

Ameren Corporation (AEE)

\$71.44 (As of 05/04/20)

Price Target (6-12 Months): **\$76.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Ameren Corp. growth has been led by its systematic and consistent investment in growth projects and infrastructure upgrade. In the 2020-2024 period, the company expects to spend up to \$16 billion to support overall system reliability and infrastructural upgrades. Such notable investment strategy will boost Ameren's future growth prospects. Ameren aims to reach its goal of reducing CO2 emissions by 80% by 2050, from the 2005 base level. Its shares have outperformed the industry in the past year. However, aging infrastructure might force Ameren to incur unplanned capital expenditures, escalating operating costs, in turn. Its generation and delivery facilities are subject to risks associated with the breakdown or failure of equipment or processes due to fuel supply or transportation disruptions, accidents and labor disputes.

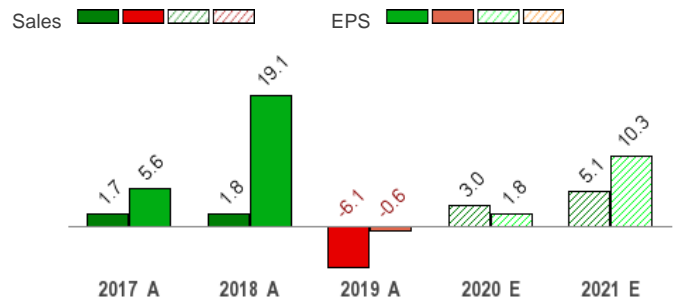
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.66 - \$58.74
20 Day Average Volume (sh)	1,502,838
Market Cap	\$17.6 B
YTD Price Change	-7.0%
Beta	0.27
Dividend / Div Yld	\$1.98 / 2.8%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 29% (74 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.6%
Last Sales Surprise	-9.4%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	05/11/2020
Earnings ESP	0.0%
P/E TTM	21.3
P/E F1	21.0
PEG F1	3.4
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,401 E
2020	1,585 E	1,459 E	1,708 E	1,376 E	6,088 E
2019	1,556 A	1,379 A	1,659 A	1,316 A	5,910 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$1.05 E	\$1.52 E	\$0.41 E	\$3.76 E
2020	\$0.71 E	\$0.85 E	\$1.48 E	\$0.32 E	\$3.41 E
2019	\$0.78 A	\$0.72 A	\$1.47 A	\$0.38 A	\$3.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

St. Louis, MO-based Ameren Corporation, incorporated in December 1997, is a utility company, which generates and distributes electricity and natural gas to residential, commercial, industrial and wholesale

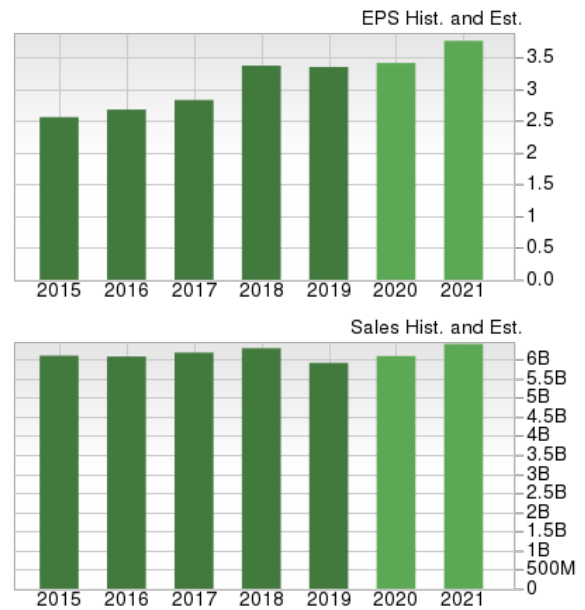
end markets in Missouri and Illinois. The company serves nearly 2.4 million electric and more than 900,000 gas customers. The company has four business segments - Ameren Missouri, Ameren Illinois Electric Distribution, Ameren Illinois Natural Gas and Ameren Transmission.

