

The AES Corporation(AES)

\$14.16 (As of 03/11/20)

Price Target (6-12 Months): **\$15.00**

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: B

Growth: C

Momentum: A

Summary

AES Corp. ended the fourth quarter of 2019 on a mixed note, with earnings beating the Zacks Consensus Estimate while revenues missing the same. It continues to streamline its portfolio by divesting assets and exiting markets, wherein it does not have or cannot develop a competitive edge. It focuses on preserving its financial flexibility by reducing costs, which will include overhead reductions and operational improvements. It is also rapidly expanding its renewable footprint overseas. However, focus on long-term supply contracts exposes the company to commodity price risks. The slowing China economy is likely to result in lower demand for electricity in some of its key markets, which could have a material adverse effect on operations, financial condition and future prospects. In the past year, its shares have also underperformed the industry.

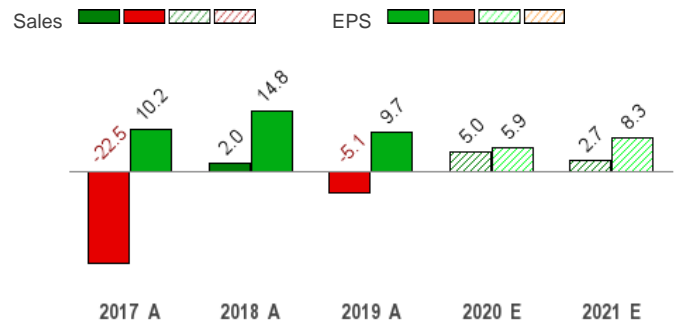
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.23 - \$14.04
20 Day Average Volume (sh)	5,879,176
Market Cap	\$9.4 B
YTD Price Change	-28.8%
Beta	1.14
Dividend / Div Yld	\$0.57 / 4.0%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 38% (97 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.1%
Last Sales Surprise	-12.4%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	05/05/2020
Earnings ESP	9.9%
P/E TTM	10.3
P/E F1	9.8
PEG F1	1.3
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,985 E
2020					10,697 E
2019	2,650 A	2,483 A	2,625 A	2,431 A	10,189 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.56 E
2020	\$0.36 E	\$0.26 E	\$0.49 E	\$0.38 E	\$1.44 E
2019	\$0.28 A	\$0.26 A	\$0.48 A	\$0.35 A	\$1.36 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 03/11/2020. The reports text is as of 03/12/2020.

Overview

Arlington, VA-based The AES Corporation, incorporated in 1981, is a global power company. The company's businesses are spread across five continents in 18 countries. The company has six Strategic Business Units (SBUs) located in the U.S., the Andes (Chile, Columbia and Argentina), Brazil, MCAC (Mexico, Central America and Caribbean), Europe and Asia. At the end of 2019, the company had a customer base of 2.5 million.

AES Corp operates in two lines of business – Generation and Utilities.

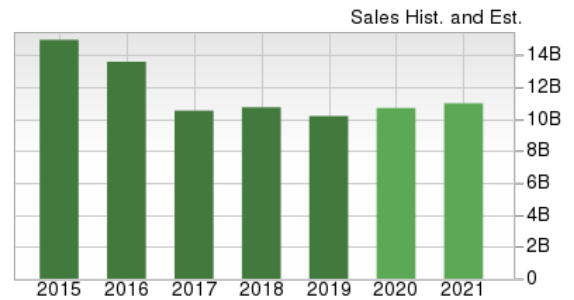
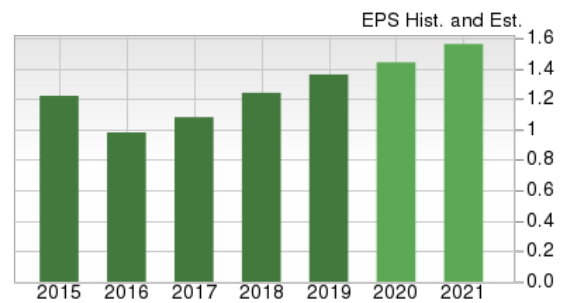
Generation

In the Generation business, the company operates power plants to generate and sell power to wholesale customers such as utilities and other intermediaries. It uses a range of technologies and fuel types including coal, combined-cycle gas turbines, hydroelectric power and biomass. The majority of electricity produced by the Generation business is sold under long-term contracts, or Power Purchase Agreements (PPA), to wholesale customers.

