

## American Electric(AEP)

**\$79.08** (As of 08/21/20)

Price Target (6-12 Months): **\$84.00**

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:B

Value: C

Growth: C

Momentum: A

### Summary

American Electric ended the second quarter of 2020 with earnings surpassing the Zacks Consensus Estimate, while revenues missing the same. Its strategy includes incremental investment in renewable generation projects throughout the United States. Its geographically-diversified operations allow it to avail transmission opportunities with better returns, compared with its single-state utility peers. However, it expects the COVID-19 pandemic to have a larger impact on its results in the third quarter of 2020 than the second quarter. It has temporarily suspended all service disconnects for non-payment, which may drag down its earnings. Its unfavorable financial ratios indicate that it might face difficulties to meet debt obligations in the near future. In the year-to-date period, shares of American Electric have underperformed the industry.

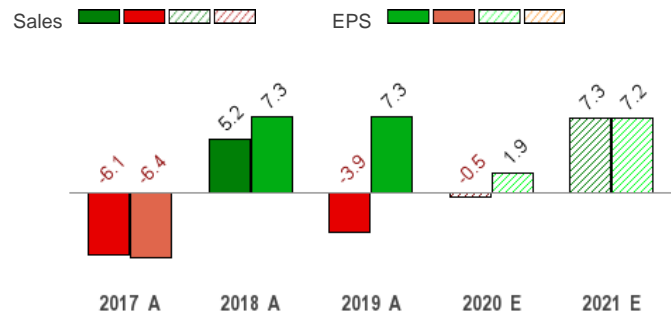
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$104.97 - \$65.14</b>
20 Day Average Volume (sh)	<b>4,004,059</b>
Market Cap	<b>\$39.2 B</b>
YTD Price Change	<b>-16.3%</b>
Beta	<b>0.38</b>
Dividend / Div Yld	<b>\$2.80 / 3.5%</b>
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	<b>Bottom 22% (197 out of 252)</b>

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



Last EPS Surprise	<b>1.9%</b>
Last Sales Surprise	<b>-8.1%</b>
EPS F1 Est- 4 week change	<b>0.9%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>-0.5%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					16,606 E
2020	3,748 A	3,494 A	4,476 E	3,855 E	15,483 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	\$1.14 E	\$1.41 E	\$0.90 E	\$4.63 E
2020	\$1.02 A	\$1.08 A	\$1.45 E	\$0.78 E	\$4.32 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.

P/E TTM	<b>19.0</b>
P/E F1	<b>18.3</b>
PEG F1	<b>3.2</b>
P/S TTM	<b>2.6</b>

The data in the charts and tables, except sales and EPS estimates, is as of 08/21/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/24/2020.

## Overview

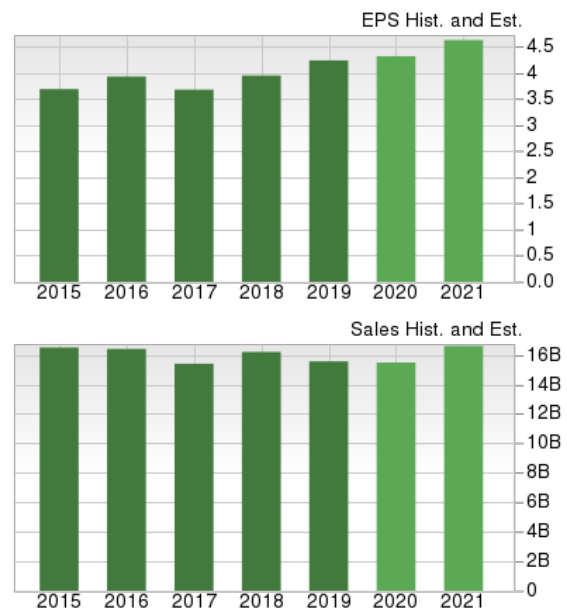
Columbus, OH-based **American Electric Power Company, Inc.** is a public utility holding company, which, through directly and indirectly owned subsidiaries, generates, transmits and distributes electricity, natural gas and other commodities. The company was incorporated in 1906. It is one of the largest 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 a stable earnings base of approximately 5.5 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%.

Ongoing investments in transmission projects and expanding renewable portfolio bode well for its future earnings
- ▲ 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. Such impressive investment approach adopted by American Electric may encourage investors to keep this stock in their portfolio. Evidently, the company's shares have declined 11.9% in the year-to-date period, thereby outperforming its industry's decline of 12.4%.
- ▲ 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 Jun 30, 2020, the company had approximately 1,423 MWs of contracted renewable generation projects in service. In addition, its subsidiaries had approximately 160 MWs of renewable generation projects under construction with total estimated capital costs of \$235 million related to these projects.

In April 2020, Virginia enacted clean energy legislation to allow the state to participate in the Regional Greenhouse Gas Initiative, which requires the retirement of all fossil-fueled generation by 2045 and require 100% renewable energy to be provided to Virginia customers by 2050. American Electric is taking steps to comply with these requirements, including increasing wind and solar installations, purchasing renewable power and broadening its portfolio of energy efficiency programs. These initiatives will expand the company's footprint in the global clean energy space.