Ameren Missouri - This segment includes all the operations of Ameren Missouri. Ameren Missouri generates electricity through its coal-fired, nuclear, hydroelectric, natural gas or oil-fired and renewable facilities. Operating revenues in 2019 amounted to \$3,109 million.

Ameren Illinois - Ameren Illinois Electric Distribution consists of the electric distribution business of Ameren Illinois. Operating revenues in 2019 amounted to \$1,504 million.

Ameren Illinois Natural Gas - This segment consists of the natural gas business of Ameren Illinois. Operating revenues in 2019 amounted to \$797 million.

Ameren Transmission - This segment is primarily composed of the aggregated electric transmission businesses of Ameren Illinois and Ameren Transmission Company of Illinois (ATXI), and associated Ameren (parent) interest charges. ATXI deals with the construction and operation of Midcontinent Independent System Operator, Inc. (MISO)-approved electricity transmission projects. Operating revenues in 2019 amounted to \$464 million.



Reasons To Buy:

- ▲ Ameren's growth has been led by its systematic and consistent investment in growth projects and infrastructure upgrade. To this end, it is imperative to mention that the company had invested \$2.4 billion in 2019. During the 2020-2024 period, the company expects to spend up to \$16 billion, comprising up to \$8.2 billion, \$4.6 billion and \$3.2 billion for Ameren Missouri, Ameren Illinois and Ameren Transmission, respectively. This reflects an improvement from the company's earlier five-year investment plan worth \$13.9 billion for the 2019-2023 period. These investments are aimed at supporting overall system reliability, environmental compliance, and electric and natural gas utility infrastructure improvements.

Within Ameren Illinois, the company aims to invest \$2.9 billion for electric distribution and \$1.7 billion for natural gas. Further, the company projects a solid pipeline of regulated infrastructure investments of more than \$20 billion in the 2025-2029 period. Such notable investment strategy will boost Ameren's future growth prospects.

- ▲ In renewables, Ameren plans to offer electricity through cleaner and more diverse sources of energy generation, including solar, wind, natural gas, hydro and nuclear power. Notably, the company aims at expanding renewable sources by adding at least 700 megawatts (MW) of wind generation by 2020 in Missouri and 100 MW of solar generation by 2027. To fulfill this target, Ameren Missouri reached agreements with two developers to acquire two plants with wind generation capacity of 557 megawatts, after construction. Once completed, these facilities will represent about 80% of Ameren's compliance needs with the state of Missouri's requirement of achieving 15% of native load sales from renewable energy sources by 2021, subject to customer rate increase limitations. The company also plans to retire its coal-fired Meramec Energy Center by 2022. Moreover, these initiatives will enable Ameren to reach its goal of reducing CO2 emissions by 35% by 2030, 50% by 2040 and eventually 80% by 2050, from the 2005 base level.

Also, the company expects a potential investment of \$1.2 billion in Ameren Missouri's wind-generation projects. In fact, this particular investment in wind generation is expected to generate production tax credits for the company, beginning 2020.

- ▲ In 2019, the company paid out dividends worth of \$472 million. Ameren expects its dividend payout ratio between 55% and 70% of annual earnings over the next few years. Per management, the company's strong rate base and earnings growth profile, combined with solid dividend payouts, will provide a yield of 2.4%. This, in turn, will result in an attractive total return opportunity for shareholders compared with its regulated utility peers. These initiatives will allow the company to retain or either boost investor interest in the stock. Ameren's share price has declined 1.8% in the past year compared to the industry's decline of 5.8%.
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Ameren's systematic investments in growth projects, infrastructure upgrades, electric transmission and delivery infrastructure will help to improve service reliability and generate higher profits.

Reasons To Sell:

▼ Ameren's generation and delivery facilities are subject to risks associated with breakdown or failure of equipment or processes due to fuel supply or transportation disruptions, accidents and labor disputes or work stoppages by employees. The company will face operational difficulties in case of any such event. Ameren's businesses are also commodity price sensitive. An upward movement in coal, gas and other commodity prices could increase the company's operating costs, thereby affecting margins.

