

## American Electric(AEP)

**\$81.39** (As of 05/01/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: A

### Summary

American Electric's strategy includes incremental investment in renewable generation projects throughout the United States. It has a stable earnings base of approximately 5.4 million customers spread over 11 states. This provides stability to its revenue stream. It boasts a solid financial position, which allows the company to reward its shareholders via dividends. In the past year, shares of American Electric have outperformed its industry. However, the company is exposed to environmental risks, since its power plants produce large quantities of nitrogen, sulfur, mercury and carbon dioxide. Additional investments necessary to meet proposed environmental regulations through 2025 for its Welsh Plant could be worth approximately \$520 million. Such costs could hamper American Electric's financial condition.

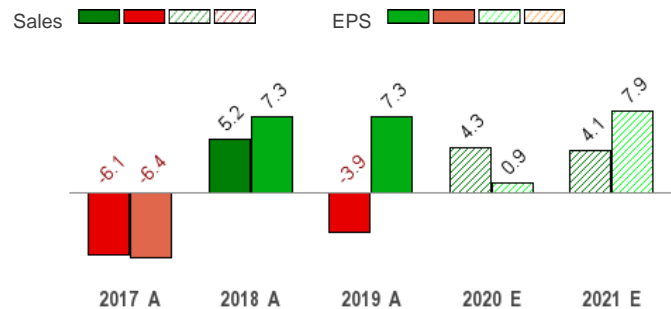
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$104.97 - \$65.14
20 Day Average Volume (sh)	2,665,908
Market Cap	\$40.3 B
YTD Price Change	-13.9%
Beta	0.38
Dividend / Div Yld	\$2.80 / 3.4%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Top 21% (53 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-11.0%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	19.2
P/E F1	19.0
PEG F1	3.4
P/S TTM	2.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					16,883 E
2020	4,324 E	3,943 E	4,624 E	3,954 E	16,224 E
2019	4,057 A	3,600 A	4,300 A	3,616 A	15,561 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.20 E	\$1.08 E	\$1.45 E	\$0.88 E	\$4.62 E
2020	\$1.09 E	\$0.95 E	\$1.47 E	\$0.72 E	\$4.28 E
2019	\$1.19 A	\$1.00 A	\$1.46 A	\$0.60 A	\$4.24 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 05/01/2020. The reports text is as of 05/04/2020.

## Overview

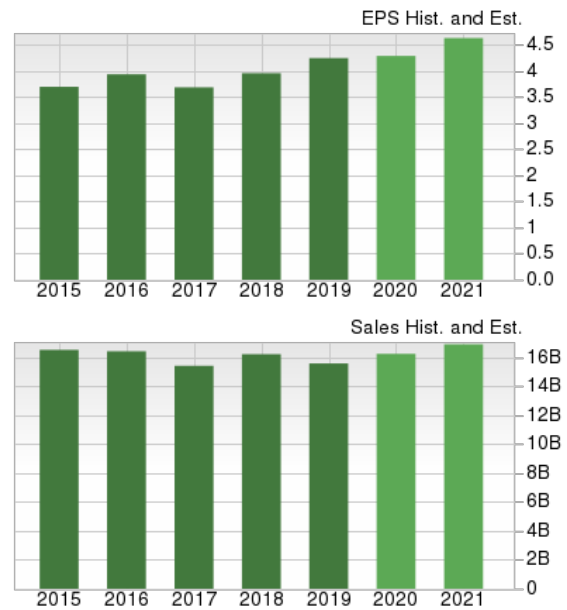
Columbus, OH-based **American Electric Power Company, Inc.** is a public utility holding company, which, through directly and indirectly owned subsidiaries, generates, transmits and distributes electricity, natural gas and other commodities. The company was incorporated in 1906. It is one of the largest integrated utilities in the United States, serving more than 5.4 million customers in 11 states. It has roughly 25,400 MW of generating capacity, of which almost 52% are coal-fired as of Sep 30 and nearly 40,000 miles of electricity transmission system network. Its service area covers Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. Approximately 70% of the company's power is generated from coal and lignite, 17% from nuclear energy, 12% from natural gas and oil, and the remaining 1% from wind, water, pumped storage and other sources. The company mainly operates under the following business segments:

**Vertically Integrated Utility Operations:** Revenues during 2019 came in at \$9,367.1 million, contributing 60.2% to the company's total revenues.

**Transmission & Distribution Utilities:** Revenues during 2019 came in at \$4,482.5 million, contributing 28.8% to the company's total revenues. AEP Transmission Holdco: Revenues during 2019 came in at \$1,073.2 million, contributing 6.9% to the company's total revenues.