Utilities

In the Utilities business, the company operates utilities to distribute, transmit and sell electricity to customers in the residential, commercial, industrial and governmental sectors in a defined service area. These businesses have structures ranging from pure distribution businesses to fully integrated utilities, which generate, transmit and distribute power. AES' six utility businesses distribute power to 2.5 million people in two countries. AES' two utilities in the United States include a generation capacity of 4,102 MW. Its utility businesses consist of IPL and DP&L in the United States and four utilities in El Salvador.

As of Dec 31, 2019, AES Corp.'s generation mix consisted of 31% gas, 34% coal, 32% renewables and 3% oil, diesel & pet coke. In addition, the company had a gross 31,471 megawatt (MW) in operation.



Reasons To Buy:

▲ AES Corp strongly focuses on streamlining portfolio through asset divestments to exit markets and businesses. In line with this, in April, AES Corp agreed to sell its businesses in Jordan and Northern Ireland for \$211 million. During the third quarter of 2019, the company sold its businesses in Northern Ireland and plans to sell its Jordan-based businesses by the first half of 2020.

▲ Besides asset divestment, the company is teaming up with other companies to expand footprint in potential markets. To this end AES Corp's joint venture (JV) with Siemens – Fluence – is imperative to mention. This JV, a new global energy storage technology and services company, sells energy storage solutions and services in 160 countries worldwide. Notably, Fluence won contracts for 961 megawatts throughout 2019 and has tripled its backlog since 2018 to a record of 1.2 gigawatts, equating to roughly \$1 billion in revenues.

No doubt, this investment has positioned the company at the forefront of the battery-based energy storage market. Moreover, in November, AES Corp. and Google entered into a 10-year alliance for the expansion of clean energy projects. Per the deal, both companies would use artificial intelligence and data analytics to modernize the electric grid and support new renewables projects in the United States and Latin America.

▲ AES Corp. is focused on preserving its financial flexibility by reducing costs. These initiatives will include overhead reductions, procurement efficiencies and operational improvements. Since 2012, AES Corp. achieved \$300 million in cost savings and revenue enhancements. Earlier in 2019, the company announced its target of additional annual cost savings worth \$100 million, driven by digital initiatives that include utilizing data and technology for maintenance, outage prevention, inspection, and procurement. The company expects to achieve this target by 2022.

▲ The company is rapidly expanding its renewable footprint, both in the domestic front and the overseas markets. To this end, it is imperative to mention that AES Corp.'s 531 MW Alto Maipo hydroelectric project in Chile is approximately 90% complete, as of February 2020. The company expects to complete this project by the end of 2020. On completion, we may expect this hydroelectric plant to substantially boost the company's renewables portfolio. Moreover, the company signed 2,800 MW of renewable contracts in 2019, increasing its backlog to 6,145 MW.

This includes 3,009 MW under construction, with the expectation of commencing operations through 2021, and 3,136 MW of renewables signed under long-term PPAs, as of Dec 31, 2019. Notably, on Feb 6, the company's 1,300-MW Southland Repowering project initiated commercial operations. The remaining projects under construction are pertaining to renewables and energy storage, which are expected to come online in 2020 and 2021. Such developments should fortify AES Corp.'s position in the global renewables space.

AES Corp's withdrawal of operations from risky markets is a prudent step. Its growing partnerships and focus on renewables should act as growth catalysts.

