UBS

Global Research

10 February 2016

CMS Energy Corporation
Leaning Into Their Bonus

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$41.00**
	Prior: US$39.00
Price	**US$39.87**

RIC: CMS.N **BBG:** CMS US

Trading data and key metrics

52-wk range	US$39.88-31.39
Market cap.	US$11.0bn
Shares o/s	276m (COM)
Free float	99%
Avg. daily volume ('000)	743
Avg. daily value (m)	US$27.0
Common s/h equity (12/15E)	US$3.92bn
P/BV (12/15E)	2.8x
Net debt / EBITDA (12/15E)	4.6x

EPS (UBS, diluted) (US$)

	12/15E			
	From	To	% ch	Cons.
Q1	0.73	0.73	0	0.73
Q2	0.25	0.25	0	0.25
Q3E	0.53	0.53	0	0.53
Q4E	0.37	0.38	4	0.38
12/15E	1.88	1.89	1	1.89
12/16E	2.02	2.02	0	2.02
12/17E	2.16	2.16	0	2.17

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Increases 2017+ EPS CAGR by 1% to 6%-8% despite bonus depreciation drag

Management increased the long-term EPS growth target to 6%-8% from 2017 through at least 2025 despite taking in about $600M of cash from deferred taxes under bonus depreciation that reduces ratebase. The key to keeping up growth is a $1.5B increase in the 10-year capital program through 2025. In particular, CMS has near-term opportunities that keep 2016-2020 earnings growing strong, with roughly 40% of the increase in the first five years and focussed on gas utility infrastructure investment and electric reliability, with the remaining portion focussed primarily on clean energy from 2020-2025.

Upside from Michigan energy legislation, PPA replacement, reliability

CMS continues to illustrate potential upside to the capital forecast to a total $20B (unchanged from prior forecasts), with the additional $3B from replacing expiring purchased power agreements (PPAs), electric reliability, and gas pipe replacements. With the state legislature and the Governor's office focussed on the Flint crisis and other issues, legislation could take more months before finalization and passage.

No block equity now through 2022

The company extended its forecast for no block equity requirements through at least 2022, with the combination of bonus depreciation and a remaining $800M NOLs and tax credits to use after that. NOLs and credits are likely to last well into the mid-2020s or beyond.

Valuation: Raise PT $2 to $41 on higher peer P/E; positive update but baked in

Our price target is based on an average peer utility 2017E P/E sum-of-the-parts valuation. We continue to note very strong fundamentals, with our Neutral rating based on the 9.5% premium after another 2.5% outperformance YTD. We give 75% credit for potential ratebase opportunity post-legislation (another $1 at 100%).

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	6,253	6,566	7,179	6,456	7,125	7,409	7,605	7,790
EBIT (UBS)	1,003	1,142	1,152	1,163	1,263	1,338	1,423	1,507
Net earnings (UBS)	417	452	486	523	559	600	645	691
EPS (UBS, diluted) (US$)	1.55	1.66	1.77	1.89	2.02	2.16	2.31	2.46
DPS (US$)	0.94	1.02	1.08	1.16	1.24	1.33	1.42	1.51
Net (debt) / cash	(7,311)	(7,629)	(8,472)	(8,711)	(9,126)	(9,544)	(9,862)	(10,206)

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	16.0	17.4	16.0	18.0	17.7	18.1	18.7	19.3
ROIC (EBIT) %	7.2	8.1	7.8	7.4	7.7	7.9	8.1	8.3
EV/EBITDA (core) x	10.6	9.7	10.1	11.2	10.6	9.9	9.4	8.9
P/E (UBS, diluted) x	14.8	16.3	16.9	21.1	19.8	18.5	17.3	16.2
Equity FCF (UBS) yield %	0.2	1.3	(1.6)	0.4	(1.0)	(0.8)	0.3	0.3
Net dividend yield %	4.1	3.8	3.6	2.9	3.1	3.3	3.5	3.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$39.87 on 09 Feb 2016 18:41 EST

For additional context, please refer links to relevant recent reports below:

10/30/15 Delivering on Plan
10/26/15 Tapping the Brakes
10/26/15 Positioning the Quality Premium for Regulated Utilities
7/24/15 Gain with No Pain
4/24/15 Holding the Line on 7%
4/15/15 Collecting on the Midwest Bet (MISO Auction)
4/10/15 Making up for Lost Time
3/31/15 The MISO Capacity Auction Preview: Surprise Increase in Supply (Incl. Call Transcript)
1/30/15 Under-Promising and Over-Delivering in Michigan
12/11/14 Revving Up the Opportunity in Michigan; Initiate at Buy