**Generation and Marketing:** Revenues during 2019 came in at \$1,857.6 million, contributing 11.9% to the company's total revenues.

Total revenues included corporate and other revenues of \$95.8 million. Expenditures totaled \$1,314.8 million. Its public utility subsidiaries are Appalachian Power Company (APCo), Indiana Michigan Power Company (I&M), Kentucky Power Company (KPCo), Kingsport Power Company (KGPCo), Ohio Power Company (OPCo), Public Service Company of Oklahoma (PSO), Southwestern Electric Power Company (SWEPCo), AEP Texas Central Company (TCC), AEP Texas North Company (TNC), Wheeling Power Company (WPCo), AEP Generating Company (AEGCo) and AEP Transmission Holding.



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## Reasons To Buy:

▲ American Electric has been rewarding its shareholders via dividends, which it has been paying since July 1910. The company's robust regulated business investment strategies supports dividend growth consistent with earnings. This may have boosted investors' confidence in the stock's growth potential. Notably, in the past year, shares of American Electric declined 4.1%, compared to the industry's decline of 6.3.%.

Ongoing investments in transmission projects and expanding renewable portfolio bode well for its earnings in the future.

▲ American Electric has a stable earnings base of approximately 5.4 million customers spread over 11 states. This provides stability to the company's revenue stream and insulates it from lower sales in any particular service area. Also, the company owns the nation's largest electricity transmission system and over 224,000-miles of distribution lines. With focus on augmenting its earnings base, American Electric has directed its capital expenditure toward regulated businesses. Notably, to drive earnings, it plans to invest \$6.3 billion in 2020 and \$26.6 billion over the 2021-2024 period in its core regulated operations, contracted renewables and wires. Such hefty investment should enable American Electric to achieve its long-term earnings growth of 5-7%.

▲ The company's geographically-diversified operations allow it to avail transmission opportunities with better returns, compared with its single-state utility peers. In this context, American Electric's strategy will allow it to invest approximately \$1.86 billion in its transmission and distribution business during 2020, to enhance customer reliability. Such investments should enable the company to make infrastructural upgrades in its transmission and distribution of utility services, thereby weathering adverse climate and offering better facilities.

▲ American Electric's investment strategy also includes incremental investments in renewable generation projects across United States. This has resulted in the expansion of the company's renewable generation portfolio. As of Dec 31, 2019, the company owned projects operating in 11 states, including approximately 1,212 MWs of installed wind capacity and 90 MWs of installed solar capacity. Going ahead, the company has long-term contracts for 2,750 MWs of wind, 80 MWs of hydro, and 10 MWs of solar power delivering renewable energy.

In July 2019, PSO and SWEPCo submitted filings before their respective commissions for approval to acquire the North Central Wind Energy Facilities, comprising three Oklahoma wind facilities totaling 1,485 MWs. The addition of these high-quality renewable assets will support the company's long-term strategy to diversify its generation fleet. The long-term contracts and attractive returns associated with these existing assets will be immediately accretive to earnings and further solidify the company's projected 5-7% earnings growth rate.

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## Reasons To Sell:

- ▼ American Electric is exposed to environmental risks since its power plants produce large quantities of nitrogen, sulfur, mercury and carbon dioxide. Historically, the company has consumed approximately 77 million tons of coal every year. Moreover, though the company aims to gradually reduce its dependence on coal, it will remain mostly a coal-fired power generator for many years to come. In order to meet environmental regulations, the company invested \$167.2 million in 2019 and projects higher investment of \$176 million in 2020. Such increasing investment could weigh on the company's finances, going ahead.
- ▼ Management currently estimates that the investment necessary to meet proposed environmental regulations through 2025 for its Welsh Plant, Units 1 and 3 could be worth approximately \$520 million, excluding allowance for funds used during construction (AFUDC). As of Dec 31, SWEPCo incurred costs of \$399 million, including AFUDC, related to these projects. Management continues to evaluate the impact of environmental rules and related project cost estimates. If the company fails to recover any of these costs, future net income and cash flows of American Electric could get reduced, thereby hampering its financial condition.
- ▼ American Electric collects its revenues from the distribution of electricity in the ERCOT area of Texas from Retail Electric Providers (REPs), which supply the electricity that American Electric distributes to REP customers. The company depends on these REPs for timely remittance of payments. As of Dec 31, 2019, American Electric did business with approximately 120 REPs. In 2019, AEP Texas' largest REP accounted for 20% of its operating revenues and its second largest REP accounted for 14% of the same. Any delay or default in payment could reduce future cash flows and negatively impact financial condition. Adverse economic conditions, structural problems in the Texas market or financial difficulties of one or more REPs could also impair the ability of these REPs to pay for services or cause them to delay such payments.
- ▼ American Electric Power has long-term debt of \$25,861 million as of Dec 31, 2019, higher than \$25,355 million as of Sep 30, 2019. Moreover, its cash equivalents worth \$635 million as of Dec 31, 2019 remained much lower than the long-term debt level. Moreover, for the period remained much lower compared to its current debt levels. As of Dec 31, 2019, its cash equivalents were \$635 million. Although the long-term debt level lies much above the company's cash reserve, its current debt worth \$4,671 million as of Dec 31, 2019, remains much higher than the cash reserve. This reflects the company's inability to duly meet its obligations over the short run.