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## Reasons To Sell:

- ▼ As of Jun 30, 2020, the company experienced a reduction in weather-normalized retail sales volume of 3.1% as compared to the first half of 2019, primarily driven by a 6.6% decrease in the industrial customer class and 5.0% in the commercial customer class. However, considering the fact that the global economy is still in a vulnerable position as a result of the pandemic and there is uncertainty regarding the duration and total impact of COVID-19, the company expects the pandemic to have a larger impact in the remaining of 2020.

Impact of the coronavirus pandemic and unfavorable financial ratios impose threat to this stock's growth

Consequently, taking into consideration the impact of the virus outbreak, the company currently anticipates its weather-normalized retail sales volumes to decrease 3.4% in 2020. It also projects industrial class sales volumes to decrease 8% in 2020 while weather-normalized commercial sales volumes are anticipated to decrease 5.6%.

- ▼ Moreover, the company fears that the effects of an extended disruption to the supply chains arising from COVID-19 might disrupt or delay construction, testing, supervisory and support activities at American Electric's renewable generation facilities. In particular, the North Central Wind Energy Facilities and the AEP Generation & Marketing segment's Flat Ridge 3 wind project may suffer delays due to prolonged effects of the ongoing pandemic. Further, the company has temporarily suspended all service disconnects for non-payment to help its customers. However, such non-payments may drag down the company's revenues as well as earnings. This may hinder investor's confidence in the stock. Evidently, the company's shares have lost 16.3% in the year-to-date period compared with the industry's decline of 14.2%.
- ▼ American Electric Power has a long-term debt of \$26,638 million as of Jun 30, 2020, higher than \$25,783 million as of Mar 31, 2020. Its cash equivalents worth \$697 million as of Jun 30, 2020, remained much lower than the long-term debt level and witnessed a drastic drop sequentially from \$1,856 million. Moreover, the cash reserve remained much lower compared with its current debt level of \$5,214 million as of Jun 30, 2020. So, both its current and long-term debt remained significantly higher than the cash reserve, which looks discouraging from the viewpoint of the company's solvency position.

Moreover, the company's current ratio as of Jun 30, 2020, was 0.42, which being less than 1 indicates that this utility does not possess sufficient capital on hand to meet its short-term obligations. The ratio also declined sequentially from 0.45. Such an unfavorable financial ratio, thus, indicates that the company might face difficulties in meeting debt obligations in the near future.

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## Last Earnings Report

### American Electric Q2 Earnings Beat, Revenues Fall Y/Y

American Electric Power reported second-quarter 2020 adjusted earnings per share of \$1.08, which beat the Zacks Consensus Estimate of \$1.05 by 2.9%. The bottom line also improved 8% from \$1 in the year-ago quarter.

The company reported GAAP earnings of \$1.05 per share compared with the year-ago quarter's earnings of 93 cents.

The year-over-year upside can be attributed to favorable weather conditions along with solid costs savings and efficiency programs.

### Total Revenues

American Electric's second-quarter revenues of \$3.5 billion missed the Zacks Consensus Estimate of \$3.8 billion by 7.9%. The reported figure also declined 2.8% from the year-ago quarter's \$3.6 billion.

### Quarterly Highlights

Total adjusted expenses in the quarter were \$1,778 million compared with \$1,862 million a year ago.

Adjusted operating income was \$738.7 million, up 26.1% from \$585.6 million in the year-ago quarter.

### Segmental Performance

**Vertically Integrated Utility Operations:** Operating earnings in the quarter increased to \$270.4 million from \$186.9 million in the year-ago quarter.

**Transmission & Distribution Utilities:** Operating earnings were \$144.9 million, up from \$131.3 million in the year-ago quarter.

**AEP Transmission Holdco:** This segment generated operating earnings of \$93.9 million, down from \$154.6 million in the second quarter of 2019.

**Generation and Marketing:** Operating earnings were \$55.9 million, up from \$27.4 million in the year-ago quarter.

**Corporate & Other:** Operating losses were \$31.6 million compared with operating loss of \$6.6 million in the year-ago quarter.

### Financial Update

As of Jun 30, 2020, American Electric had cash and cash equivalents of \$348.8 million compared with \$246.8 million as of Dec 31, 2019.

Long-term debt was \$26.64 billion as of Jun 30, 2020, compared with \$25.13 billion as of Dec 31, 2019.

Cash flow from operations was \$1,746.2 million at the end of second-quarter 2020 compared with \$1,800.8 million at the end of second-quarter 2019.

### 2020 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 \$4.29, lies below the mid-point of the guidance.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-8.07%
EPS Surprise	1.89%
Quarterly EPS	1.08
Annual EPS (TTM)	4.16

## Recent News

On **Jul 2, 2020**, American Electric Power received the other regulatory approvals needed to acquire the entire planned 1,485 MW of North Central wind generation, while the Public Utility Commission of Texas denied approval of Southwestern Electric Power Co.'s (SWEPCO) plan to add 309 megawatts (MW) of wind energy to serve Texas customers,. American Electric Power is investing approximately \$2 billion to bring new renewable energy to Public Service Company of Oklahoma (PSO) customers and SWEPCO customers in Arkansas and Louisiana.

