CMS Energy Corp. (CMS)

Updated May 5th, 2024, by Tiago Dias

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$17.8 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/15/2024
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	05/31/2024
Dividend Yield:	3.4%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	17
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 $17.8 billion market cap company has raised its dividend every year for 17 years.

CMS reported Q1 2024 earnings on April 25th, 2024. For the quarter, earnings-per-share rose to $0.96, higher than the $0.69 reported in the same period in 2023. The company has declared a $0.515 dividend, with an ex-dividend date of May 15th and payable by May 31st. The dividend is well covered by the company's earnings.

The company reaffirmed its 2024 adjusted earnings guidance to $3.29 to $3.35 per share and long term adjusted EPS growth of 6 to 8 percent with confidence towards the high end.

While this past winter was warmer than expected, the company remains on track to meet its full year earnings guidance, and the management team continues to be pleased with the company's performance. It is particularly encouraged with the progress of its electric reliability roadmap and economic development efforts while continuing to lead the clean energy transformation which Michigan's new clean energy law will support.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.74	$1.89	$1.98	$2.17	$2.32	$2.39	$2.64	$2.58	$2.85	$3.01	***$3.29***	***$4.40***
DPS	$1.08	$1.16	$1.24	$1.33	$1.43	$1.53	$1.60	$1.74	$1.84	$1.95	***$2.08***	***$2.78***
Shares	275	277	279	281	283	283	289	289	291	291	**292**	**295**

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 slow-moving 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 $4.40 per share in 2029, with a dividend per share of $2.78. This is in line with the lower end of the company's own expectations.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	17.0	18.0	20.0	21.0	20.0	24.3	23.3	23.6	22.4	25.0	***18.5***	***15.0***
Avg. Yld.	3.6%	3.4%	3.0%	2.9%	3.0%	2.6%	2.6%	2.9%	2.8%	2.6%	***3.4%***	***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 maintained, the company's fundamentals do not justify this, especially in the context of higher interest rates. 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 P/E, in line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	62%	61%	63%	61%	62%	64%	61%	67%	65%	65%	***63%***	***63%***

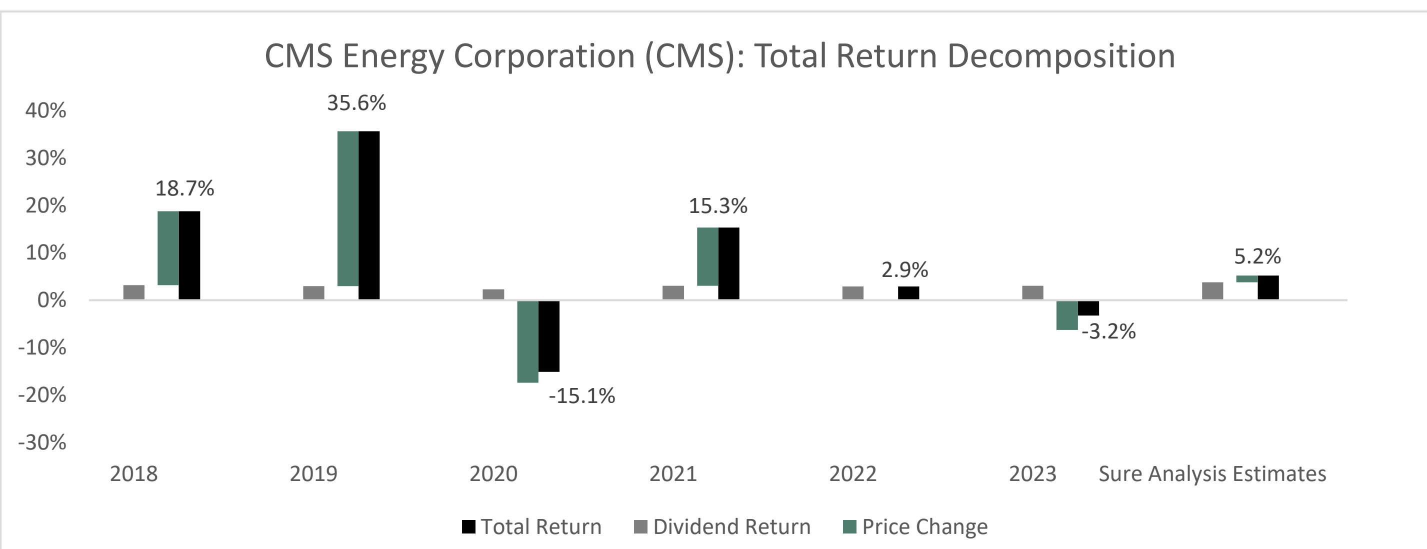
CMS is a regulated utility, this core competitive advantage is also the thing that limited its revenue growth over the past decade. Regulated utilities operate as government backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the same time, however, the stringent regulations they operate under make it difficult to grow the business, and operate it in an efficient manner, as 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 enjoy a more favorable relationship with regulators, such dangers are nonetheless present in this industry, and as such must be accounted for.