Moreover, the company's current ratio as of Dec 31, 2019, is 0.4, which being less than 1, indicates that this defense major utility does not possess sufficient capital on hand to meet its short-term obligations. Further, the company's debt-to-capital ratio is 0.61, higher than the industry's 0.53, as on Dec 31, 2019. The company's times interest earned ratio came in at 2.7 at end of 2019, down from 3.0 at the end of the third quarter of 2019. The decline in these unfavorable ratios thus indicates that the firm will might face difficulties and struggle to meet debt obligations in the near future.

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Stringent environmental regulations and dependence on regulatory commissions for rate relief at regular intervals are major headwinds.

## Last Earnings Report

### American Electric Q4 Earnings In Line, Revenues Fall Y/Y

American Electric Power reported fourth-quarter 2019 adjusted earnings per share of 60 cents, which came in line with the Zacks Consensus Estimate. However, the bottom line declined 16.7% from 72 cents in the year-ago quarter.

The company reported GAAP earnings of 31 cents per share compared with the year-ago quarter's 74 cents.

The year-over-year downside can be attributed to lower revenues.

For 2019, the company reported adjusted earnings of \$4.24 per share, which surpassed the Zacks Consensus Estimate of \$4.22 by 0.5%. The full-year earnings increased 7.3% from the prior year and came in line with the higher end of the guided range of \$4.14-\$4.24 per share.

### Total Revenues

American Electric's fourth-quarter revenues of \$3.6 billion missed the Zacks Consensus Estimate of \$4.1 billion by 12.2%. The reported figure declined 5.3% from the year-ago quarter's \$3.8 billion.

For 2019, the company reported revenues of \$15.6 billion, which missed the Zacks Consensus Estimate of \$16 billion by 2.5%. The reported figure also declined 3.7% from the year-ago figure of \$16.2 billion.

### Quarterly Highlights

Operating expenses in the quarter were \$2,038.7 million compared with \$1,912.8 million a year ago.

Operating income was \$471.4 million, down 16.3% from \$563.1 million in the year-ago quarter.

### Segmental Performance

**Vertically Integrated Utility Operations:** Operating earnings in the quarter increased to \$136.5 million from \$130.5 million a year ago.

**Transmission & Distribution Utilities:** Operating earnings were \$71 million, down from \$132.1 million a year ago.

**AEP Transmission Holdco:** This segment generated operating income of \$111.5 million, down from \$791.5 million in the fourth quarter of 2018.

**Generation and Marketing:** Operating earnings were \$0.1 million, down from \$35.2 million in the year-ago quarter.

**Corporate & Other:** Operating losses were \$25 million compared with operating loss of \$34.9 million in the year-ago quarter.

### Financial Update

As of Dec 31, 2019, American Electric had cash and cash equivalents of \$246.8 million compared with \$234.1 million as of Dec 31, 2018.

Long-term debt was \$25.13 billion as of Dec 31, 2019, compared with \$21.65 billion as of Dec 31, 2018.

Cash flow from operations was \$4.27 billion during 2019 compared with \$5.22 million in 2018.

### 2019 Guidance

American Electric reaffirmed 2020 operating earnings guidance in the range of \$4.25-\$4.45 per share. The Zacks Consensus Estimate for 2020 earnings, pegged at \$4.39, lies above the mid-point of the company's guidance.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-10.96%
EPS Surprise	0.00%
Quarterly EPS	0.60
Annual EPS (TTM)	4.25

## Valuation

American Electric Power's shares are down 13.9% in the year to date period and 4.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 15.1% and 17.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 6.3%, whereas the sector is down 21.3%.

The S&P 500 index is down 12.1% in the year to date period and 3.7% in the past year.

The stock is currently trading at 18.9X of forward 12-month earnings, which compares to 12.6X for the Zacks sub-industry, 11.7X for the Zacks sector and 15.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.6X and as low as 14.3X, with a 5-year median of 17.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$86 price target reflects 19.6X forward 12-month earnings.

