DTE Energy Co. (DTE)

Updated November 2nd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	10.8%	**Market Cap:**	$19.9 B
Fair Value Price:	$105	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	12/15/2023
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date:**	1/14/2024
Dividend Yield:	3.9%	**5 Year Price Target**	$140	**Years Of Dividend Growth:**	14
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 generate nearly all the 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 $19.9 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 an almost 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 November, DTE Energy reported (11/1/23) financial results for the third quarter of fiscal 2022. Operating earnings-per-share fell -10%, from $1.60 to $1.44, and missed the analysts' consensus by $0.19 due to high storm activity and cool summer weather. As a result, the company lowered its guidance for earnings-per-share in 2023 from $6.09-$6.40 to $5.65-$5.85. Accordingly, we have lowered our forecast from $6.25 to $5.75.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.76	$5.10	$4.44	$4.83	$5.73	$6.17	$6.31	$7.19	$5.99	$6.10	***$5.75***	***$7.69***
DPS	$2.59	$2.69	$2.84	$3.06	$3.36	$3.60	$3.78	$4.05	$3.88	$3.61	***$3.81***	***$4.86***
Shares[2]	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0	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.

DTE Energy has grown its earnings-per-share by 5.5% per year on average over the last nine years, though growth has slowed down during the last four years. We expect 6% 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 in line with the guidance of management for 5%-7% growth over the next five years.

[1] Estimated date.

[2] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.9	14.9	18.1	19.0	18.6	17.4	19.9	16.1	19.4	20.3	***16.9***	***18.2***
Avg. Yld.	3.8%	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.5%	3.3%	2.9%	***3.9%***	***3.5%***

DTE Energy has traded at elevated earnings multiples in recent years. It is currently trading at a price-to-earnings ratio of 16.9, which is lower than the 10-year historical average of 18.2. If the stock trades at its average valuation level in five years, it will enjoy a 1.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	53%	58%	57%	58%	56%	61%	56%	65%	59%	***66%***	***63%***

