# The AES Corporation(AES)

**$26.06** (As of 06/15/21)

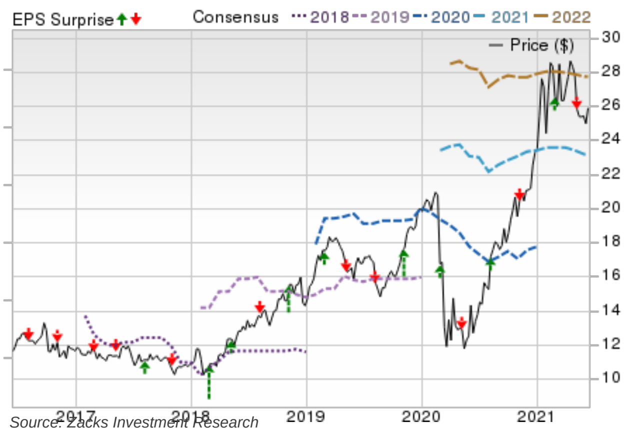
Price Target (6-12 Months): **$28.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** | **Neutral** |
| | (Since: 08/26/20) | |
| | Prior Recommendation: Underperform | |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **4-Sell** |
| | Zacks Style Scores: | VGM:A |
| | Value: A \| Growth: B | Momentum: B |

## Summary

AES Corp. has reduced its coal-fired generation to 25% of total generation volumes as of Dec 31. The company's joint venture with Siemens -Fluence - is expected to grow 40% annually. It remains focused on preserving its financial flexibility by reducing costs. As of Mar 31, 2021, the company's backlog for renewables was 6,926 MW, while its 531 MW Alto Maipo hydroelectric project in Chile is almost near completion. In the past year, AES Corp.'s shares have outperformed the industry. However, its businesses experienced a demand crunch due to the coronavirus pandemic and expects economic disruptions in 2021. Moreover, the company's debt-to-capital ratio at the end of the first quarter increased sequentially. AES Corp. has also been experiencing a decline in electricity spot prices in some of its markets due to lower system demand.

## Price, Consensus & Surprise

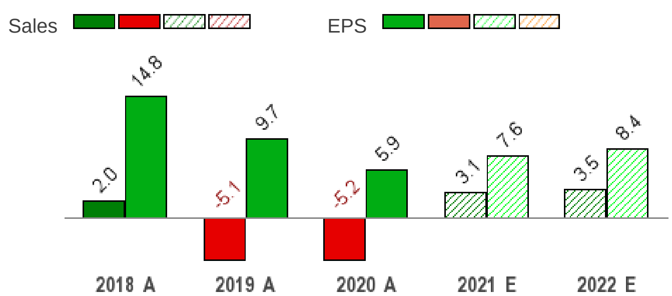



Source: Zacks Investment Research

## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$29.07 - $13.12** |
| 20-Day Average Volume (Shares) | **4,758,730** |
| Market Cap | **$17.4 B** |
| Year-To-Date Price Change | **10.9%** |
| Beta | **0.81** |
| Dividend / Dividend Yield | **$0.60 / 2.3%** |
| Industry | **Utility - Electric Power** |
| Zacks Industry Rank | **Bottom 16% (210 out of 251)** |
| Last EPS Surprise | **-6.7%** |
| Last Sales Surprise | **9.2%** |
| EPS F1 Estimate 4-Week Change | **0.0%** |
| Expected Report Date | **08/05/2021** |
| Earnings ESP | **-1.6%** |
| P/E TTM | **18.2** |
| P/E F1 | **16.8** |
| PEG F1 | **2.2** |
| P/S TTM | **1.7** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2022 | | | | | 10,304 E |
| 2021 | 2,635 A | 2,416 E | 2,569 E | 2,495 E | 9,959 E |
| 2020 | 2,338 A | 2,217 A | 2,545 A | 2,560 A | 9,660 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2022 | $0.32 E | $0.29 E | $0.47 E | $0.61 E | $1.68 E |
| 2021 | $0.28 A | $0.31 E | $0.41 E | $0.57 E | $1.55 E |
| 2020 | $0.29 A | $0.25 A | $0.42 A | $0.48 A | $1.44 A |

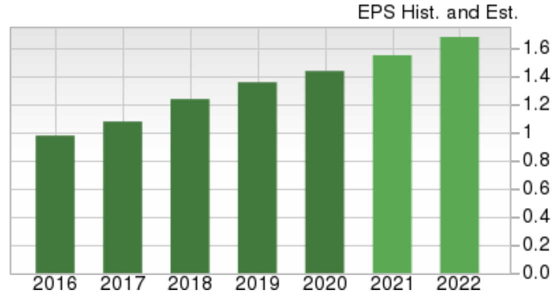
*Quarterly figures may not add up to annual.