Raises 2016 guidance and long-term growth rate to 6%-8% for 2017+

They finally raised it! Expectations were already at high end of 5-7% prior range

As previewed the week prior to last week's earnings call, CMS finished 2015 at the top end of guidance $1.89, in line with UBSe/cons. However, guidance for 2016 was raised $0.02 to $1.99-$2.02 vs UBSe $2.02 and cons $2.01. For 2017+, the long-term growth rate was raised to 6%-8% from the previous range 5%-7%, which is made possible by a higher capex plan (see below). This implies 2017 guidance of ~$2.13-$2.17 vs UBSe $2.16 and cons $2.15.

How to think about the story from here?

A quality company at a quality price delivers on the unlikely – raising the growth rate *without* legislation

We see the improved EPS outlook as highly constructive speaking to the ability to continue to scale investment even without legislation. We believe management has been working diligently on positioning the company accordingly for some time, with the real long-term earnings growth driver derived from future Clean Power Plan (CPP) compliance rather than just the narrow, Michigan-specific legislation. All this said the legislation should reduce risk to CMS around retail choice; while we see no risk of losing *more* customers, leaving this out remains a finer point in the story. While we think CMS clearly has a high quality management team, driving outsized growth, shares continue to reflect this premium already, in our view, with our SOP explicitly calling out potential upsides from legislation as well as applying a premium to the utilities. While expectations on any legislative action this year have clearly moderated, we see declining prospects as a medium term headwind.

Bonus depreciation is offset with $1.5B additional investment

Another $3Bn of potential capex remains possible above the new base plan.

No block equity needed through at least 2022.

Management has emphasized the ability to accelerate planned capital projects to backfill the effect of accelerated depreciation on ratebase. Likewise, the extension of renewable tax credits would probably enable the utility to add more renewables to ratebase while passing tax advantages back to customers. As previewed the week prior to the earnings call, CMS announced a $1.5Bn upward revision to the 10-year capital plan to $17Bn from 2016-2025 (vs $15.5Bn from 2015-2024). As illustrated in the table below, roughly 40% of the increase comes in the first five years and is focussed on gas utility infrastructure investment ($400M) and electric reliability ($400M), with the remaining portion focussed primarily on clean energy ($700M) from 2020-2025. Recall that at the EEI conference, management had guided that 950MW coal replacement would need 5% more renewables (not currently under the base plan). As per preliminary estimate provided by the

company, this addition of 5% renewables would need $1Bn investment generating $100M in operating cash flow and potentially drive +$0.10/sh. The increased spending is not predicated on the passage of energy legislation in Michigan. As noted below, with $600M of bonus depreciation benefit from the 5-yr extension, no block equity is needed for the next 7 years (2 years longer than prior guidance) and NOLs remain useful through 2025-2035.

Simplified, the extra 1% earnings growth from 2016-2020 comes from $800M incremental investment plus $200M from the Jackson Plant upgrades, plus $200M more from pension assets offset by -$600M bonus depreciation. This is cumulatively a $600M net investment at a 10.3% authorized ROE and 41% equity, or $0.09 over five years, with the resulting ~$0.02/yr equivalent to 1% growth on ~$2 EPS. The remaining $700M investment from 2021-2025 is not offset with bonus depreciation and provides essentially the same benefit through that period.

Figure 1: Derivation of EPS Growth with <2% Rate Increases

Sources of Earnings Growth	
Capital investment growth 2017+	6%-8%
Self-funding methods:	
O&M cost reduction	2%-3%
Sales growth	1%
Eliminate block equity dilution	2%
Self-funded growth	5%-6%
Plus: Rate increase at or below inflation	<2%
Total resulting EPS growth 2017+	6%-8%

Source: Company filings

Another $3Bn of potential capex remains possible above the new base plan, with legislation potentially requiring more renewable generation and up to 800MW of new gas-fired plant construction to serve potential returning C&I load. The total roughly breaks down to $2Bn for replacing purchased power agreements (PPAs) with new ratebased generation and another $1Bn for electric reliability and gas pipe replacement.

