

Ameren Corporation (AEE)

\$79.75 (As of 01/20/20)

Price Target (6-12 Months): **\$85.00**

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: C

Growth: C

Momentum: B

Summary

Over the long term, Ameren Corp. is expected to spend up to \$13.9 billion to support overall system reliability and infrastructural upgrades. In renewables, it plans to offer electricity through cleaner and more diverse energy generation sources. Such notable investment strategy should boost its future growth prospects. Ameren aims to reach its goal of reducing CO2 emissions by 50% by 2030 and eventually 80% by 2050, from the 2005 base level. 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. Ameren Corp.'s shares underperformed the industry in the past twelve months.

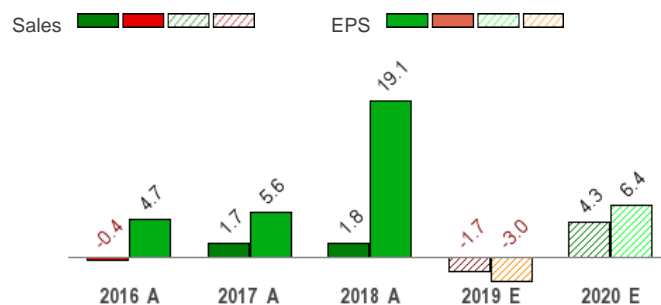
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.85 - \$66.74
20 Day Average Volume (sh)	1,288,625
Market Cap	\$19.6 B
YTD Price Change	3.8%
Beta	0.19
Dividend / Div Yld	\$1.98 / 2.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	-5.3%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/13/2020
Earnings ESP	6.7%
P/E TTM	24.5
P/E F1	23.0
PEG F1	3.7
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					6,453 E
2019	1,556 A	1,379 A	1,659 A	1,452 E	6,186 E
2018	1,585 A	1,563 A	1,724 A	1,419 A	6,291 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.78 E	\$0.82 E	\$1.57 E	\$0.26 E	\$3.48 E
2019	\$0.78 A	\$0.72 A	\$1.47 A	\$0.30 E	\$3.27 E
2018	\$0.62 A	\$0.97 A	\$1.50 A	\$0.28 A	\$3.37 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 01/20/2020. The reports text is as of 01/21/2020.

Overview

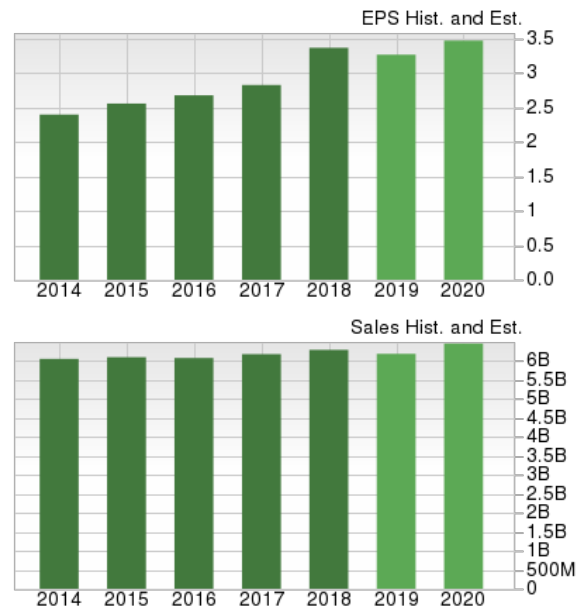
St. Louis, MO-based Ameren Corporation, incorporated in December 1997, is a utility company, which generates and distributes electricity and natural gas to residential, commercial, industrial and wholesale end markets in Missouri and Illinois. The company serves nearly 2.4 million electric and more than 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 2018 amounted to \$3,451 million.

Ameren Illinois - Ameren Illinois Electric Distribution consists of the electric distribution business of Ameren Illinois. Operating revenues in 2018 amounted to \$1,547 million.

Ameren Illinois Natural Gas - This segment consists of the natural gas business of Ameren Illinois. Operating revenues in 2018 amounted to \$815 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 2018 amounted to \$433 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 \$2.3 billion in 2018, and plans to invest \$2.43 billion in 2019, including \$1.07 billion for Ameren Missouri, \$495 million for Ameren Illinois Electric distribution, \$350 million for Ameren Illinois Natural Gas, \$360 million for Ameren Illinois Transmission and \$156 million for Ameren Transmission company of Illinois (ATXI).

▲ During the 2019-2023 period, the company expects to spend up to \$13.9 billion, comprising up to \$7.1 billion, \$6.6 billion and \$200 million for Ameren Missouri, Ameren Illinois and ATXI, respectively. This reflects an improvement from the company's earlier five-year investment plan worth \$13.3 billion for the 2018-2022 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 \$2.7 billion for electric distribution and \$1.6 billion for natural gas.