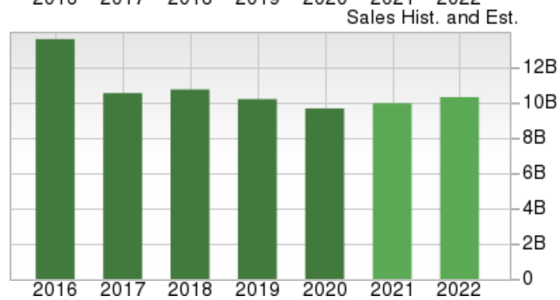
The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/15/2021. The report's text and the analyst-provided price target are as of 06/16/2021.

## Overview

Arlington, VA-based The AES Corporation, incorporated in 1981, is a global power company. The company's businesses are spread across four continents in 14 countries. The company has four Strategic Business Units (SBUs) located in the United States and other regions across the globe. At the end of 2020, the company had a customer base of 2.5 million. AES Corp. currently owns and/or operates a generation portfolio of 30,308 MW, including generation from its integrated utility, IPL.




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 Corp.'s six utility businesses distribute power to 2.5 million people in two countries. Its two utilities in the United States include a generation capacity of 3.973 MW. Its utility businesses consist of IPL and DP&L in the United States and four utilities in El Salvador.

As of Dec 31, 2020, AES Corp.'s generation mix consisted of 33% gas, 27% coal, 37% renewables and 3% oil, diesel & pet coke. In addition, the company had a gross 30,308 megawatt (MW) in operation.


Source: Zacks Investment Research

## Reasons To Buy:

AES Corp's growing partnerships and focus on renewables should act as growth catalysts. Its progress in battery-based energy storage market is also appreciable

- AES Corp. is leading the utility industry's transition to clean energy by investing in sustainable growth and innovative solutions while delivering superior results. The company is taking advantage of favorable trends in clean power generation, transmission and distribution, and LNG infrastructure to grow the profitability of its business. Through its presence in key growth markets, AES Corp. is well positioned to benefit from the global transition toward a more sustainable power generation mix. In this regard, it is imperative to mention that as of March 2021, the company signed 1,088 MW of renewables and energy storage acquired or signed under long-term Power Purchase Agreements (PPA), consisting of 459 MW of solar, 359 MW of wind, 35 MW of energy storage, and 24 MW of hydro in the United States; and 211 MW of wind in Brazil.

- AES Corp has been 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 and is expected to increase 40% annually. Notably, Fluence has been awarded or delivered 2.4 GW of projects, including 785 MW awarded in 2020. In December 2020, the Qatar Investment Authority (QIA) agreed to invest $125 million in Fluence, valuing the JV at more than $1 billion. No doubt, this investment has positioned AES Corp. at the forefront of the battery-based energy storage market. Moreover, in April 2021, the company agreed to partner with Northvolt, the leading European battery developer and manufacturer, to develop sustainable, next-generation battery systems for grid-scale energy storage, to lower total cost of ownership and improve functionality.

- 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 more than $300 million in cost savings and revenue enhancements. The company is executing 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 almost near completion. On completion, we may expect this hydroelectric plant to substantially boost the company's renewables portfolio.

  The company's backlog of 6,926 MW of renewables now includes 2,570 MW under construction and is expected to come on-line through 2024; and 4,356 MW signed under long-term PPAs, including a 10-year agreement to supply Google's data centers in Virginia with 500 MW of 24/7 carbon-free energy. Furthermore, AES Corp. has reduced its coal-fired generation to 25% of total generation volumes as of Dec 31 and remains on track to further reduce its coal-fired generation to less than 10% by year-end 2030. Such developments should fortify AES Corp.'s position in the global renewables space. This might have boosted investors' confidence in this stock. Evidently, its share price has increased 94.3% in the past year, outperforming the industry's growth of 7.9%.

## Reasons To Sell:

The trend of declining wholesale prices and risks of stringent environmental regulations and operational risks continue to pose challenges for the stock

- In May 2019, 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, has been 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.

- AES Corp.'s businesses experienced a decrease in demand in 2020, as a result of the coronavirus outbreak. The company's utilities business experienced lower demand induced by the COVID-19 pandemic and a record dry hydrology in Colombia. AES Corp. is also experiencing a decline in electricity spot prices in some of its markets due to lower system demand.