Figure 2: CMS Energy Capex Projections, New 2016-2025 vs Previous 2015-2024

		Feb 2016 Projection		May 2015 Projection	
Total utility capex schedule ($M)		**2016-2020**	**2021-2025**	**2015-2019**	**2020-2024**
New generation (Including Renewables)		292	1,378	544	612
Environmental		697	2	853	139
Electric Reliability & Distribution		1,997	1,414	1,119	1,575
Smart Energy				536	-
Electric Maintenance		2,278	2,714	2,119	2,378
Total		**5,264**	**5,508**	**5,171**	**4,704**
Diff from previous projection	*60%*	*93*	*804*		
Gas Infrastructure		1,762	1,132	950	1,454
Gas Maintenance		1,563	1,771	1,505	1,716
Total		**3,325**	**2,903**	**2,455**	**3,170**
Diff from previous projection	*40%*	*870*	*(267)*		
Total Electric & Gas		**8,589**	**8,411**	**7,626**	**7,874**
Diff from previous projection		*963*	*537*		

Source: Company filings

CEO John Russell retiring and new CEO Patti Poppe incoming

Poppe will step into the new role on July 1 and is nominated to join the CMS Energy and Consumers Energy boards of directors in May. As is customary at CMS, Russell will move on to become chairman of the CMS Energy and Consumers Energy boards of directors on May 6. Poppe is senior vice president of distribution operations, engineering and transmission for Consumers Energy, with overall responsibility for the company's electric and natural gas distribution systems, energy operations and electric transmission. Previously, she served as vice president of customer operations, rates and regulation and joined Consumers Energy in 2011. Before joining the company Poppe served in leadership roles with DTE Energy, including overseeing five electric generating facilities, and held a variety of plant management positions in the automotive industry.

Legislation still in limbo as it winds through the committee process

With the Michigan legislature now back in session, Representative Nesbitt's house energy legislation is out of Committee while Senator Nofs' bill (SB 437-438) is expected to be brought to Committee in the next few weeks. A vote could happen once a final version comes out of joint committee sometime in the next few months. We continue to highlight that this year is an election year in Michigan.

With other issues taking precedence in the state, notably the Flint crisis, the proposed Energy Bill is moving slower than initially expected, but management remains confident a law will be passed this year.

As we discussed earlier, consumers would have to disclose by a deadline if they opt to switch. While the choice could be permanent in nature for the customers opting to stay with utility, the customers who choose to stay with independent supplier will need to give the utility a three year notice if they ever decide to come back in the future. The typical contract is usually one-or-two years in duration so the migration back could take some time. Mgmt believes the queue will probably continue and the customers in the queue have to give written confirmation about their intention to stay in the queue or if they want to come back to the utility. The customers in the queue will have to give a one-time option to come back to the utility. On the supplier side, they have to confirm at least three years capacity to back up the energy contracts and if they are importing then they have to provide the evidence on availability of the requisite amount of transmission capacity.

We believe that last year's MISO Zone 7 capacity auction results will motivate customers to remain under the competitive service and could possibly create supply-demand imbalance required for higher pricing. Furthermore, the stricter restriction choices of customers who want to come back to the utility may prompt CMS to postpone its plan to set up 800MW plant to avoid reserve margin shortages projected by 2020 in the recent MISO capacity forecast report.

Additionally, management highlights that the company expects to sign seven contracts for its DIG and Peaker facilities that would take the pre-tax income opportunity, currently not under the plan to $35M for 2017.

More potential future cost savings

Management had previously discussed $100M (10%) of cost savings expected from 2014-2018, with $60M of that achieved up front through 2015. These categories include Attrition, productivity (coal to gas conversion), pole top hardening, smart meters, waste elimination, benefits (mortality tables and discount rates), and service upgrades. However, beginning with the 3Q15 call, CMS also began noting some incremental possibilities, including: two-way

communication/connectivity leading to 25%-50% call reduction and $5M-$10M savings, grid modernization leading to 1%-2% reduced line loss for $25M-$50M savings, and improved work management to increase truck roll productivity for $15M-$25M savings. All together, these represent $0.10-$0.20 of potential EPS upside.

Guidance has a "reinvestment" contingency

With -$0.31 of "investment costs" in the guidance for 2016, we note that a portion of this is always somewhat flexible and slated for items such as maintenance work, tree trimming, donations, etc… that could be reduced if needed or increased if possible. Bottom line is that CMS seems highly confident in its 6%-8% long-term EPS growth rate.

Some O&M "reinvestment" in the budget could be scaled down if necessary to meet EPS targets.

DIG: Maximizing the value from the "Tesla" in the garage

After an $8M planned maintenance outage in 2015, Dearborn Industrial Generation (DIG) was expanded to 770MW and will more than offset the outage cost in 2016 with $10M of expected benefits.

