



DTE Energy Co. (DTE)

Updated October 25th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$130	5 Year CAGR Estimate:	7.6%	Market Cap:	\$26.9 B
Fair Value Price:	\$123	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	12/13/2024
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	1/13/2025
Dividend Yield:	3.1%	5 Year Price Target	\$164	Years Of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 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 \$26.9 billion.

On July 1st, 2021, DTE Energy completed the 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 late October, DTE Energy reported (10/24/24) financial results for the third quarter of fiscal 2024. Operating earnings-per-share grew 54%, from \$1.44 to \$2.22, thanks to strong results in the Electric segment. The company has invested \$3 billion so far this year to transition to clean energy sources. DTE Energy reiterated its strong guidance for the full year, expecting operating earnings-per-share of \$6.54-\$6.83. The guidance implies 17% growth at the mid-point.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.10	\$4.44	\$4.83	\$5.73	\$6.17	\$6.31	\$7.19	\$5.99	\$6.10	\$5.73	\$6.70	\$8.97
DPS	\$2.69	\$2.84	\$3.06	\$3.36	\$3.60	\$3.78	\$4.05	\$3.88	\$3.61	\$3.88	\$4.08	\$5.16
Shares²	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0	194.0	206.0	206.0	220.0

DTE Energy plans to invest \$25 billion in growth projects over the 5-year period 2024-2028. As this amount is almost 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 just 1.3% per year on average over the last nine years, without any growth during the last five years. However, the future looks brighter, as the company has provided guidance for 6%-8% average annual growth of earnings-per-share until 2028 thanks to multiple growth projects in the pipeline. 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.

¹ Estimated date.

² In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.9	18.1	19.0	18.6	17.4	19.9	16.1	19.4	20.3	18.9	19.4	18.3
Avg. Yld.	3.5%	3.5%	3.3%	3.2%	3.3%	3.0%	3.5%	3.3%	2.9%	3.6%	3.1%	3.1%

DTE Energy has traded at elevated earnings multiples in recent years. It is currently trading at a price-to-earnings ratio of 19.4, which is higher than the 10-year historical average of 18.3. If the stock trades at its average valuation level in five years, it will incur a -1.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53%	58%	57%	58%	56%	61%	56%	65%	59%	68%	61%	58%