  During the first quarter, the COVID-19 pandemic had almost a negligible impact on the financial results and operations of the company. However, the company does expect economic disruptions from COVID-19 during the remaining of 2021. The company also anticipates experiencing minor delays in some of the utility's development projects, primarily in permitting processes and the implementation of interconnections, due to governments and other authorities having limited capacity to perform their functions. Looking ahead, as the duration and severity of the pandemic still remains uncertain, such projections might have a significant adverse impact on the company's operations, financial condition and cash flows in the future.

- AES Corp. has a long-term debt of $18,379 million as of Mar 31, 2021, slightly lower than $18,451 million as of Dec 31, 2020. The company's cash equivalents worth $2,398 million as of Mar 31, 2021, remained much lower than its long-term debt levels for the period. A comparative analysis of these figures reflects the fragility of AES Corp.'s cash reserve against its long-term debt value. Considering this, the ongoing uncertainty related to the COVID-19 pandemic makes us skeptical about the company's ability to duly meet its obligations.

  Moreover, the company's debt-to-capital ratio at the end of the fourth quarter stood at 0.78, which was one of the highest over the trailing eight quarters. Such an unfavorable financial ratio indicates that AES Corp. might face difficulties and struggle to meet debt obligations at least in the near future.

## Last Earnings Report

**AES Q1 Earnings Fall Short of Estimates, Revenues Rise Y/Y**

| Quarter Ending | 03/2021 |
| --- | --- |
| Report Date | May 06, 2021 |
| Sales Surprise | 9.20% |
| EPS Surprise | -6.67% |
| Quarterly EPS | 0.28 |
| Annual EPS (TTM) | 1.43 |

AES Corporation's first-quarter 2021 adjusted earnings of 28 cents per share missed the Zacks Consensus Estimate of 30 cents by 6.7%. Moreover, earnings declined 3.4% from the year-ago quarter's 29 cents.

Barring a one-time adjustment, the company incurred GAAP loss of 22 cents per share in the reported quarter against earnings of 22 cents in the prior-year period.

### Highlights of the Release

AES generated total revenues of $2.64 billion in the first quarter, up 12.7% year over year. The top line also exceeded the Zacks Consensus Estimate of $2.41 million by 9.5%.

Total cost of sales was $1,971 million in the first quarter, up 7.6% year over year.

Operating income came in at $664 million, up from $507 million in the year-ago period.

Interest expenses totaled $190 million, down from $233 million in the year-earlier period.

AES signed 1,088 MW of new PPAs for renewables and energy storage, including a 10-year supply agreement with Google for 500 MW of 24/7 carbon-free energy in Virginia

### Financial Condition

AES reported cash and cash equivalents of $1,886 million as of Mar 31, 2021, compared with $1,089 million as of Dec 31, 2020.

Non-recourse debt totaled $15,014 million as of Mar 31, up from $15,005 million as of Dec 31.

In the first quarter of 2020, cash from operating activities was $253 million compared with the year-ago quarter's $373 million.

Total capital expenditures during the first quarter amounted to $432 million, which decreased from $576 million incurred in the year-ago quarter.

### Guidance

For 2021, AES provided its EPS guidance in the range of $1.50-$1.58. The Zacks Consensus Estimate for current-year earnings is pegged at $1.55, which is above the mid-point of the guided range.

## Recent News

On **May 4, 2021**, AES Corp announced today that it has signed an agreement to supply the electricity to power Google's Virginia-based data centers with 24/7 carbon-free energy under a 10-year supply contract. With this first clean energy procurement deal in the world of its kind, AES will help ensure that the energy powering those data centers will be 90% carbon-free when measured on an hourly basis.

AES will become the sole supplier of the data centers' carbon-free energy needs on an annual basis, sourcing energy from a portfolio of wind, solar, hydro and battery storage resources to be developed or contracted by AES. The agreement will start supply later in 2021 and is an important step in meeting Google's previously announced goal to run its business on 100% carbon-free energy on an hourly basis by 2030.

On **Mar 16, 2021**, AES Corp announced that its subsidiary, AES Indiana will help ensure all practices and games for the NCAA Division I Men's Basketball Championship being hosted in Indianapolis are powered by renewable energy.

