

Ameren Corporation (AEE)

\$81.25 (As of 08/24/20)

Price Target (6-12 Months): **\$86.00**

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: C

Summary

Ameren Corp. ended the second quarter of 2020 with earnings surpassing the Zacks Consensus Estimate, while revenues missing the same. Its growth has been led by its systematic and consistent investment in growth projects. In the 2020-2024 period, it expects to spend up to \$16 billion to support overall system reliability and infrastructural upgrades. Further, it projects regulated infrastructure investments of more than \$20 billion in the 2025-2029 period. Its shares outperformed the industry in the past year. However, aging infrastructure might force Ameren to incur unplanned capital expenditures, escalating operating costs, in turn. It expects significant economic disruptions from COVID-19 potentially for the remainder of 2020, which may negatively impact its sales. Further, it has to bear high air emissions regulatory expenditures.

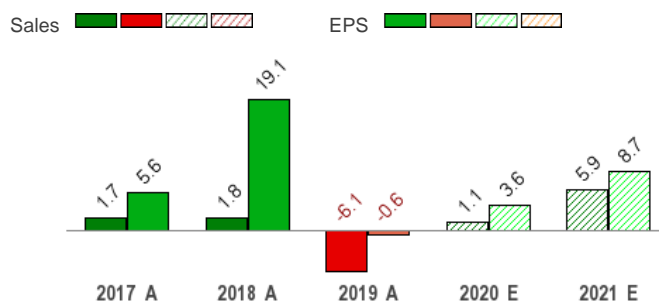
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.66 - \$58.74
20 Day Average Volume (sh)	1,172,592
Market Cap	\$20.1 B
YTD Price Change	5.8%
Beta	0.30
Dividend / Div Yld	\$1.98 / 2.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 21% (199 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-5.5%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	11/13/2020
Earnings ESP	-2.5%
P/E TTM	23.8
P/E F1	23.4
PEG F1	3.8
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,331 E
2020	1,440 A	1,398 A	1,726 E	1,394 E	5,977 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	\$0.75 E	\$1.04 E	\$1.59 E	\$0.39 E	\$3.77 E
2020	\$0.59 A	\$0.98 A	\$1.53 E	\$0.39 E	\$3.47 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, except sales and EPS estimates, is as of 08/24/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/25/2020.

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

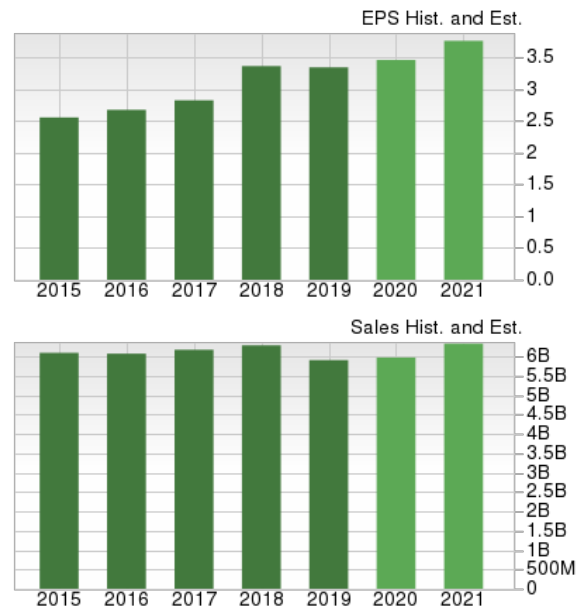
end markets in Missouri and Illinois. The company serves nearly 2.4 million electric and more than 900,000 gas customers. The company has four business segments - Ameren Missouri, Ameren Illinois Electric Distribution, Ameren Illinois Natural Gas and Ameren Transmission.

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. Further, the company projects a solid pipeline of regulated infrastructure investments of more than \$20 billion in the 2025-2029 period. These investments are aimed at supporting overall system reliability, environmental compliance, and electric and natural gas utility infrastructure improvements. Such notable investment strategy will boost Ameren's future growth prospects. 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.

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.
- ▲ During the second quarter of 2020, the company paid out dividends worth of \$122 million compared with \$117-million dividends paid out during the second quarter of 2019. Ameren expects its dividend payout ratio between 55% and 70% of annual earnings over the next few years. Ameren's expected multi-year earnings growth is likely to be driven by strong projected rate base growth of approximately 9% compounded annually from 2019 through 2024. This, in turn, will result in an attractive total return opportunity for shareholders compared with its regulated utility peers. Such solid capital deployment strategy will surely boost investors' interest in this stock. Notably, Ameren's share price has gained 7.2% in the past year against the industry's decline of 9.5%.