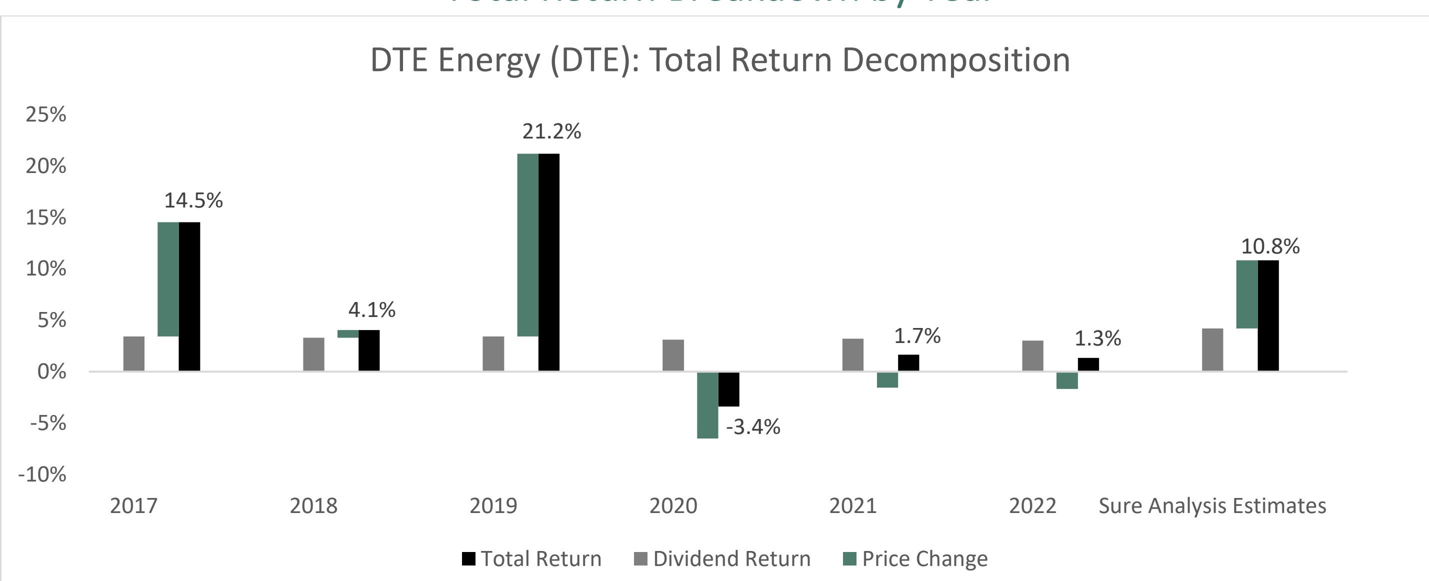
As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around this level for the foreseeable future. This payout ratio is much healthier than the payout ratio of most utilities. On the other hand, DTE Energy is offering a dividend yield of only 3.9% 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 takes 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 has more promising growth prospects than most utilities and is much more resilient to high inflation and a potential recession than the vast majority of stocks. It is thus ideal for risk-averse, income-oriented investors. We expect the stock to offer a 10.8% average annual return over the next five years thanks to 6.0% earnings growth, its 3.9% dividend and a 1.5% valuation tailwind. It thus receives a buy rating.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,661	12,301	10,337	10,630	12,607	14,212	12,168	11,423	14,964	19,228
Gross Profit	2,628	3,075	2,561	2,839	3,173	3,150	3,019	3,279	3,336	3,668
Gross Margin	27.2%	25.0%	24.8%	26.7%	25.2%	22.2%	24.8%	28.7%	22.3%	19.1%
D&A Exp.	1,094	1,145	852	976	1,030	1,124	1,263	1,443	1,459	1,468
Operating Profit	1,194	1,578	1,345	1,493	1,752	1,621	1,468	1,617	1,555	1,772
Operating Margin	12.4%	12.8%	13.0%	14.0%	13.9%	11.4%	12.1%	14.2%	10.4%	9.2%
Net Profit	661	905	727	868	1,134	1,120	1,169	1,368	907	1,083
Net Margin	6.8%	7.4%	7.0%	8.2%	9.0%	7.9%	9.6%	12.0%	6.1%	5.6%
Free Cash Flow	278	(204)	(104)	39	(133)	(33)	(348)	(160)	(705)	(1,401)
Income Tax	254	364	230	271	175	98	71	37	(130)	29

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	25,935	27,899	28,662	32,041	33,767	36,288	42,268	45,496	39,719	42,683
Cash & Equivalents	52	48	37	92	66	71	93	472	28	33
Acc. Receivable	727	731	656	708	758	1,789	1,642	1,773	1,922	2,038
Inventories	628	804	803	772	779	811	759	708	858	942
Goodwill & Int.	2,140	2,120	2,107	3,128	3,160	3,142	4,857	2,192	2,170	2,159
Total Liabilities	17,981	19,557	19,867	22,542	23,777	25,571	30,432	32,907	31,006	32,282
Accounts Payable	962	973	809	1,079	1,171	1,329	1,076	1,000	1,414	1,604
Long-Term Debt	8,232	9,012	9,717	11,775	12,914	14,235	17,439	19,484	18,144	19,148
Total Equity	7,921	8,327	8,772	9,011	9,512	10,237	11,672	12,425	8,705	10,397
LTD/E Ratio	1.04	1.08	1.11	1.31	1.36	1.39	1.49	1.57	2.08	1.84

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.5%	3.4%	2.6%	2.9%	3.4%	3.2%	3.0%	3.1%	2.1%	2.6%
Return on Equity	8.6%	11.1%	8.5%	9.8%	12.2%	11.3%	10.7%	11.4%	8.6%	11.3%
ROIC	4.2%	5.4%	4.1%	4.4%	5.1%	4.7%	4.3%	4.5%	3.1%	3.8%
Shares Out.	177.1	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0	196.0
Revenue/Share	55.21	69.50	57.75	59.39	70.43	78.52	68.48	63.09	77.13	98.10
FCF/Share	1.59	(1.15)	(0.58)	0.22	(0.74)	(0.18)	(1.88)	(0.83)	(3.63)	(7.15)

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