AES Indiana will purchase renewable energy credits (RECs) and apply them toward energy usage at Hinkle Fieldhouse, Bankers Life Fieldhouse, Lucas Oil Stadium, Indiana Farmers Coliseum, and the Convention Center. It is estimated that, during the tournament, more than 2.1 million kilowatt hours of energy will be used at the practice and game facilities combined. That is equivalent to the amount of energy it takes to power approximately 2,200 households in Indiana for one full month.

On **Mar 2. 2021**, AES Corp. announced its near and long-term goals. By 2025, the company expects that more than 50% of its earnings will come from the United States and more than 65% will come from renewables and its U.S. utilities. Furthermore, it accelerated its target to reduce generation from coal to below 10% by year-end 2025, by five years on a proforma basis, and initiating a target to achieve portfolio-wide net zero carbon emissions from electricity sales by 2040.

On **Mar 2, 2021**, AES Indiana, a subsidiary of the AES Corporation, announced a new partnership with Motor that will accelerate electric car adoption and make charging electric cars easier and more affordable in Indiana. AES Indiana aims to optimize the timing of electric car charging and reduce rates for all utility customers, even those who do not drive an electric vehicle. When customers get their electric car, Motor can help facilitate the installation of home charging equipment.

## Valuation

AES Corp.'s shares are up 10.9% in the year-to-date period and 94.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 3.5% and 4.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 7.9% and the sector is up by 11%.

The S&P 500 index is up 14% in the year-to-date period and 38.8% in the past year.

The stock is currently trading at 16.1X forward 12-month earnings, which compares to 15.5X for the Zacks sub-industry, 14.1X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.3X and as low as 6.5X, with a 5-year median of 11.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $28 price target reflects 17.4X forward 12-month earnings.

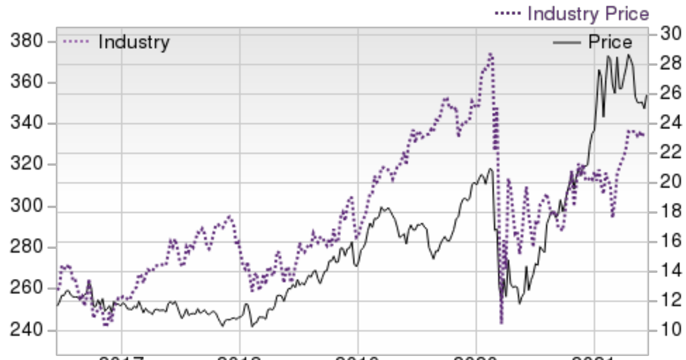
The table below shows summary valuation data for AES

**Valuation Multiples - AES**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 16.14 | 15.49 | 14.06 | 21.88 |
| | 5-Year High | 18.28 | 16.07 | 15.34 | 23.83 |
| | 5-Year Low | 6.52 | 11.61 | 11.37 | 15.31 |
| | 5-Year Median | 11.05 | 13.43 | 13.85 | 18.05 |
| P/S F12M | Current | 1.72 | 2.58 | 2.92 | 4.74 |
| | 5-Year High | 1.92 | 2.58 | 3.17 | 4.74 |
| | 5-Year Low | 0.47 | 1.79 | 1.78 | 3.21 |
| | 5-Year Median | 0.85 | 2.13 | 2.2 | 3.72 |
| EV/SALES TTM | Current | 3.46 | 4.41 | 5.23 | 4.88 |
| | 5-Year High | 3.72 | 4.63 | 5.32 | 4.88 |
| | 5-Year Low | 2.14 | 2.84 | 2.92 | 2.65 |
| | 5-Year Median | 2.55 | 3.41 | 3.27 | 3.64 |

*As of 06/15/2021* *Source: Zacks Investment Research*

## Industry Analysis **Zacks Industry Rank:** Bottom 16% (210 out of 251)



*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| American Electric Power Company, Inc. **(AEP)** | Neutral | 4 |
| China Resources Power Holdings Co. **(CRPJY)** | Neutral | 3 |
| Entergy Corporation **(ETR)** | Neutral | 2 |
| FirstEnergy Corporation **(FE)** | Neutral | 3 |
| Public Service Enterprise Group Incorporated **(PEG)** | Neutral | 3 |
| Vistra Corp. **(VST)** | Neutral | 4 |
| Xcel Energy Inc. **(XEL)** | Neutral | 3 |
| NRG Energy, Inc. **(NRG)** | Underperform | 4 |

*The positions listed should not be deemed a recommendation to buy, hold or sell.*