The table below shows summary valuation data for AEP

Valuation Multiples - AEP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.51	12.45	11.73	20.18
	5-Year High	23.6	15.53	15.32	20.18
	5-Year Low	14.27	11.12	11.35	15.19
	5-Year Median	17.88	13.23	13.79	17.44
P/S F12M	Current	2.45	2.02	2.5	3.19
	5-Year High	3.06	2.45	3.29	3.44
	5-Year Low	1.42	1.54	1.75	2.54
	5-Year Median	2.18	1.88	2.04	3.01
EV/EBITDA TTM	Current	12.58	11.42	16.53	10.37
	5-Year High	14.6	13.26	20.11	12.86
	5-Year Low	8.25	7.8	10.57	8.28
	5-Year Median	10.99	10.27	13.38	10.77

As of 05/01/2020

## Industry Analysis Zacks Industry Rank: Top 21% (53 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Dominion Energy Inc. (D)	Outperform	3
DTE Energy Company (DTE)	Neutral	3
Duke Energy Corporation (DUK)	Neutral	2
Consolidated Edison Inc (ED)	Neutral	3
Public Service Enterprise Group Incorporated (PEG)	Neutral	3
Southern Company (The) (SO)	Neutral	2
Sempra Energy (SRE)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AEP	X Industry	S&P 500	DUK	PEG	XEL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	B	B	B
Market Cap	40.27 B	7.28 B	20.61 B	60.66 B	24.96 B	32.62 B
# of Analysts	5	3	14	5	4	5
Dividend Yield	3.44%	3.37%	2.11%	4.57%	3.97%	2.77%
Value Score	C	-	-	C	C	D
Cash/Price	0.02	0.05	0.06	0.00	0.01	0.01
EV/EBITDA	11.75	9.74	11.87	10.47	9.74	12.09
PEG Ratio	3.38	3.58	2.47	3.49	4.38	3.96
Price/Book (P/B)	2.02	1.44	2.67	1.31	1.66	2.46
Price/Cash Flow (P/CF)	8.49	7.95	10.66	6.92	8.01	10.17
P/E (F1)	19.09	17.27	19.01	16.21	14.93	22.64
Price/Sales (P/S)	2.59	1.85	2.10	2.42	2.48	2.83
Earnings Yield	5.26%	5.66%	5.05%	6.17%	6.70%	4.42%
Debt/Equity	1.30	1.06	0.72	1.23	0.93	1.31
Cash Flow (\$/share)	9.78	4.27	7.01	12.24	6.33	6.25
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	3.74%	4.77%	10.88%	1.95%	3.18%	5.90%
Proj. EPS Growth (F1/F0)	0.94%	1.56%	-7.32%	0.75%	0.91%	4.02%
Curr. Cash Flow Growth	11.26%	3.66%	5.92%	11.06%	5.82%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	5.40%	5.53%	8.55%	5.82%	2.02%	8.62%
Current Ratio	0.40	0.83	1.23	0.62	0.64	0.68
Debt/Capital	56.56%	50.95%	43.84%	54.06%	48.16%	56.80%
Net Margin	12.34%	10.69%	11.08%	14.89%	16.80%	11.90%
Return on Equity	10.67%	9.86%	16.44%	8.31%	11.19%	10.74%
Sales/Assets	0.21	0.23	0.54	0.16	0.22	0.23
Proj. Sales Growth (F1/F0)	4.18%	0.00%	-1.42%	0.60%	-0.24%	5.92%
Momentum Score	A	-	-	A	C	B
Daily Price Chg	-0.02%	-1.99%	-2.39%	-2.27%	-3.04%	-2.34%
1 Week Price Chg	-3.65%	-3.65%	-1.74%	-4.89%	-5.95%	-3.84%
4 Week Price Chg	8.23%	6.90%	17.07%	6.64%	11.99%	5.20%
12 Week Price Chg	-18.72%	-18.11%	-18.53%	-12.66%	-13.06%	-8.28%
52 Week Price Chg	-1.88%	-8.90%	-9.82%	-5.73%	-14.40%	13.66%
20 Day Average Volume	2,665,908	488,074	2,641,413	3,540,135	2,880,463	3,107,890
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.88%	-0.88%	-6.62%	-1.89%	-0.75%	-1.79%
(F1) EPS Est 12 week change	-2.62%	-2.25%	-13.28%	-0.91%	-1.49%	-1.64%
(Q1) EPS Est Mthly Chg	3.26%	-2.02%	-11.97%	-2.79%	2.76%	-2.65%

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## 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.

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### 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	D
Momentum Score	A
VGM Score	D

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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