Stringent environmental regulations and operational risks might be potential growth deterrents.

▼ The company has to bear high expenditure to comply with air emission regulations, including burning ultra-low-sulfur coal and installing new or optimizing existing pollution control equipment. Ameren and Ameren Missouri expect to make capital expenditures of \$300-\$400 million from 2019 through 2023 in order to comply with existing environmental regulations. Additional environmental controls beyond 2023 may be required, which, if implemented, will increase the company's overall capital expenses.

▼ Ameren Corp. has long-term debt of \$8,915 million as of Dec 31, 2019, higher than \$8,651 million as of Sep 30, 2019. Moreover, its cash equivalents for the period remained much lower compared to its current debt levels. As of Dec 31, 2019, its cash equivalents were \$16 million. While the company's long-term debt level lies much above the company's cash reserve, its current debt worth \$882 million as of Dec 31, 2019, also remains much higher than the cash reserve. This makes us skeptic about the company's ability to duly meet its obligations.

Moreover, the company's current ratio as of Dec 31, 2019, is 0.57, which being less than 1, indicates that this utility player might not have sufficient capital on hand to meet its short-term obligations. Further, the company's debt-to-capital ratio is 0.53, as of Dec 31, 2019, slightly higher from the quarter-ago figure of 0.52. Together these indicate that the company might face difficulties and struggle to meet debt obligations in the near future.

Last Earnings Report

Ameren Q4 Earnings Beat Estimates, Revenues Down Y/Y

Ameren Corporation's fourth-quarter 2019 earnings of 38 cents per share from continuing operations exceeded the Zacks Consensus Estimate of 31 cents by 22.6%. Moreover, the reported figure soared 35.7% from 28 cents registered in the year-ago quarter.

The company generated 2019 adjusted earnings of \$3.35 per share from continuing operations, which surpassed the Zacks Consensus Estimate of \$3.29 by 1.8%. The bottom line, however, declined 0.6% from the year-ago tally.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-9.35%
EPS Surprise	22.58%
Quarterly EPS	0.38
Annual EPS (TTM)	3.35

Total Revenues

Total revenues came in at \$1,316 million in the reported quarter, which declined 7.3% year over year owing to lower electric as well as natural gas sales volumes. Revenues also missed the Zacks Consensus Estimate of \$1,452 million by 9.4%.

In 2019, the company generated total revenues of \$5,910 million, which declined 6% from the year-ago tally. The figure also lagged the Zacks Consensus Estimate of \$6,040 million by 2.2%.

Highlights of the Release

Ameren's total electricity sales volumes declined 12% to 17,178 million kilowatt hours (kWh) compared with 19,537 million kWh in the year-ago quarter. However, gas volumes expanded 3.3% to 63 million dekatherms.

Total operating expenses summed \$1,137 million, down 9.3% year over year.

The company's interest expenses in the fourth quarter were \$91 million compared with \$99 million a year ago.

Segment Results

The Ameren Missouri segment reported operating income of \$426 million in 2019 compared with \$482 million in 2018. The year-over-year decline was a result of lower electric retail sales during the year.

The Ameren Illinois Electric Distribution segment reported operating income of \$146 million in 2019 compared to \$139 million in 2018. The year-over-year rise reflected increased earnings on infrastructure and energy efficiency investments.

The Ameren Illinois Natural Gas segment reported operating income of \$84 million in 2019 compared to \$71 million in 2018. The year-over-year improvement was due to higher delivery service rates and increased earnings on infrastructure investments.

The Ameren Transmission segment reported operating income of \$185 million in 2019 compared with \$164 million in 2018. The improvement reflected increased earnings on infrastructure investments.

Financial Condition

Ameren reported cash and cash equivalents of \$16 million as of Dec 31, 2019, in line with the figure registered at 2018 end.

As of Dec 31, 2019, long-term debt totaled \$8,915 million compared with \$7,859 million as of Dec 31, 2018.