Final Thoughts & Recommendation

With a 3.4% dividend yield and an expected 6% EPS growth rate, we are forecasting total return potential of 5.2% per annum, driven primarily by the earnings growth and offset by a valuation multiple adjustment. As a result, the company's shares earn a Hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,179	6,456	6,399	6,583	6,873	6,624	6,418	7,329	8,596	7,462
Gross Profit	2,089	2,190	2,348	2,503	2,398	2,435	2,630	2,649	2,762	2,862
Gross Margin	29.1%	33.9%	36.7%	38.0%	34.9%	36.8%	41.0%	36.1%	32.1%	38.4%
D&A Exp.	685	750	811	881	933	989	1,043	1,114	1,126	1,180
Operating Profit	1,152	1,178	1,256	1,338	1,162	1,115	1,230	1,146	1,224	1,235
Op. Margin	16.0%	18.2%	19.6%	20.3%	16.9%	16.8%	19.2%	15.6%	14.2%	16.6%
Net Profit	477	523	551	460	657	680	755	1,353	837	887
Net Margin	6.6%	8.1%	8.6%	7.0%	9.6%	10.3%	11.8%	18.5%	9.7%	11.9%
Free Cash Flow	(162)	(39)	(150)	(75)	(517)	(434)	1164)	(390)	855	(265)
Income Tax	250	271	273	424	115	131	115	95	93	147

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19,185	20,299	21,622	23,050	24,529	26,837	29,666	28,753	31,353	33,520
Cash & Equiv.	207	266	235	182	153	140	32	452	164	227
Acc. Receivable	892	785	821	1,044	978	903	872	943	1,564	933
Inventories	918	778	626	672	650	605	576	667	1,117	938
Total Liabilities	15,478	16,324	17,332	18,572	19,737	21,782	23,589	21,565	23,758	25,390
Accounts Payable	688	642	598	740	733	635	668	875	928	802
Long-Term Debt	8,616	9,355	9,924	10,396	11,708	13,171	12,335	12,428	14,309	15,580
Total Equity	3,670	3,938	4,253	4,441	4,755	5,018	5,496	6,407	6,791	7,320
LTD/E Ratio	2.35	2.38	2.33	2.34	2.46	2.62	2.24	1.87	2.04	2.06

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.6%	2.6%	2.6%	2.1%	2.8%	2.6%	2.7%	4.6%	2.8%	2.7%
Return on Equity	13.4%	13.7%	13.5%	10.6%	14.3%	13.9%	14.4%	22.7%	12.7%	11.3%
ROIC	4.0%	4.1%	4.0%	3.2%	4.2%	3.9%	4.1%	7.1%	4.0%	3.9%
Shares Out.	275	277	279	281	283	283	289	289	290	292
Revenue/Share	26.14	23.35	22.94	23.44	24.29	23.30	22.42	25.32	29.62	25.58
FCF/Share	(0.59)	(0.14)	(0.54)	(0.27)	(1.83)	(1.53)	(4.07)	(1.35)	2.95	(0.91)

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