We see a few cents of material support in the coming years from increasing MISO Zone 7 capacity prices as well as higher energy margins. Overall, DIG's pretax energy and capacity pretax annual operating margins could increase $20M-$40M over the next few years from a base of about $20M in 2016. CMS already has a long-term 250-MW energy contract at $4/kW-mo (June 2014) and more recently penned a new 250-MW deal at $6.01/kW-mo to begin in June 2016 through 2023 that should generate $18M annually, providing $10.5M for 2016 and an incremental $7.5M in 2017. Additionally, the company's forecast for 2016 short-term capacity pricing is now $2.00/kW-mo, with a short-term forecast of $3.00/kW-mo generating $35M in 2017 and as much as $75M under a future possible $7.50/kW-mo scenario. Note that long-term capacity contracts generally receive a discount, with CMS disclosing >$3.30/kW-Mo (we estimate that a new 9-year capacity contract may be receiving as much as $5.75/kW-mo).

Management has specifically noted the potential of entering into a short-term capacity construct between Consumers Energy and DIG should it have substantial customers return to utility service prior to any new capacity entering service, among other potential short-term capacity solutions.

Capacity shortages expected in 2016/17

Management also noted that DIG is planned to come back online in time to help with (and be compensated for) an expected 1.5 GW shortfall in MISO Zone 7 in Spring 2016. While the utility expects to have adequate capacity coverage for its bundled customers in 2016-17, alternative energy suppliers (AES) are not expected to have adequate coverage for reserve margins and CMS plans to handle any possible shortage contingencies through a combination of energy efficiency improvements and other short-term PPAs. Ultimately, permanent solutions are expected to be planned through the new IRP process being proposed through the Energy Bill.

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We believe the 2016/17 period may well prove a near-term high for DIG – and regional MISO capacity prices seeing the greatest impact of retirements prior to new generation. We think new generation (including capacity contemplated by CMS, DTE, and other IPPs) will put a cap on prices. We flag the St. Joe CCGT under development in AEP's I&M service territory contemplates a second CCGT

block with direct interconnection into MISO should an RFP for its capacity present itself. We see this backwardated capacity profile risk as the clearest headline risk to the sustainability of mgmt's contemplated EPS growth range.

Industrial sales growth expected in 2016/17

While overall long-term sales growth is projected at a conservatively modest 1.0% level (a bit higher for 2016), this includes 3% growth from industrial sales (4% in 2016) over the next 5 years as a result of new businesses relocating to the state. Residential and commercial sales are more flattish to positive in the forecast but could, we think, be expected to improve with the general economy after industrial sales improve first. Any improvement in sales from commercial and industrial customers returning to bundled utility service from alternative energy suppliers is <u>not factored</u> into these projected growth rates.

No equity needed through 2022 as tax benefits fund investment

With $600M of deferred tax benefits from bonus depreciation through 2020 and nearly $700M of NOLs and tax credits expected to be available and absorbed at a slower pace well beyond this, mgmt. reiterated no need for block equity through at least 2022 to fund the $17B capital program. Gross operating cash flow is now projected to increase about $160M annually from 2016-2020, driven by a combination of bonus depreciation, tax credits, O&M reduction, and a conservatively projected 1.0% sales growth expectation (see above). CMS self-implemented a $110M elec rate increase in June and settled a $45M gas rate increase in Jan. Despite strong projected ratebase and earnings growth, the company plans to keep rate increases <2% through a combination of expiring surcharges, terminating PPAs, and lower fuel costs.

Maintaining 2016-2017 estimates but reducing 2018-2019

Our estimates through 2017 are unchanged and remain largely in line with consensus. For 2018 and 2019, we’ve brought our estimates down $0.05 and $0.09, respectively, to adjust our model for the combined effects of bonus depreciation, increased investment, and other tweaks. Our estimates remain at 7.1% annual earnings growth through 2017 and see continued 7.1% growth through 2019 as consistent with a 10.3% ROE at the utility. We continue to see upside from additional CCGT and renewable investment should Michigan energy legislation pass and we also assume that management will use positive developments such as better than expected sales growth and the latest DIG expansion as an opportunity to reinvest in the regulated business.