In 2019, cash from operating activities amounted to \$2,170 million, similar to the figure as of Dec 31, 2018.

Guidance

Ameren issued its 2020 guidance. The company expects its earnings to be in the range of \$3.40-\$3.60 per share. Currently the Zacks Consensus Estimate for the company's 2020 earnings is pegged at \$3.47 per share, lower than the mid-point of the company provided guidance.

Ameren also affirmed its 2018 through 2023 compound annual earnings per share growth expectations of 6% to 8%

Recent News

On **Mar 25, 2020**, Ameren Corporation's subsidiary — Ameren Missouri — announced that the Missouri Public Service Commission has approved new lower electric rates for residential, commercial and industrial customers effective from April. This approval will reduce monthly bills for the typical residential customer by approximately \$1.25 per month.

The company was able to provide the rate cut due to the approval of \$32 million decrease in its annual revenue requirement. This rate cut marks the second decrease in rates in since 2018. Notably, last time the company had lowered rates by 6%, as a part of its Smart Energy Plan.

On **Feb 26, 2020**, Ameren Missouri, a subsidiary of Ameren Corporation, filed an updated Smart Energy Plan with the Missouri Public Service Commission. This five-year plan increases investments to \$7.6 billion in continued grid modernization while leveraging the successes from the first year.

On **Jan 22, 2020**, As part of its plan to modernize the energy delivery system throughout central and southern Illinois, Ameren Illinois announced today a two-year electric grid project to enhance service reliability for customers in Jersey and Macoupin counties. The company is fortifying power lines and power poles to withstand high winds during storms as well as making enhancements at substations in Jerseyville, Piasa and Brighton. The total investment in the project is more than \$18 million.

On **Jan 6, 2020**, Ameren Transmission Company of Illinois (ATXI), a wholly owned subsidiary of Ameren Corporation, has completed and energized the Mark Twain Transmission Project, a 96-mile, 345,000-volt transmission line and substation in northeast Missouri. The line travels west from Palmyra to Kirksville, Missouri then north to the Iowa border. The \$267 million project, which includes the Zachary substation in Adair County, Missouri, was placed into service as expected on Dec.19, 2019. Efficient project execution, which included the use of helicopters to install the transmission line, reduced landowner impact and improved construction efficiency.

Valuation

Ameren Corp.'s shares are down 6.9% in the year-to-date period and 1.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 14.6% and 16.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 5.8%, while the sector declined 20.8%.

The S&P 500 index is down 11.8% in the year-to-date period and 3.3% in the past year.

The stock is currently trading at 20.2X of forward 12-month earnings, which compares to 12.5X for the Zacks sub-industry, 11.8X for the Zacks sector and 20.4X for the S&P 500 index.

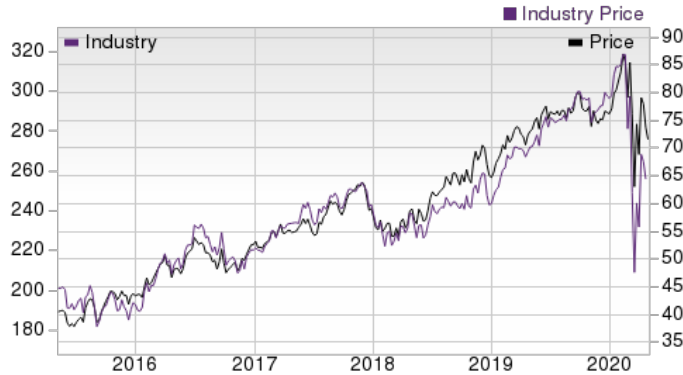
Over the past five years, the stock has traded as high as 24.8X and as low as 14.3X, with a 5-year median of 19.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$76 price target reflects 21.5X forward 12-month earnings.