## Valuation

American Electric Power's shares are down 16.3% in the year to date period and 12.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 14.2% and 14.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 9.5%, whereas the sector is down 9.9%.

The S&P 500 index is up 5.4% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 17.5X of forward 12-month earnings, which compares to 13.6X for the Zacks sub-industry, 12.6X for the Zacks sector and 22.9X 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 18.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$84 price target reflects 18.6X 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	17.5	13.57	12.6	22.85
	5-Year High	23.6	15.36	15.28	22.85
	5-Year Low	14.27	11.07	11.3	15.25
	5-Year Median	18.13	13.2	13.72	17.58
P/S F12M	Current	2.42	2.28	2.67	3.71
	5-Year High	3.06	2.46	3.29	3.71
	5-Year Low	1.43	1.55	1.75	2.53
	5-Year Median	2.23	1.91	2.07	3.05
EV/EBITDA TTM	Current	12.07	11.49	18.32	12.89
	5-Year High	14.43	13.88	21.07	12.89
	5-Year Low	8.25	7.84	10.59	8.25
	5-Year Median	11.33	10.53	13.97	10.91

As of 08/21/2020

## Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
DTE Energy Company (DTE)	Neutral	3
Duke Energy Corporation (DUK)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	4
Public Service Enterprise Group Incorporated (PEG)	Neutral	3
Southern Company The (SO)	Neutral	3
Sempra Energy (SRE)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3
Dominion Energy Inc. (D)	Underperform	5

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	-	-	3	3	3
VGM Score	B	-	-	B	D	D
Market Cap	39.24 B	8.43 B	23.62 B	59.57 B	26.95 B	36.57 B
# of Analysts	6	3	14	6	5	5
Dividend Yield	3.54%	3.52%	1.65%	4.77%	3.68%	2.47%
Value Score	C	-	-	B	C	C
Cash/Price	0.02	0.07	0.07	0.01	0.02	0.04
EV/EBITDA	11.54	9.70	13.29	10.34	9.96	13.03
PEG Ratio	3.24	3.44	3.03	3.75	6.55	4.23
Price/Book (P/B)	1.93	1.57	3.11	1.33	1.74	2.73
Price/Cash Flow (P/CF)	8.08	7.51	12.69	6.62	8.42	11.14
P/E (F1)	18.31	17.08	21.51	16.00	15.91	25.11
Price/Sales (P/S)	2.59	1.81	2.43	2.44	2.80	3.26
Earnings Yield	5.46%	5.81%	4.46%	6.25%	6.29%	3.98%
Debt/Equity	1.31	1.05	0.76	1.29	0.89	1.45
Cash Flow (\$/share)	9.78	4.27	6.93	12.24	6.33	6.25
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	3.84%	5.32%	10.44%	2.20%	3.77%	5.49%
Proj. EPS Growth (F1/F0)	1.89%	0.93%	-5.53%	0.03%	2.07%	5.00%
Curr. Cash Flow Growth	11.26%	6.78%	5.20%	11.06%	5.82%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	5.40%	6.02%	8.52%	5.82%	2.02%	8.62%
Current Ratio	0.42	0.86	1.33	0.55	0.65	0.80
Debt/Capital	56.84%	50.98%	44.50%	55.24%	47.19%	59.25%
Net Margin	12.56%	9.66%	10.13%	8.76%	18.09%	12.50%
Return on Equity	10.24%	9.28%	14.67%	8.10%	11.52%	10.56%
Sales/Assets	0.20	0.22	0.51	0.15	0.20	0.22
Proj. Sales Growth (F1/F0)	-0.58%	0.00%	-1.54%	-1.20%	-2.51%	-0.31%
Momentum Score	A	-	-	A	D	F
Daily Price Chg	-0.42%	0.00%	-0.15%	-0.05%	-1.06%	0.87%
1 Week Price Chg	-4.21%	-0.86%	1.09%	-5.15%	-0.86%	-2.23%
4 Week Price Chg	-10.86%	-2.00%	1.64%	-3.56%	1.08%	1.96%
12 Week Price Chg	-7.07%	2.79%	6.72%	-5.63%	4.41%	8.75%
52 Week Price Chg	-13.07%	-12.08%	1.00%	-11.30%	-9.95%	10.00%
20 Day Average Volume	4,004,059	336,207	1,873,576	3,299,160	1,868,368	2,382,526
(F1) EPS Est 1 week change	0.35%	0.00%	0.00%	0.13%	0.34%	0.25%
(F1) EPS Est 4 week change	0.86%	0.19%	1.79%	0.28%	0.76%	0.22%
(F1) EPS Est 12 week change	1.79%	0.00%	3.35%	-2.24%	0.97%	0.14%
(Q1) EPS Est Mthly Chg	-1.69%	-0.68%	0.42%	0.34%	-15.10%	-2.06%

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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	C
Momentum Score	A
VGM Score	B

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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