Figure 3: CMS Estimates, 2014A-2019E

CMS EPS Breakdown	2014A	2015E	2016E	2017E	2018E	2019E
Consumers Electric	$1.40	$1.43	$1.41	$1.50	$1.59	$1.68
Consumers Gas	$0.65	$0.69	$0.68	$0.72	$0.77	$0.81
DIG Cogen Merchant Unit	$0.02	$0.04	$0.06	$0.05	$0.03	$0.02
EnerBank	$0.07	$0.07	$0.08	$0.09	$0.09	$0.10
Parent Drag and Other	($0.37)	($0.33)	($0.22)	($0.20)	($0.17)	($0.14)
Total CMS EPS UBSe	**$1.77**	**$1.89**	**$2.02**	**$2.16**	**$2.31**	**$2.46**
UBSe Prior	**$1.77**	**$1.88**	**$2.02**	**$2.16**	**$2.36**	**$2.54**
UBSe EPS CAGR 2016-2019						*7.1%*
Management Guidance - EPS Growth 2017+ (%)			*$1.99-$2.02*			***6%-8%***
Total Guidance EPS						
Street Consensus EPS	***$1.77***	***$1.89***	***$2.02***	***$2.17***	***$2.34***	***$2.47***

Source: Company Filings, FactSet and UBS Estimates

Valuation: Raise PT $2 to $41 for higher peer P/E multiple

Our valuation remains based on 2017E sum-of-the-parts with probability-weighted incremental spending opportunities in Michigan from the proposed legislative reforms. We see much of the upside from the higher EPS growth trajectory already baked into shares at present.

Figure 4: CMS Energy Sum-of-the-Parts Valuation

Business Segment	**Valuation Metric**	**2017**	**Low Case** Valuation Multiple		($ MM) Value	**Base Case** Base Valuation Multiple: Peer Multiple	Prem/(Disc) to Peer	Base Multiple		($ MM) Value	**High Case** Valuation Multiple		($ MM) Value
Regulated Entities													
Consumers Electric - Base Capex	P/E	$1.46	15.5x		$6,318	16.5x	0.5x	17.0x		$6,929	18.0x		$7,337
Consumers Gas	P/E	$0.72	15.5x		$3,114	17.5x	0.0x	17.5x		$3,516	18.5x		$3,717
Incremental Opportunities	P/E			Probability					Probability			Probability	
Elimination of ROA		$0.11	15.5x	0%	$0		0.0x	16.5x	75%	$372	17.5x	100%	$526
Renewables - Wind		$0.07	15.5x	0%	$0			16.5x	75%	$252	17.5x	100%	$356
Palisades PPA Expiration		$0.09	15.5x	0%	$0			16.5x	75%	$305	17.5x	100%	$431
MCV PPA Expiration		$0.11	15.5x	0%	$0			16.5x	75%	$364	17.5x	100%	$515
Regulated, Equity Value ($Mn)					**$9,432**					**$11,740**			**$12,884**
Regulated, Equity Value ($/sh)					**$33.89**					**$42.18**			**$46.29**
Unregulated and Parent Businesses													
EnerBank	P/E	$0.09	11.0x		$262		12.0x			$285	13.0x		$309
Dearborn Industrial Generation (DIG)	$kW	770	278		$214		328			$252	378		$291
Parent & Other	P/E	($0.20)	18.0x		($996)		17.0x			($941)	16.0x		($886)
Unregulated, Equity Drag ($Mn)					**($521)**					**($403)**			**($286)**
Unregulated, Equity Drag ($/Sh)					**($1.87)**					**($1.45)**			**($1.03)**
CMS Equity Value					**$8,912**					**$11,336**			**$12,598**
Fully Diluted Outstanding Shares (2017E)					278					278			278
CMS Equity Value per Share					**$32.00**					**$41.00**			**$45.00**

Source: Company Filings, FactSet and UBS Estimates

CMS Energy Corporation (CMS.N)

