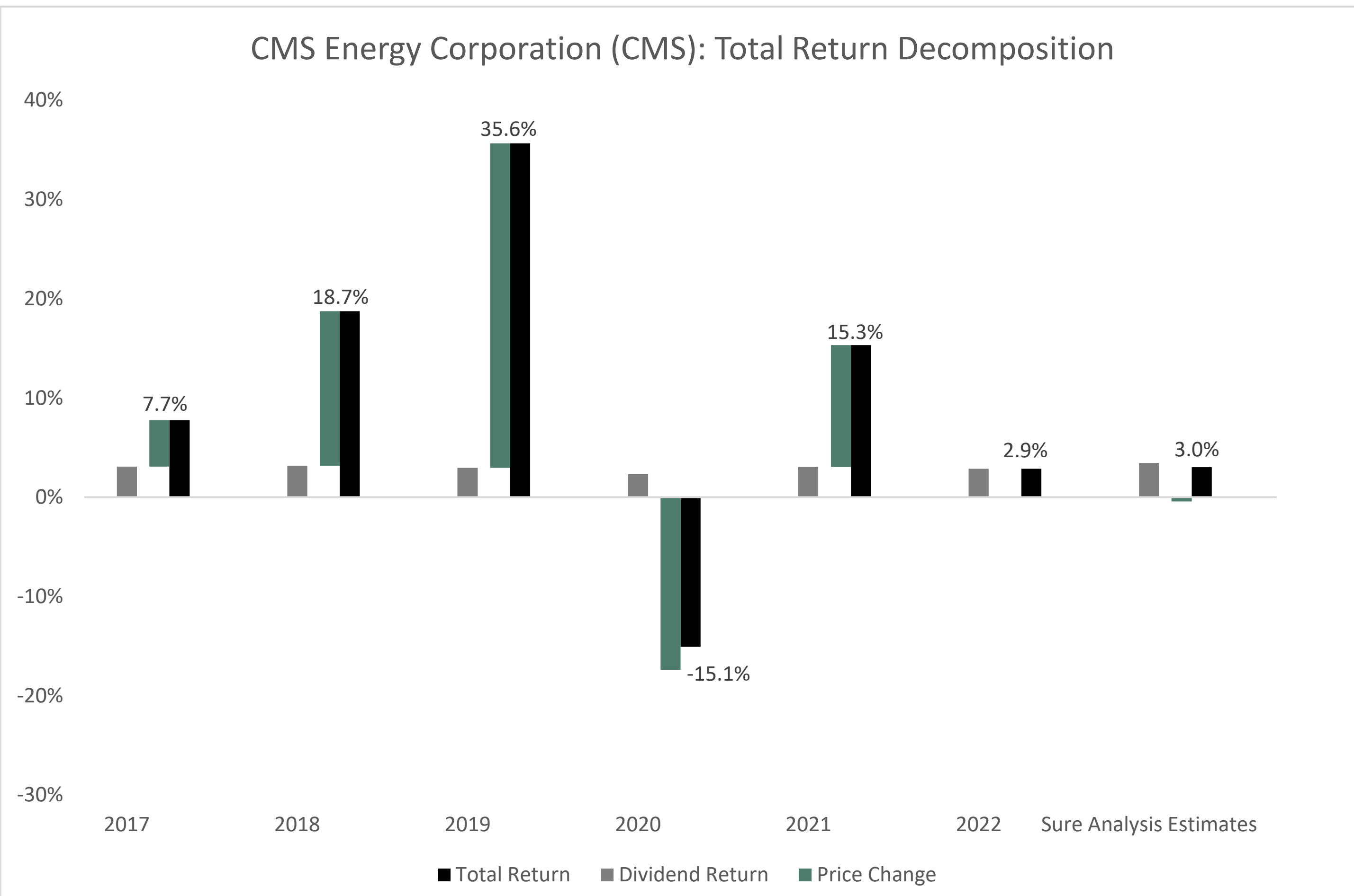
The core competitive advantage is also the thing that prevented its revenue growth over the past decade, CMS is a regulated utility. Regulated utilities receive government backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the 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 3.1% dividend yield and an expected 6% EPS growth rate, we are forecasting total return potential of only 3.0% per annum, driven primarily by an adjustment to its valuation multiple. As a result, the company's shares earn a Hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,566	7,179	6,456	6,399	6,583	6,873	6,624	6,418	7,329	8,596
Gross Profit	2,004	2,089	2,190	2,348	2,503	2,398	2,435	2,630	2,649	---
Gross Margin	30.5%	29.1%	33.9%	36.7%	38.0%	34.9%	36.8%	41.0%	36.1%	---
D&A Exp.	628	685	750	811	881	933	989	1,043	1,114	---
Operating Profit	1,142	1,152	1,178	1,256	1,338	1,162	1,115	1,230	1,146	1,224
Op. Margin	17.4%	16.0%	18.2%	19.6%	20.3%	16.9%	16.8%	19.2%	15.6%	14.2%
Net Profit	452	477	523	551	460	657	680	755	1,353	837
Net Margin	6.9%	6.6%	8.1%	8.6%	7.0%	9.6%	10.3%	11.8%	18.5%	9.7%
Free Cash Flow	40	(162)	(39)	(150)	(75)	(517)	(434)	1164)	(390)	855
Income Tax	302	250	271	273	424	115	131	115	95	93

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	17,416	19,185	20,299	21,622	23,050	24,529	26,837	29,666	28,753	31,353
Cash & Equivalents	172	207	266	235	182	153	140	32	452	164
Acc. Receivable	924	892	785	821	1,044	978	903	872	943	---
Inventories	881	918	778	626	672	650	605	576	667	---
Total Liabilities	13,925	15,478	16,324	17,332	18,572	19,737	21,782	23,589	21,565	23,758
Accounts Payable	595	688	642	598	740	733	635	668	886	---
Long-Term Debt	7,833	8,616	9,355	9,924	10,396	11,708	13,171	12,335	12,428	14,309
Total Equity	3,454	3,670	3,938	4,253	4,441	4,755	5,018	5,496	6,407	6,791
LTD/E Ratio	2.27	2.35	2.38	2.33	2.34	2.46	2.62	2.24	1.87	2.0398

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.6%	2.6%	2.6%	2.6%	2.1%	2.8%	2.6%	2.7%	4.6%	2.8%
Return on Equity	13.6%	13.4%	13.7%	13.5%	10.6%	14.3%	13.9%	14.4%	22.7%	12.7%
ROIC	4.1%	4.0%	4.1%	4.0%	3.2%	4.2%	3.9%	4.1%	7.1%	4.0%
Shares Out.	266	275	277	279	281	283	283	289	289	290
Revenue/Share	24.15	26.14	23.35	22.94	23.44	24.29	23.30	22.42	25.32	29.62
FCF/Share	0.15	(0.59)	(0.14)	(0.54)	(0.27)	(1.83)	(1.53)	(4.07)	(1.35)	2.95

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