Also, the company expects a potential investment of \$1 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. Such notable investment strategy should 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. Moreover, these initiatives will allow Ameren to reach its goal of reducing CO2 emissions by 50% by 2030 and eventually 80% by 2050, from the 2005 base level.

▲ A stable financial position enables Ameren to maximize shareholder value through the payout of regular dividends and repurchase of shares. Notably, the company's cash from operating activities in the first nine months of 2019 amounted to \$1,668 million. This has allowed the company to payout dividends of \$350 million in the first half of 2019.

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 approximately 2.5%. 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 investor interest in the stock.

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 Corp.'s aging infrastructure may pose risks to system reliability and force the company to incur unplanned capital expenditures and operating costs. All of Ameren Missouri's coal-fired energy centers were constructed prior to 1978, and the Callaway nuclear energy center began operating in 1984. The age of these energy centers increases the risks of unplanned outages, reduced generation output and higher maintenance expenses.
- ▼ 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.
- ▼ 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's share price has only gained 21.2% in the past twelve months compared with the industry's growth of 27.6%.
- ▼ Although Ameren has outperformed its industry in the past year, a comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 24.54. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 19.81. Therefore, the company's valuation from a P/E perspective looks stretched, when compared with its own range in the time period.

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

Last Earnings Report

Ameren Q3 Earnings Beat Estimates, Revenues Down Y/Y

Ameren Corporation's third-quarter 2019 earnings of \$1.47 per share from continuing operations surpassed the Zacks Consensus Estimate of \$1.46 by 0.7%. However, the bottom line declined 2% from the year-ago quarter's \$1.50 per share.

Total Revenues

Total revenues came in at \$1,659 million in the reported quarter, which declined 3.9% year over year due to lower electric and natural gas sales volume. The reported figure also missed the Zacks Consensus Estimate of \$1,752 million by 5.3%.

Highlights of the Release

Ameren's total electricity sales volume declined 5.6% to 20,355 million kilowatt hours (kWh) compared with 21,568 million kWh in the year-ago quarter. However, gas volumes stood at 28 million dekatherms during the third quarter.

Total operating expenses summed \$1,139 million, down 4.4% year over year from \$1,191 million. Interest expenses were \$96 million compared with \$101 million a year ago.

The company's operating income declined 2.4% to \$520 million from \$533 million in the year-ago quarter.

Segment Results

The Ameren Missouri segment reported operating income of \$300 million in the third quarter compared with \$298 million in the year-ago quarter. The year-over-year rise reflected 2019 energy efficiency performance incentives of \$13 million.

The Ameren Illinois Electric Distribution segment reported operating income of \$32 million in the third quarter compared with \$38 million in the year-ago quarter. The year-over-year decline reflected a lower allowed return on equity due to a lower projected average 30-year U.S. Treasury bond yield in 2019 compared to 2018.

The Ameren Illinois Natural Gas segment reported an operating loss of \$1 million against the operating income of \$1 million in the year-ago quarter. The year-over-year decline was because of a change in rate design.

The Ameren Transmission segment reported operating income of \$53 million in the third quarter compared with \$48 million in the year-ago quarter. The improvement reflected increased earnings on infrastructure investments.

Financial Condition

The company reported cash and cash equivalents of \$20 million as of Sep 30, 2019, compared with \$16 million at the 2018-end.

As of Sep 30, 2019, long-term debt totaled \$8,651 million compared with \$7,859 million as of Dec 31, 2018.

In the first nine months of 2019, cash from operating activities amounted to \$1,668 million compared with \$1,686 in the first nine months of 2018.

Guidance

Ameren has narrowed its 2019 guidance. The company expects earnings of \$3.23-\$3.33 per share compared to the earlier guidance of \$3.15-\$3.35. Currently, the Zacks Consensus Estimate for the company's 2019 earnings is pegged at \$3.25, which lies below the mid-point of the company's guided range.

Quarter Ending 09/2019

Report Date	Nov 08, 2019
Sales Surprise	-5.29%
EPS Surprise	0.68%
Quarterly EPS	1.47
Annual EPS (TTM)	3.25

Recent News

On **Dec 17, 2019**, Ameren announced that its subsidiary, Ameren Illinois' residential customers will pay less for electric delivery services next year, under a plan approved by the Illinois Commerce Commission (ICC). The overall \$7.05 million decrease will save the typical residential customer approximately \$1.13 per month on the delivery portion of their electric bill beginning in January 2020.

Coupled with a recently announced 5% reduction in the cost of electricity for customers who choose Ameren Illinois as their supplier, overall monthly electric bills are expected to be about 20% below the national average.