Reasons To Sell:

- ▼ In May, the U.S. President Donald Trump increased tariffs on \$200 billion worth of Chinese goods to 25% from 10. The new tariffs, which took effect from Sep 1, 2019, will be effectively levied on all Chinese imports to the United States. This in turn may harm the company's operating performance or lead to a reduction in its customer base. In such a case, AES Corp's revenues will see a decline. These aforementioned factors, in turn, may also impact the economics of future solar development projects in the U.S., including those of the company's solar businesses.
- ▼ The wholesale prices of electricity have declined significantly in recent years owing to the increased penetration of renewable generation resources, cheap natural gas and demand side management. Also, in many markets new power purchase agreements have been awarded for renewable generation at prices significantly lower than the prices being awarded just a few years ago. This trend of declining wholesale prices is most likely to continue and might have a material adverse impact on the financial performance of the company. As a result, AES Corp.'s share price has also declined 21.9% in the past year against the industry's growth of 1.2%.
- ▼ Recently, China's economy has experienced decreasing foreign and domestic demand, weak foreign investments and a significant slowdown. In addition, the outbreak of the coronavirus disease in China has adversely impacted economic activity and conditions in the nation, leading to shutdowns of manufacturing facilities and disrupted supply chains. Notably, the continued slowing of the economy, demand for commodities and material changes in policies are likely to result in lower demand for electricity in some of the company's key markets, which could have a material adverse effect on operations, financial condition and future prospects.
- ▼ A comparative analysis of the company's historical EV/Cash Flow ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month EV/Cash Flow ratio of 20.63. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 16.47. Therefore, the company's valuation from an EV/Cash Flow perspective looks stretched, when compared with its own range in the time period.

Risk of unfavorable economic conditions in Brazil, commodity price volatility, stringent environmental regulations, and political and operational risks continue to pose challenges.

Last Earnings Report

AES Corp Q4 Earnings Beat Estimates, Revenues Miss

AES Corporation's fourth-quarter 2019 adjusted earnings of 35 cents per share surpassed the Zacks Consensus Estimate of 33 cents by 6.1%. However, the bottom line declined 2.8% from the year-ago period's figure of 36 cents.

Barring one-time adjustments, the company incurred GAAP loss of 12 cents per share in the reported quarter against the GAAP earning of 15 cents in the prior-year period.

For 2019, AES Corp's adjusted earnings came in at \$1.36 per share, which outpaced the Zacks Consensus Estimate of \$1.35 by 0.7%. The reported figure also improved 9.7% from \$1.24 per share in the prior year.

Quarter Ending **12/2019**

Report Date	Feb 28, 2020
Sales Surprise	-12.39%
EPS Surprise	6.06%
Quarterly EPS	0.35
Annual EPS (TTM)	1.37

Highlights of the Release

AES Corp generated total revenues of \$2,431 million in the fourth quarter, declined 7.3% year over year. The top line also lagged the Zacks Consensus Estimate of \$2,775 million by 12.4%.

The company's total revenues were \$10,189 million in 2019, which missed the Zacks Consensus Estimate of \$10,430 million by 2.3%. The reported figure, moreover, dropped 5.1% from \$10,736 million registered in the prior year.

Total cost of sales was \$1,871 million in the fourth quarter, down 5.3% year over year. General and administrative expenses were \$60 million, 3.4% higher than the year-ago quarter's level of \$58 million.

Operating income summed \$560 million, down 13.3% from \$646 million in the year-earlier period.

Interest expenses summed \$262 million, up from \$257 million in the year-earlier period.

Financial Condition

AES Corp reported cash and cash equivalents of \$1,029 million as of Dec 31, 2019, compared with \$1,166 million as of Dec 31, 2018.

Non-recourse debt totaled \$14,914 million as of Dec 31, 2019, up from \$13,986 million as of Dec 31, 2018.

In 2019, cash from operating activities was \$2,466 million compared with the year-ago figure of \$2,343 million.

Total capital expenditures in 2019 amounted to \$2,405 million, compared to \$2,121 million incurred a year ago.

Guidance

For 2020, AES Corp expects its adjusted earnings in the range of \$1.40-\$1.48 per share. The Zacks Consensus Estimate for full-year earnings is pegged at \$1.46 per share, above the mid-point of the company's guided range.

Valuation

AES Corp.s' shares are down 28.8% in the year to date period and down 21.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 8% and 10.8% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 1.2% whereas the sector is down 15.5%.

The S&P 500 index is down 14.9% in the year to date period and is down 3.5% in the past year.

The stock is currently trading at 9.7X of forward 12-month earnings, which compares to 13.3X for the Zacks sub-industry, 12.2X for the Zacks sector and 15.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 7.2X, with a 5-year median of 10.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 10.3X forward 12-month earnings.

