CMS Energy Corp. (CMS)

Updated February 8th, 2024, by Tiago Dias

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$20 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/14/2024
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	02/28/2024
Dividend Yield:	3.2%	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	19
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 $20 billion market cap company has raised its dividend every year for 19 years.

CMS reported its Q4 and full year 2024 earnings on February 6th, 2025. For the quarter, earnings-per-share were $0.87, lower than the $1.05 reported in the same period in the prior year. For the full year, the company reported $3.33 in earnings per share, above the $3.01 reported in the 2023 fiscal year.

The company has declared a $0.5425 dividend, with an ex-dividend date of February 14th and payable on the 28th of February. The dividend is well covered by the company's earnings.

The company raised its 2025 adjusted earnings guidance to $3.54 to $3.60 per share, while reaffirming long term adjusted EPS growth of 6 to 8 percent.

The management team expressed the continued need to make investments into the company's Reliability Roadmap by burying wires, installing sensors and adding other technology to build a smarter stronger grid.

They highlighted the progress done in terms of reliability in 2024 as well as the 360 megawatts of new load that was brought online as a result of continued investment.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.89	$1.98	$2.17	$2.32	$2.39	$2.64	$2.58	$2.85	$3.01	$3.33	***$3.54***	***$4.74***
DPS	$1.16	$1.24	$1.33	$1.43	$1.53	$1.60	$1.74	$1.84	$1.95	$2.06	***$2.18***	***$2.92***
Shares	277	279	281	283	283	289	289	291	291	298	***300.0***	***310.0***

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 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 $4.74 per share in 2030, with a dividend per share of $2.92. 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	17.0	18.0	20.0	21.0	20.0	24.3	23.3	23.6	22.4	25.0	***19.2***	***15.0***
Avg. Yld.	3.6%	3.4%	3.0%	2.9%	3.0%	2.6%	2.6%	2.9%	2.8%	2.5%	***3.2%***	***4.1%***

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 persist, 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 2030, ending that year at a 15 P/E, in line with the market average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	61%	63%	61%	62%	64%	61%	67%	65%	65%	62%	***62%***	***62%***

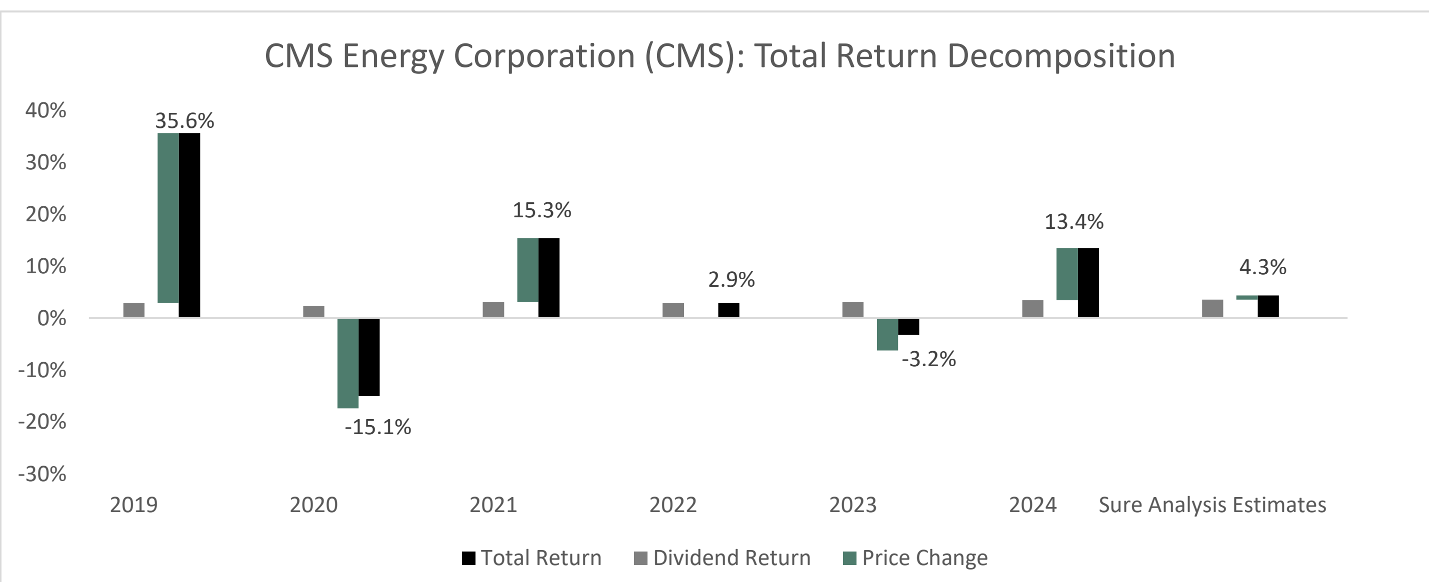
CMS is a regulated utility, this core competitive advantage is also the thing that limited its revenue growth over the past decade. Regulated utilities operate as government-backed monopolies, and as such they don't have to worry about any new competition coming in and disrupting their business. At the 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 3.2% dividend yield and an expected 6% EPS growth rate, we are forecasting total return potential of 4.3% per annum, driven primarily by the earnings growth and offset by a contraction in the valuation multiple. As a result, the company's shares earn a hold rating today.

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.