Valuation

Ameren Corp.'s shares are up 5.9% in the past six months period and up 21.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 12.1% and 8.9% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 27.5%, whereas the sector is up 7.9%.

The S&P 500 index is up 13.3% in the past six months period and is up 26.5% in the past year.

The stock is currently trading at 22.82X of forward 12-month earnings, which compares to 14.99X for the Zacks sub-industry, 13.82X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.54X and as low as 14.25X, with a 5-year median of 19.21X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$85 price target reflects 24.32X 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	22.82	14.99	13.82	19.19
	5-Year High	23.54	14.99	15.33	19.34
	5-Year Low	14.25	11.19	12.61	15.17
	5-Year Median	19.21	13.09	13.7	17.44
P/S F12M	Current	3.03	2.33	2.98	3.57
	5-Year High	3.07	2.33	3.26	3.57
	5-Year Low	1.43	1.5	1.7	2.54
	5-Year Median	2.07	1.83	1.95	3
P/B TTM	Current	1.91	1.91	4.16	4.55
	5-Year High	1.91	1.91	4.16	4.55
	5-Year Low	1.32	1.32	2.01	2.85
	5-Year Median	1.55	1.55	2.55	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



Top Peers

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AEE Neutral	X Industry	S&P 500	CMS Neutral	DTE Neutral	ETR Neutral
VGM Score	C	-	-	D	D	D
Market Cap	19.62 B	9.42 B	24.65 B	18.63 B	25.34 B	25.15 B
# of Analysts	5	2	13	5	4	4
Dividend Yield	2.48%	2.70%	1.73%	2.33%	3.03%	2.95%
Value Score	C	-	-	D	C	C
Cash/Price	0.00	0.04	0.04	0.02	0.00	0.04
EV/EBITDA	11.25	11.45	14.11	13.99	13.32	15.71
PEG Ratio	3.68	3.96	2.08	4.01	3.42	3.24
Price/Book (P/B)	2.39	1.95	3.39	3.73	2.32	2.50
Price/Cash Flow (P/CF)	10.36	9.39	13.81	11.69	10.54	6.74
P/E (F1)	22.97	20.02	19.19	24.59	20.50	22.67
Price/Sales (P/S)	3.26	2.34	2.69	2.71	1.91	2.30
Earnings Yield	4.35%	4.88%	5.21%	4.07%	4.88%	4.41%
Debt/Equity	1.05	1.08	0.72	2.43	1.28	1.69
Cash Flow (\$/share)	7.70	4.03	6.94	5.62	12.70	18.75
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	8.26%	4.40%	10.56%	6.54%	7.64%	4.11%
Proj. EPS Growth (F1/F0)	6.27%	5.41%	7.57%	7.23%	4.99%	5.04%
Curr. Cash Flow Growth	12.97%	7.23%	14.73%	6.77%	10.89%	0.51%
Hist. Cash Flow Growth (3-5 yrs)	8.12%	4.93%	9.00%	8.07%	4.53%	2.60%
Current Ratio	0.65	0.81	1.24	1.06	0.77	0.72
Debt/Capital	51.33%	51.70%	42.99%	70.82%	56.15%	62.21%
Net Margin	13.34%	9.75%	11.14%	9.03%	8.24%	7.38%
Return on Equity	10.10%	9.57%	17.16%	12.80%	9.93%	11.13%
Sales/Assets	0.22	0.24	0.55	0.27	0.36	0.22
Proj. Sales Growth (F1/F0)	4.32%	3.33%	4.16%	2.14%	5.17%	1.19%
Momentum Score	B	-	-	D	C	F
Daily Price Chg	0.68%	0.42%	0.27%	0.41%	0.68%	1.09%
1 Week Price Chg	1.22%	0.44%	0.39%	1.20%	-0.05%	1.58%
4 Week Price Chg	5.70%	3.86%	2.95%	5.21%	3.22%	5.69%
12 Week Price Chg	2.92%	3.20%	7.76%	1.86%	3.66%	4.17%
52 Week Price Chg	18.92%	19.16%	22.29%	28.78%	18.23%	46.82%
20 Day Average Volume	1,288,625	277,517	1,536,375	1,367,843	921,453	1,191,146
(F1) EPS Est 1 week change	-0.05%	0.00%	0.00%	-0.19%	-0.05%	0.00%
(F1) EPS Est 4 week change	0.10%	0.00%	0.00%	-0.19%	-0.05%	0.00%
(F1) EPS Est 12 week change	-0.60%	-0.13%	-0.40%	0.30%	1.00%	0.04%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.81%	NA	0.00%

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	C
Growth Score	C
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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