The table below shows summary valuation data for AES

Valuation Multiples - AES					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.68	13.27	12.24	15.85
	5-Year High	14.98	15.58	15.36	19.34
	5-Year Low	7.16	11.14	12.24	15.18
	5-Year Median	10.41	13.27	13.77	17.42
P/S F12M	Current	0.88	2.14	2.6	2.91
	5-Year High	1.28	2.45	3.31	3.44
	5-Year Low	0.36	1.54	1.76	2.54
	5-Year Median	0.55	1.87	2.03	3
P/B TTM	Current	1.8	1.8	3.27	3.69
	5-Year High	2.67	2.13	4.07	4.56
	5-Year Low	0.91	1.32	2.02	2.85
	5-Year Median	1.37	1.56	2.59	3.63

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



Top Peers

DTE Energy Company (DTE)	Neutral
Edison International (EIX)	Neutral
Eversource Energy (ES)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
NRG Energy, Inc. (NRG)	Neutral
Pinnacle West Capital Corporation (PNW)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AES Neutral	X Industry	S&P 500	DTE Neutral	EIX Neutral	ETR Neutral
VGM Score	B	-	-	B	C	C
Market Cap	9.40 B	7.43 B	19.20 B	20.01 B	21.66 B	22.29 B
# of Analysts	3	2	13	5	3	4
Dividend Yield	4.05%	3.13%	2.31%	3.89%	4.27%	3.33%
Value Score	B	-	-	C	B	D
Cash/Price	0.16	0.04	0.05	0.00	0.00	0.02
EV/EBITDA	12.68	10.08	11.76	10.94	10.06	9.61
PEG Ratio	1.25	3.83	1.73	2.62	4.14	NA
Price/Book (P/B)	1.80	1.56	2.64	1.69	1.38	2.17
Price/Cash Flow (P/CF)	4.11	8.04	10.55	8.04	6.03	6.81
P/E (F1)	9.83	18.23	15.66	15.73	13.08	20.00
Price/Sales (P/S)	0.92	2.05	2.06	1.58	1.75	2.05
Earnings Yield	10.17%	5.45%	6.38%	6.36%	7.65%	5.00%
Debt/Equity	3.50	1.06	0.70	1.36	1.15	1.67
Cash Flow (\$/share)	3.44	4.09	7.01	12.95	9.90	16.39
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	2.38%	4.91%	10.85%	7.49%	1.39%	2.35%
Proj. EPS Growth (F1/F0)	5.88%	4.44%	6.02%	5.08%	-2.84%	3.38%
Curr. Cash Flow Growth	4.43%	3.75%	6.09%	7.70%	7.87%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	0.82%	5.53%	8.52%	4.88%	0.92%	0.41%
Current Ratio	1.03	0.82	1.24	0.77	0.64	0.54
Debt/Capital	77.78%	51.32%	42.57%	57.57%	53.55%	61.98%
Net Margin	2.97%	10.09%	11.69%	9.23%	10.89%	11.57%
Return on Equity	22.82%	9.72%	16.74%	10.52%	11.73%	11.02%
Sales/Assets	0.30	0.23	0.54	0.33	0.20	0.21
Proj. Sales Growth (F1/F0)	4.98%	1.90%	3.55%	4.88%	4.42%	4.07%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	-6.90%	-4.78%	-5.37%	-3.61%	-6.50%	-6.43%
1 Week Price Chg	0.54%	4.78%	-0.67%	3.98%	0.60%	6.30%
4 Week Price Chg	-32.44%	-15.27%	-20.57%	-22.16%	-22.92%	-15.16%
12 Week Price Chg	-26.14%	-7.47%	-17.57%	-19.48%	-19.56%	-6.72%
52 Week Price Chg	-21.85%	-3.25%	-8.21%	-16.15%	-6.80%	17.48%
20 Day Average Volume	5,879,176	507,272	2,882,511	2,004,397	2,595,859	1,880,103
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.21%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.37%	0.00%	-0.23%	-0.65%	-1.70%	-0.37%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.60%	0.51%	-0.11%	0.18%
(Q1) EPS Est Mthly Chg	12.70%	0.00%	-0.52%	-11.50%	44.93%	-5.33%

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	B
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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