The table below shows summary valuation data for AEE

Valuation Multiples - AEE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.23	12.5	11.8	20.38
	5-Year High	24.79	15.53	15.32	20.38
	5-Year Low	14.25	11.12	11.35	15.19
	5-Year Median	19.41	13.23	13.79	17.44
P/S F12M	Current	2.85	2.02	2.5	3.2
	5-Year High	3.41	2.45	3.29	3.44
	5-Year Low	1.43	1.54	1.75	2.54
	5-Year Median	2.13	1.88	2.04	3.01
EV/EBITDA TTM	Current	11.42	11.46	16.61	10.41
	5-Year High	13.03	13.26	20.11	12.86
	5-Year Low	7.34	7.8	10.57	8.28
	5-Year Median	8.98	10.28	13.38	10.77

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Top 29% (74 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CMS Energy Corporation (CMS)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	2
Entergy Corporation (ETR)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
Pinnacle West Capital Corporation (PNW)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AEE	X Industry	S&P 500	CMS	DTE	ETR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	C	C
Market Cap	17.63 B	7.05 B	19.65 B	16.24 B	19.42 B	19.16 B
# of Analysts	5	3	14	4	5	4
Dividend Yield	2.77%	3.46%	2.19%	2.87%	4.02%	3.90%
Value Score	D	-	-	C	B	C
Cash/Price	0.00	0.05	0.06	0.05	0.03	0.02
EV/EBITDA	10.62	9.55	11.76	11.94	10.92	8.84
PEG Ratio	3.36	3.35	2.48	3.15	2.84	2.91
Price/Book (P/B)	2.14	1.42	2.63	3.11	1.62	1.86
Price/Cash Flow (P/CF)	9.12	7.75	10.38	9.47	7.79	5.82
P/E (F1)	20.96	16.88	18.81	21.89	15.64	17.30
Price/Sales (P/S)	2.98	1.80	2.02	2.44	1.59	1.76
Earnings Yield	4.77%	5.73%	5.07%	4.56%	6.40%	5.77%
Debt/Equity	1.09	1.03	0.73	2.42	1.43	1.67
Cash Flow (\$/share)	7.84	4.15	7.01	5.99	12.95	16.39
Growth Score	B	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	8.19%	4.91%	10.87%	6.95%	6.69%	2.35%
Proj. EPS Growth (F1/F0)	1.85%	1.57%	-8.14%	4.12%	2.32%	2.13%
Curr. Cash Flow Growth	2.50%	3.63%	5.88%	6.78%	7.70%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	5.54%	8.55%	7.74%	4.88%	0.41%
Current Ratio	0.57	0.86	1.25	0.96	0.89	0.54
Debt/Capital	52.09%	50.07%	44.07%	70.72%	58.86%	61.98%
Net Margin	14.01%	10.69%	11.00%	10.68%	9.10%	11.57%
Return on Equity	10.29%	9.82%	16.43%	14.68%	9.82%	11.02%
Sales/Assets	0.21	0.23	0.55	0.25	0.30	0.21
Proj. Sales Growth (F1/F0)	3.02%	0.00%	-1.76%	1.45%	1.60%	3.93%
Momentum Score	B	-	-	D	C	C
Daily Price Chg	-0.01%	0.00%	-0.01%	1.41%	0.15%	1.98%
1 Week Price Chg	-2.97%	-1.29%	0.53%	-5.81%	-2.27%	-4.06%
4 Week Price Chg	-3.84%	1.42%	6.66%	-3.59%	4.99%	2.60%
12 Week Price Chg	-14.93%	-19.88%	-20.38%	-16.02%	-24.45%	-28.20%
52 Week Price Chg	-1.80%	-11.08%	-13.44%	2.96%	-19.39%	-0.82%
20 Day Average Volume	1,502,838	450,588	2,567,149	2,039,691	1,167,684	1,316,059
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.38%	0.60%	-0.18%
(F1) EPS Est 4 week change	-1.33%	-0.68%	-6.96%	-0.81%	-0.51%	-0.54%
(F1) EPS Est 12 week change	-1.39%	-2.25%	-13.90%	-0.92%	-1.08%	-1.30%
(Q1) EPS Est Mthly Chg	-3.03%	-2.34%	-13.62%	-4.92%	-4.19%	-2.02%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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