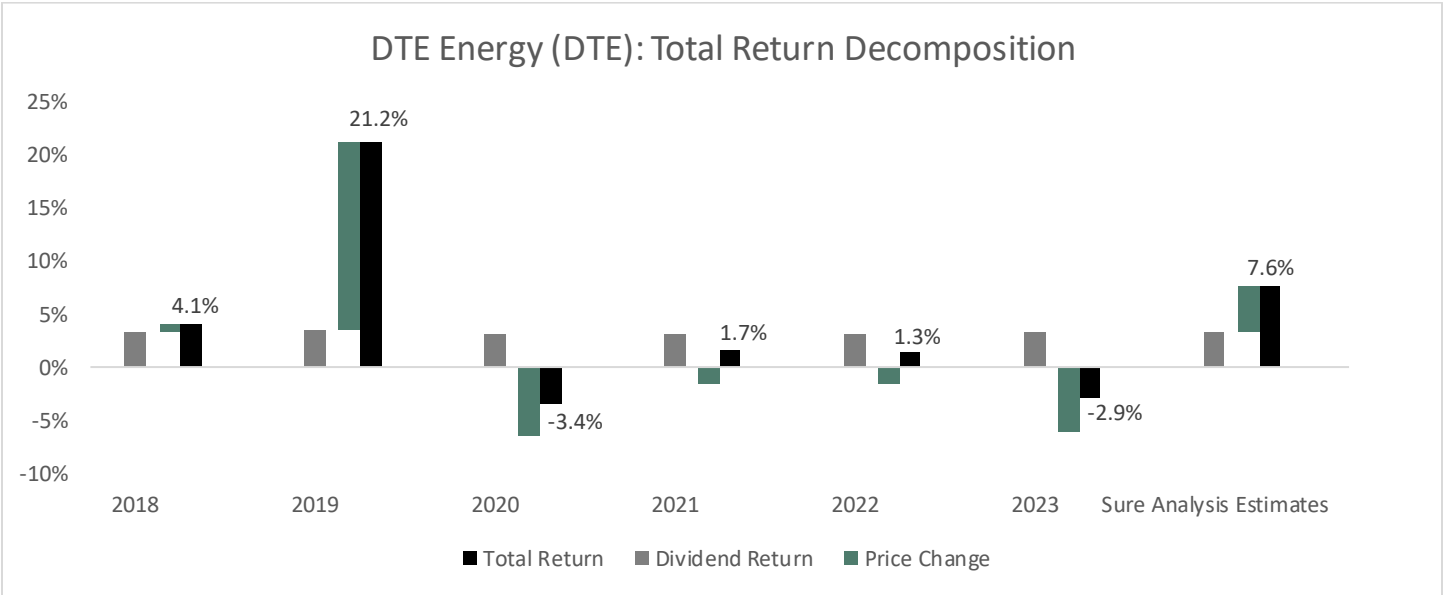
As DTE Energy is primarily a regulated utility, its revenue is protected by local regulators. This provides DTE Energy with reliable growth projects and a safe dividend. The company has been able to keep its payout ratio close to 60% over the past decade and is expected to maintain its payout ratio around 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 3.1% 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. With that said, the stock has rallied 33% in the last 12 months and hence it has become less attractive. It could offer a 7.6% average annual return over the next five years thanks to 6.0% earnings growth and its 3.1% dividend, partly offset by a -1.2% valuation headwind. The stock receives 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	12,301	10,337	10,630	12,607	14,212	12,168	11,423	14,964	19,228	12,745
Gross Profit	3,075	2,561	2,839	3,173	3,150	3,019	3,279	3,336	3,668	4,327
Gross Margin	25.0%	24.8%	26.7%	25.2%	22.2%	24.8%	28.7%	22.3%	19.1%	34.0%
D&A Exp.	1,145	852	976	1,030	1,124	1,263	1,443	1,459	1,468	1,606
Operating Profit	1,578	1,345	1,493	1,752	1,621	1,468	1,617	1,555	1,772	2,301
Operating Margin	12.8%	13.0%	14.0%	13.9%	11.4%	12.1%	14.2%	10.4%	9.2%	18.1%
Net Profit	905	727	868	1,134	1,120	1,169	1,368	907	1,083	1,397
Net Margin	7.4%	7.0%	8.2%	9.0%	7.9%	9.6%	12.0%	6.1%	5.6%	11.0%
Free Cash Flow	(204)	(104)	39	(133)	(33)	(348)	(160)	(705)	(1,401)	(714)
Income Tax	364	230	271	175	98	71	37	(130)	29	169

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	27,899	28,662	32,041	33,767	36,288	42,268	45,496	39,719	42,683	44,755
Cash & Equivalents	48	37	92	66	71	93	472	28	33	26
Acc. Receivable	731	656	708	758	1,789	1,642	1,773	1,922	2,038	1,632
Inventories	804	803	772	779	811	759	708	858	942	1,054
Goodwill & Int.	2,120	2,107	3,128	3,160	3,142	4,857	2,192	2,170	2,159	2,149
Total Liabilities	19,557	19,867	22,542	23,777	25,571	30,432	32,907	31,006	32,282	33,700
Accounts Payable	973	809	1,079	1,171	1,329	1,076	1,000	1,414	1,604	1,361
Long-Term Debt	9,012	9,717	11,775	12,914	14,235	17,439	19,484	18,144	19,148	20,832
Total Equity	8,327	8,772	9,011	9,512	10,237	11,672	12,425	8,705	10,397	11,050
LTD/E Ratio	1.08	1.11	1.31	1.36	1.39	1.49	1.57	2.08	1.84	1.89

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	2.6%	2.9%	3.4%	3.2%	3.0%	3.1%	2.1%	2.6%	3.2%
Return on Equity	11.1%	8.5%	9.8%	12.2%	11.3%	10.7%	11.4%	8.6%	11.3%	13.0%
ROIC	5.4%	4.1%	4.4%	5.1%	4.7%	4.3%	4.5%	3.1%	3.8%	4.5%
Shares Out.	177.0	179.5	179.4	179.4	181.0	185.0	196.0	194.0	196.0	206.0
Revenue/Share	69.50	57.75	59.39	70.43	78.52	68.48	63.09	77.13	98.10	61.87
FCF/Share	(1.15)	(0.58)	0.22	(0.74)	(0.18)	(1.88)	(0.83)	(3.63)	(7.15)	(3.47)

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

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