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:

- ▼ As of Jun 30, 2020, the company experienced a net decrease in its sales volumes primarily due to the impacts caused the COVID-19 pandemic. Further, Ameren's customer payment for services has been adversely impacted by the COVID-19 pandemic, resulting in a decrease to its cash flow from operations. The company expects significant economic disruptions from COVID-19, potentially for the remainder of the year. Looking ahead, as the duration and severity of the pandemic remains uncertain, such economic crisis might have a significant adverse impact on the company's overall results in the coming quarters.

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

In line with such uncertainties, Ameren Corp. expects lower sales in Missouri and the impact caused by the pandemic to reduce earnings by approximately 10 cents per share in 2020. For the remainder of the year, the company expects its overall weather-normalized sales to be down approximately 2.5% and commercial sales to decline approximately 7.5%. Moreover, industrial sales are anticipated to decline approximately 4.5%.

- ▼ 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 a long-term debt of \$10,171 million as of Jun 30, 2020, higher than \$9,378 million as of Mar 31, 2020. Its current debt is \$477 million as of Jun 30, 2020. Its cash equivalents worth \$8 million as of Jun 30 remained much lower compared to both its current and long-term debt levels. Further, cash equivalents in the second quarter declined sequentially from \$42 million. This makes us skeptic about the company's ability to duly meet its obligations.

Moreover, the company's current ratio as of Jun 30, 2020, is 0.81, which being less than 1, indicates that this utility might not have sufficient capital in hand to meet its short-term obligations. Further, the company's debt-to-capital ratio is 0.56 as of June 30, higher from the quarter-ago ratio of 0.54 and the highest in the last eight quarters. Together, such unfavorable financial ratios indicate that the company might face difficulties and struggle to meet its debt obligations in the near future.

Last Earnings Report

Ameren Q2 Earnings Top Estimates, Revenues Rise Y/Y

Ameren Corporation's second-quarter 2020 earnings of 98 cents per share from continuing operations beat the Zacks Consensus Estimate of 95 cents by 3.2%. The bottom line also improved 36.1% from the year-ago quarter's 72 cents.

Total Revenues

Total revenues came in at \$1,398 million in the reported quarter, increasing 1.4% year over year driven by higher electric sales volumes. The top line however lagged the Zacks Consensus Estimate of \$1,479 million by 5.5%.

Ameren's total electricity sales volume increased 3.8% to 16,967 million kilowatt hours (kWh) compared with 16,339 million kWh in the year-ago quarter. However, gas volumes remained flat at 161 million dekatherms.

Total operating expenses were \$1,044 million, down 5% year over year. Interest expenses were \$108 million compared with \$97 million a year ago.

The company's operating income increased 26.4% to \$354 million from \$280 million in the year-ago quarter.

Segment Results

Ameren Missouri segment reported operating earnings of \$152 million for the second quarter compared with \$107 million in the year-ago quarter. The upside can be attributed to lower operations and maintenance expenses as well as disciplined cost management and changes in the cash surrender value of company-owned life insurance driven by favorable market returns. Also, new electric service rates and the positive impact on electric sales from near-normal temperatures boosted earnings.

Ameren Illinois Electric Distribution segment reported operating income of \$36 million compared with \$37 million in the year-ago quarter, owing to a lower allowed return on equity.

Ameren Illinois Natural Gas segment reported operating income of \$9 million compared with \$1 million in the year-ago quarter. The upside was driven by increased earnings on infrastructure investments and lower other operations and maintenance expenses.

Ameren Transmission segment reported operating income of \$59 million in the second quarter compared with \$42 million in the year-ago quarter, led by increased earnings on infrastructure investments and lower other operations and maintenance expenses.

Financial Condition

The company reported cash and cash equivalents of \$8 million as of Jun 30, 2020, compared with \$16 million at 2019-end.

As of Jun 30, 2020, long-term debt totaled \$10,171 million compared with \$8,915 million as of Dec 31, 2019.

At the end of second-quarter 2020, cash from operating activities amounted to \$694 million compared with \$879 million at the second quarter of 2019 end.

Guidance

Ameren reaffirmed its 2020 guidance. The company still expects earnings of \$3.40-\$3.60 per share, which is projected to grow at a 6-8% compound annual rate from 2020 through 2024. Currently, the Zacks Consensus Estimate for the company's 2020 earnings is pegged at \$3.46 per share, lower than the midpoint of its guided range.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-5.48%
EPS Surprise	3.16%
Quarterly EPS	0.98
Annual EPS (TTM)	3.42

Valuation

Ameren Corp.'s shares are up 5.8% in the year-to-date period and 7.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 13.6% and 13.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.5%, while the sector declined 9.1%.