Income statement (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	**6,253**	**6,566**	**7,179**	**6,456**	*-10.1*	**7,125**	*10.4*	**7,409**	**7,605**	**7,790**
Gross profit	3,054	3,240	3,321	3,413	*2.8*	3,510	*2.8*	3,615	3,726	3,839
EBITDA (UBS)	**1,601**	**1,770**	**1,837**	**1,913**	*4.1*	**2,031**	*6.2*	**2,156**	**2,287**	**2,420**
Depreciation & amortisation	(598)	(628)	(685)	(750)	*9.5*	(768)	*2.4*	(818)	(864)	(913)
EBIT (UBS)	**1,003**	**1,142**	**1,152**	**1,163**	*1.0*	**1,263**	*8.6*	**1,338**	**1,423**	**1,507**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	54	15	(4)	33	-	15	*-54.5*	20	20	20
Net interest	(393)	(401)	(410)	(400)	*2.4*	(428)	*-6.9*	(446)	(462)	(478)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**664**	**756**	**738**	**796**	*7.9*	**851**	*6.9*	**912**	**980**	**1,049**
Tax	(245)	(302)	(250)	(271)	*-8.4*	(289)	*-6.7*	(310)	(333)	(357)
Profit after tax	**419**	**454**	**488**	**525**	*7.7*	**561**	*6.9*	**602**	**647**	**693**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(2)	(2)	(2)	(2)	*0.0*	(2)	*0.0*	(2)	(2)	(2)
Extraordinary items	(35)	0	(9)	0	-	0	-	0	0	0
Net earnings (local GAAP)	**382**	**452**	**477**	**523**	*9.8*	**559**	*7.0*	**600**	**645**	**691**
Net earnings (UBS)	**417**	**452**	**486**	**523**	*7.7*	**559**	*7.0*	**600**	**645**	**691**
Tax rate (%)	36.8	39.9	33.9	34.0	*0.4*	34.0	*-0.1*	34.0	34.0	34.0

Per share (US$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	1.55	1.66	1.77	1.89	*6.7*	2.02	*6.7*	2.16	2.31	2.46
EPS (local GAAP, diluted)	1.42	1.66	1.74	1.89	*8.8*	2.02	*6.7*	2.16	2.31	2.46
EPS (UBS, basic)	1.57	1.70	1.77	1.89	*6.7*	2.02	*6.7*	2.16	2.31	2.46
Net DPS (US$)	0.94	1.02	1.08	1.16	*7.4*	1.24	*6.9*	1.33	1.42	1.51
Cash EPS (UBS, diluted)[1]	3.78	3.97	4.27	4.60	*7.8*	4.79	*4.0*	5.10	5.40	5.72
Book value per share	12.05	12.94	13.29	14.16	*6.5*	15.05	*6.3*	15.96	16.93	17.96
Average shares (diluted)	268.60	271.90	274.00	276.50	*0.9*	277.18	*0.2*	278.32	279.46	280.60

Balance sheet (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	93	172	207	190	*-8.2*	206	*8.3*	212	217	221
Other current assets	2,329	2,354	2,390	2,194	*-8.2*	2,375	*8.3*	2,452	2,506	2,556
Total current assets	**2,422**	**2,526**	**2,597**	**2,384**	*-8.2*	**2,581**	*8.3*	**2,665**	**2,723**	**2,777**
Net tangible fixed assets	10,471	11,097	12,306	13,157	*6.9*	14,051	*6.8*	14,972	15,820	16,719
Net intangible fixed assets	1,080	1,149	1,106	1,106	*0.0*	1,106	*0.0*	1,106	1,106	1,106
Investments / other assets	3,158	2,644	3,176	3,176	*0.0*	3,176	*0.0*	3,176	3,176	3,176
Total assets	**17,131**	**17,416**	**19,185**	**19,823**	*3.3*	**20,914**	*5.5*	**21,919**	**22,825**	**23,778**
Trade payables & other ST liabilities	1,256	1,383	1,474	1,399	*-5.1*	1,468	*5.0*	1,498	1,518	1,538
Short term debt	0	0	0	0	-	0	-	0	0	0
Total current liabilities	**1,256**	**1,383**	**1,474**	**1,399**	*-5.1*	**1,468**	*5.0*	**1,498**	**1,518**	**1,538**
Long term debt	7,404	7,801	8,679	8,901	*2.6*	9,332	*4.8*	9,757	10,079	10,427
Other long term liabilities	5,233	4,741	5,325	5,571	*4.6*	5,906	*6.0*	6,185	6,459	6,736
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**13,893**	**13,925**	**15,478**	**15,870**	*2.5*	**16,707**	*5.3*	**17,440**	**18,056**	**18,701**
Common s/h equity	3,194	3,454	3,670	3,915	*6.7*	4,171	*6.5*	4,442	4,732	5,040
Minority interests	44	37	37	37	*0.0*	37	*0.0*	37	37	37
Total liabilities & equity	**17,131**	**17,416**	**19,185**	**19,823**	*3.3*	**20,914**	*5.5*	**21,919**	**22,825**	**23,778**