## Industry Comparison Industry: Utility - Electric Power

Industry Peers

| | AES | X Industry | S&P 500 | ETR | NRG | PEG |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Neutral | Underperform | Neutral |
| **Zacks Rank (Short Term)** | 4 | - | - | 2 | 4 | 3 |
| **VGM Score** | A | - | - | F | A | A |
| Market Cap | 17.36 B | 12.23 B | 29.91 B | 21.96 B | 9.18 B | 31.52 B |
| # of Analysts | 4 | 3 | 12 | 5 | 2 | 5 |
| Dividend Yield | 2.31% | 3.02% | 1.29% | 3.48% | 3.47% | 3.27% |
| **Value Score** | A | - | - | C | A | B |
| Cash/Price | 0.14 | 0.06 | 0.05 | 0.08 | 0.06 | 0.03 |
| EV/EBITDA | 22.10 | 11.28 | 17.36 | 10.12 | 9.43 | 10.19 |
| PEG F1 | 2.15 | 3.64 | 2.12 | 3.59 | 0.19 | 5.87 |
| P/B | 3.76 | 1.67 | 4.18 | 1.99 | 6.05 | 1.94 |
| P/CF | 7.49 | 8.46 | 17.58 | 6.41 | 7.24 | 9.38 |
| P/E F1 | 16.77 | 19.08 | 21.51 | 18.33 | 6.03 | 17.96 |
| P/S TTM | 1.74 | 2.12 | 3.48 | 2.09 | 0.61 | 3.25 |
| Earnings Yield | 5.95% | 5.19% | 4.56% | 5.46% | 16.58% | 5.57% |
| Debt/Equity | 3.97 | 1.07 | 0.66 | 2.19 | 5.74 | 0.94 |
| Cash Flow ($/share) | 3.48 | 4.53 | 6.83 | 17.03 | 5.18 | 6.64 |
| **Growth Score** | B | - | - | F | C | B |
| Historical EPS Growth (3-5 Years) | 9.06% | 4.91% | 9.44% | -6.91% | 20.16% | 5.02% |
| Projected EPS Growth (F1/F0) | 7.81% | 5.68% | 21.49% | 5.27% | 159.37% | 1.22% |
| Current Cash Flow Growth | 1.31% | 5.16% | 0.86% | 4.64% | -22.94% | 5.03% |
| Historical Cash Flow Growth (3-5 Years) | 3.05% | 6.14% | 7.28% | 1.35% | -6.01% | 2.25% |
| Current Ratio | 1.24 | 0.88 | 1.39 | 1.06 | 1.13 | 0.79 |
| Debt/Capital | 76.43% | 51.64% | 41.51% | 68.54% | 85.16% | 48.53% |
| Net Margin | -2.47% | 9.04% | 11.95% | 15.41% | 2.02% | 21.68% |
| Return on Equity | 26.18% | 9.41% | 16.36% | 11.30% | 37.01% | 11.77% |
| Sales/Assets | 0.29 | 0.22 | 0.51 | 0.19 | 1.03 | 0.20 |
| Projected Sales Growth (F1/F0) | 3.10% | 3.10% | 9.41% | 4.59% | 38.90% | 4.10% |
| **Momentum Score** | B | - | - | F | B | A |
| Daily Price Change | 1.24% | 0.10% | -0.20% | 0.30% | 1.16% | 0.82% |
| 1-Week Price Change | 3.69% | 1.08% | 0.46% | 2.85% | 10.03% | 0.87% |
| 4-Week Price Change | 4.70% | 1.99% | 2.88% | 3.51% | 9.58% | 0.39% |
| 12-Week Price Change | 1.88% | 6.09% | 8.59% | 11.33% | 4.72% | 6.91% |
| 52-Week Price Change | 90.78% | 18.01% | 35.90% | 11.55% | 11.11% | 22.93% |
| 20-Day Average Volume (Shares) | 4,758,730 | 312,251 | 1,749,696 | 831,159 | 3,001,727 | 1,951,316 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 0.00% | 0.00% | 0.03% | 0.00% | 2.64% | 0.87% |
| EPS F1 Estimate 12-Week Change | -0.80% | 0.39% | 3.36% | 1.40% | -11.54% | 1.37% |
| EPS Q1 Estimate Monthly Change | 0.83% | 0.00% | 0.00% | -2.71% | 8.25% | 1.06% |

*Source: Zacks Investment Research*

## 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 maintain a 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 | A |
| Growth Score | B |
| Momentum Score | B |
| VGM Score | A |

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.

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every $1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow ($/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.