The S&P 500 index is up 6.5% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 22.2X of forward 12-month earnings, which compares to 13.7X for the Zacks sub-industry, 12.7X for the Zacks sector and 23.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.8X and as low as 14.4X, with a 5-year median of 19.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$86 price target reflects 23.5X 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	22.19	13.68	12.69	23.05
	5-Year High	24.79	15.36	15.28	23.05
	5-Year Low	14.4	11.07	11.3	15.25
	5-Year Median	19.55	13.2	13.72	17.58
P/S F12M	Current	3.23	2.31	2.69	3.76
	5-Year High	3.41	2.46	3.29	3.76
	5-Year Low	1.46	1.55	1.75	2.53
	5-Year Median	2.24	1.91	2.07	3.05
EV/EBITDA TTM	Current	12.53	11.57	18.45	13.03
	5-Year High	13.03	13.88	21.07	13.03
	5-Year Low	7.59	7.84	10.59	8.25
	5-Year Median	9.12	10.54	13.98	10.92

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 252)



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	3
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	-	-	C	C	C
Market Cap	20.08 B	8.66 B	23.81 B	17.42 B	22.73 B	19.75 B
# of Analysts	5	3	14	5	6	4
Dividend Yield	2.44%	3.47%	1.64%	2.68%	3.43%	3.77%
Value Score	C	-	-	C	B	B
Cash/Price	0.00	0.07	0.07	0.09	0.03	0.05
EV/EBITDA	12.11	9.74	13.37	12.50	12.03	9.10
PEG Ratio	3.71	3.46	3.02	3.28	3.11	3.05
Price/Book (P/B)	2.40	1.61	3.17	3.32	1.91	1.89
Price/Cash Flow (P/CF)	10.37	7.64	12.77	10.16	9.11	6.02
P/E (F1)	23.13	17.47	21.72	22.98	17.65	17.58
Price/Sales (P/S)	3.45	1.83	2.48	2.62	1.91	1.89
Earnings Yield	4.27%	5.71%	4.44%	4.36%	5.66%	5.69%
Debt/Equity	1.22	1.03	0.76	2.57	1.47	1.75
Cash Flow (\$/share)	7.84	4.27	6.93	5.99	12.95	16.39
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	7.41%	5.32%	10.41%	7.05%	6.30%	-2.08%
Proj. EPS Growth (F1/F0)	3.46%	0.93%	-5.05%	6.35%	6.08%	3.89%
Curr. Cash Flow Growth	2.50%	6.78%	5.20%	6.78%	7.70%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	6.59%	6.02%	8.50%	7.74%	4.88%	0.41%
Current Ratio	0.81	0.86	1.33	1.13	0.83	0.58
Debt/Capital	54.86%	50.68%	44.50%	71.97%	59.49%	63.60%
Net Margin	14.57%	9.66%	10.13%	11.33%	10.13%	11.95%
Return on Equity	10.27%	9.28%	14.66%	15.32%	10.50%	11.36%
Sales/Assets	0.20	0.22	0.51	0.24	0.28	0.20
Proj. Sales Growth (F1/F0)	1.13%	0.00%	-1.45%	-1.37%	-2.62%	2.36%
Momentum Score	C	-	-	F	F	D
Daily Price Chg	0.66%	1.05%	1.32%	0.75%	1.85%	0.52%
1 Week Price Chg	-0.68%	-1.57%	-1.45%	-0.80%	-1.60%	-2.77%
4 Week Price Chg	2.84%	0.00%	3.38%	-3.41%	3.47%	-3.04%
12 Week Price Chg	9.25%	0.00%	7.69%	3.10%	8.81%	-3.93%
52 Week Price Chg	7.12%	-10.73%	3.85%	-2.52%	-9.36%	-11.57%
20 Day Average Volume	1,172,592	325,516	1,873,293	1,405,557	919,211	975,950
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%
(F1) EPS Est 4 week change	0.12%	0.13%	1.00%	0.45%	1.39%	1.16%
(F1) EPS Est 12 week change	0.61%	0.00%	3.40%	2.07%	2.45%	1.43%
(Q1) EPS Est Mthly Chg	-0.81%	-0.68%	0.00%	17.11%	-6.04%	3.67%

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	C
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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