Cash flow (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	382	452	477	523	*9.8*	559	*7.0*	600	645	691
Depreciation & amortisation	598	628	685	750	*9.5*	768	*2.4*	818	864	913
Net change in working capital	(156)	(2)	(32)	121	-	(112)	-	(47)	(33)	(31)
Other operating	417	343	318	246	*-22.5*	335	*36.1*	279	274	277
Operating cash flow	**1,241**	**1,421**	**1,447**	**1,640**	*13.3*	**1,550**	*-5.5*	**1,650**	**1,750**	**1,850**
Tangible capital expenditure	(1,227)	(1,325)	(1,577)	(1,601)	*-1.5*	(1,662)	*-3.8*	(1,739)	(1,712)	(1,812)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(49)	(56)	(75)	0	-	0	-	0	0	0
Other investing	(74)	(151)	(258)	0	-	0	-	0	0	0
Investing cash flow	**(1,350)**	**(1,532)**	**(1,910)**	**(1,601)**	*16.2*	**(1,662)**	*-3.8*	**(1,739)**	**(1,712)**	**(1,812)**
Equity dividends paid	(252)	(273)	(295)	(321)	*-8.7*	(344)	*-7.2*	(369)	(395)	(422)
Share issues / (buybacks)	30	36	43	43	*0.0*	40	*-7.0*	40	40	40
Other financing	75	25	(161)	0	-	0	-	0	0	0
Change in debt & pref shares	188	402	911	222	*-75.66*	431	*94.57*	424	322	349
Financing cash flow	**41**	**190**	**498**	**(56)**	-	**128**	-	**96**	**(33)**	**(34)**
Cash flow inc/(dec) in cash	**(68)**	**79**	**35**	**(17)**	-	**16**	-	**7**	**5**	**4**
FX / non cash items	0	0	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(68)**	**79**	**35**	**(17)**	-	**16**	-	**7**	**5**	**4**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

CMS Energy Corporation (CMS.N)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	16.2	16.3	17.3	21.1	19.8	18.5	17.3	16.2
P/E (UBS, diluted)	14.8	16.3	16.9	21.1	19.8	18.5	17.3	16.2
P/CEPS	6.0	6.7	7.0	8.7	8.3	7.8	7.4	7.0
Equity FCF (UBS) yield %	0.2	1.3	(1.6)	0.4	(1.0)	(0.8)	0.3	0.3
Net dividend yield (%)	4.1	3.8	3.6	2.9	3.1	3.3	3.5	3.8
P/BV x	1.9	2.1	2.3	2.8	2.6	2.5	2.4	2.2
EV/revenues (core)	2.7	2.6	2.6	3.3	3.0	2.9	2.8	2.8
EV/EBITDA (core)	10.6	9.7	10.1	11.2	10.6	9.9	9.4	8.9
EV/EBIT (core)	17.0	15.0	16.2	18.4	17.0	16.0	15.1	14.2
EV/OpFCF (core)	10.7	9.7	10.1	11.2	10.6	10.0	9.4	8.9
EV/op. invested capital	1.2	1.2	1.3	1.4	1.3	1.3	1.2	1.2

Enterprise value (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	6,031	7,210	8,168	11,007	11,007	11,007	11,007	11,007
Net debt (cash)	7,103	7,103	7,103	7,103	7,103	7,103	7,103	7,103
Buy out of minorities	44	37	37	37	37	37	37	37
Pension provisions/other	3,864	2,779	3,307	3,307	3,307	3,307	3,307	3,307
Total enterprise value	**17,042**	**17,129**	**18,615**	**21,454**	**21,454**	**21,454**	**21,454**	**21,454**
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	**17,042**	**17,129**	**18,615**	**21,454**	**21,454**	**21,454**	**21,454**	**21,454**

Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	-3.8	5.0	9.3	-10.1	10.4	4.0	2.6	2.4
EBITDA (UBS)	3.4	10.6	3.8	4.1	6.2	6.2	6.1	5.8
EBIT (UBS)	0.0	13.9	0.9	1.0	8.6	5.9	6.3	5.9
EPS (UBS, diluted)	7.1	7.1	6.5	6.7	6.7	6.9	7.0	6.7
Net DPS	17.1	8.7	5.9	7.4	6.9	6.9	6.8	6.4

Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	48.8	49.3	46.3	52.9	49.3	48.8	49.0	49.3
EBITDA margin	25.6	27.0	25.6	29.6	28.5	29.1	30.1	31.1
EBIT margin	16.0	17.4	16.0	18.0	17.7	18.1	18.7	19.3
Net earnings (UBS) margin	6.7	6.9	6.8	8.1	7.9	8.1	8.5	8.9
ROIC (EBIT)	7.2	8.1	7.8	7.4	7.7	7.9	8.1	8.3
ROIC post tax	4.5	4.8	5.2	4.9	5.1	5.2	5.3	5.4
ROE (UBS)	13.4	13.6	13.6	13.8	13.8	13.9	14.1	14.1

Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	4.6	4.3	4.6	4.6	4.5	4.4	4.3	4.2
Net debt / total equity %	225.8	218.5	228.5	220.4	216.9	213.1	206.8	201.0
Net debt / (net debt + total equity) %	69.3	68.6	69.6	68.8	68.4	68.1	67.4	66.8
Net debt/EV %	42.9	44.5	45.5	40.6	42.5	44.5	46.0	47.6
Capex / depreciation %	NM	NM	NM	NM	NM	NM	198.1	198.4
Capex / revenue %	19.6	20.2	22.0	24.8	23.3	23.5	22.5	23.3
EBIT / net interest	2.6	2.8	2.8	2.9	3.0	3.0	3.1	3.2
Dividend cover (UBS)	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Div. payout ratio (UBS) %	59.6	60.2	61.0	61.3	61.4	61.4	61.3	61.1

Revenues by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	6,253	6,566	7,179	6,456	7,125	7,409	7,605	7,790
Total	**6,253**	**6,566**	**7,179**	**6,456**	**7,125**	**7,409**	**7,605**	**7,790**

EBIT (UBS) by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	1,003	1,142	1,152	1,163	1,263	1,338	1,423	1,507
Total	**1,003**	**1,142**	**1,152**	**1,163**	**1,263**	**1,338**	**1,423**	**1,507**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+2.8%
Forecast dividend yield	3.1%
Forecast stock return	+5.9%
Market return assumption	5.7%
Forecast excess return	+0.2%

Valuation Method and Risk Statement

Risks for CMS Energy include but are not limited to: (1) Impact of mild weather; (2) implications of a sluggish economy (given the industrial load within its service territory); (3) commodity price risk / financial market volatility; (4) unfavorable regulatory decisions (both for the utility and the bank); (5) counter party credit risk; (6) increased competition; (7) lower-than-expected returns from unregulated projects (i.e., merchant plants, etc.); (8) access to capital markets to fund future growth prospects; and (9) interest rate risks. Valuation is based on a sum-of-the-parts methodology.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
CMS Energy Corporation[16]	CMS.N	Neutral	N/A	US$39.87	09 Feb 2016

Source: UBS. All prices as of local market close.
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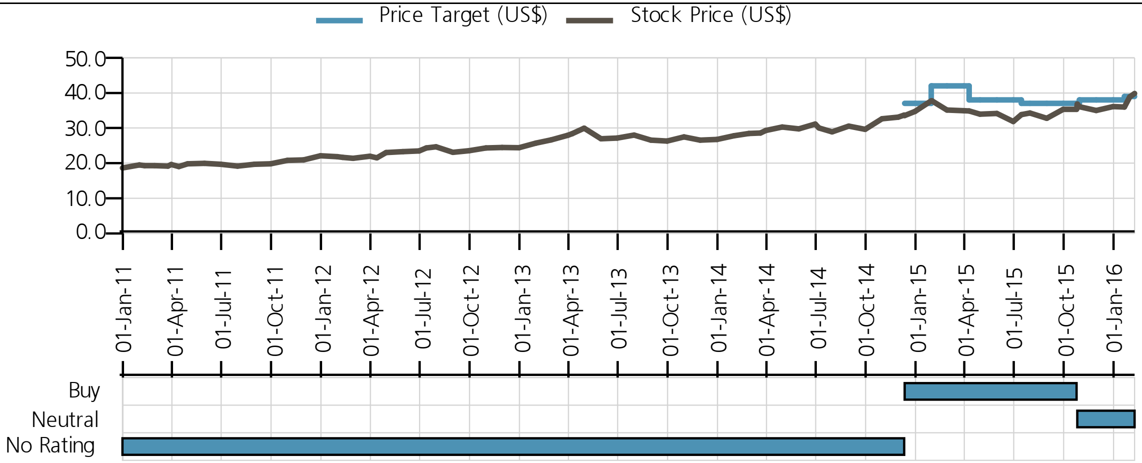
CMS Energy Corporation (US$)



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