

## The AES Corporation(AES)

**\$15.07** (As of 07/15/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

### Summary

AES Corp. 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. AES Corp has also been teaming up with other companies to expand footprint in potential global energy storage technology markets. However, its businesses experienced a slight decrease in demand toward the end of March and in April due to the coronavirus pandemic. Internationally, the demand has decreased 5-15% in its various key markets, led by the impacts of the pandemic. It expects significant economic disruptions from COVID-19 in the second quarter of 2020 and potentially for the remainder of the year. In the past year, its shares underperformed the industry.

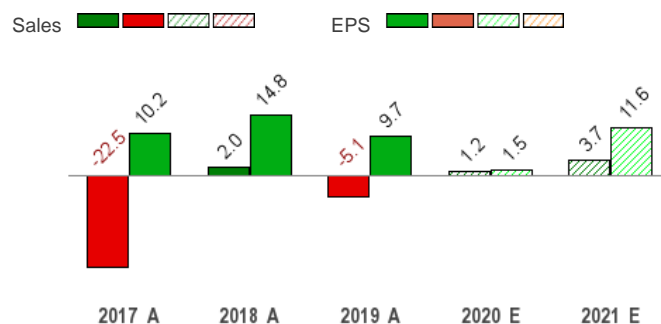
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$21.23 - \$8.11
20 Day Average Volume (sh)	6,912,564
Market Cap	\$10.0 B
YTD Price Change	-24.3%
Beta	0.99
Dividend / Div Yld	\$0.57 / 3.8%
Industry	<a href="#">Utility - Electric Power</a>
Zacks Industry Rank	Top 41% (104 out of 251)

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



Last EPS Surprise	-9.4%
Last Sales Surprise	-12.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,696 E
2020	2,338 A	2,540 E	2,650 E	2,711 E	10,311 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	\$0.39 E	\$0.34 E	\$0.48 E	\$0.39 E	\$1.54 E
2020	\$0.29 A	\$0.28 E	\$0.46 E	\$0.35 E	\$1.38 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.

P/E TTM	10.9
P/E F1	10.9
PEG F1	1.4
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

## 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.

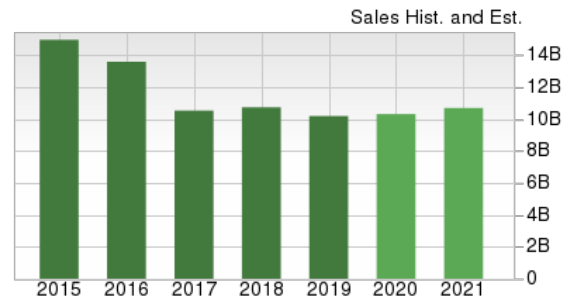
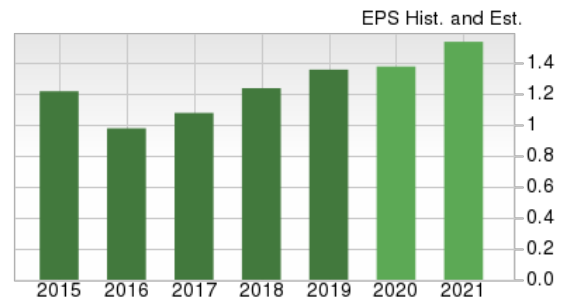
### Generation

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.



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## Reasons To Buy:

▲ 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 even amid the pandemic, the company successfully signed a 15-year power purchase agreement (PPA) for 100 megawatts in Southern California through sPower in April.

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 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. Notably, Fluence has been awarded 32 MW of projects as of Mar 31, 2020, bringing its total backlog to 1.3 GW. It is also expected to increase by 15-20 GW annually.

No doubt, this investment has positioned the company at the forefront of the battery-based energy storage market. Moreover, in November 2019, 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. 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 approximately 93% complete as of May 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 685 MW of renewable contracts in the first quarter of 2020, increasing its backlog to 5,345 MW.

This includes 1,764 MW under construction, with the expectation of commencing operations through 2021, and 3,581 MW of renewables signed under long-term PPAs, as of Mar 31, 2020. 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.

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## Reasons To Sell:

▼ 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.

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

▼ 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. This might have caused its investors to lose confidence in this stock. As a result, AES Corp.'s share price slumped 14.6% in the past year compared to the industry's decline of 10.1%.

▼ AES Corp.'s businesses experienced a slight decrease in demand toward the end of March and in April 2020, as a result of the novel coronavirus outbreak. Internationally, the demand has decreased 5-15% in various key markets. The company's regulated utilities, principally in the United States, have been most affected by the decrease in demand. It witnessed a net reduction of around 10% in April, mainly from commercial and industrial customers, and expects lower demand to continue for several months before recovering by early next year. It is also experiencing a decline in electricity spot prices in some of its markets due to lower system demand.

Further, due to the increasing delays in receiving certain materials from China, certain battery storage and solar projects could be negatively impacted leading to a disruption in supply chain. During the first quarter of 2020, the COVID-19 pandemic had a limited impact on the financial results and operations of the company. However, the company expects significant economic disruptions from COVID-19 in the second quarter of 2020 and potentially for the remainder of 2020. Looking ahead, as the duration and severity of the pandemic remains uncertain, such projections may have a significant adverse impact on the company's overall results.

▼ AES Corp. has a long-term debt of \$18,867 million as of Mar 31, 2020, slightly higher than \$18,305 million as of Dec 31, 2019. The company's cash equivalents worth \$2,298 million as of Mar 31, 2020, were much lower than its long-term debt levels for the period and slightly higher than current debt value of \$2,223 million. 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 first quarter stood at 0.82, which increased sequentially from 0.79 and also remained highest in the trailing four 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.

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## Last Earnings Report

### AES Corp Q1 Earnings Miss Estimates, Revenues Down Y/Y

AES Corporation's first-quarter 2020 adjusted earnings of 29 cents per share missed the Zacks Consensus Estimate of 32 cents by 9.4%. However, earnings increased 3.6% from the year-ago quarter's 28 cents.

Barring a one-time adjustment, the company delivered GAAP earnings of 22 cents per share in the reported quarter compared with 23 cents in the prior-year period.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-12.16%
EPS Surprise	-9.38%
Quarterly EPS	0.29
Annual EPS (TTM)	1.38

### Highlights of the Release

AES Corp. generated total revenues of \$2.34 billion in the first quarter, down 11.8% year over year. The top line also lagged the Zacks Consensus Estimate of \$2.66 billion by 12%.

Total cost of sales was \$1,831 million in the first quarter, down 11.3% year over year. General and administrative expenses were \$38 million, 17.4% lower than the year-ago quarter's \$46 million.

Operating income stood at \$507 million, down from \$586 million in the year-ago period.

Interest expenses summed \$233 million, down from \$265 million in the year-earlier period.

AES Corp. signed long-term contracts for 685 MW of renewable capacity, bringing the backlog to 5.3 GW.

The company also completed construction of 1.4 GW of new projects, including the 1.3 GW Southland Repowering project in Southern California

### Financial Condition

AES Corp. reported cash and cash equivalents of \$1,544 million as of Mar 31, 2020, compared with \$1,029 million as of Dec 31, 2019.

Non-recourse debt totaled \$15,360 million as of Mar 31, up from \$14,914 million as of Dec 31.

In the first quarter of 2020, cash from operating activities was \$373 million compared with the year-ago quarter's \$690 million.

Total capital expenditures during the first quarter amounted to \$504 million, which increased from \$494 million incurred in the year-ago quarter.

### Guidance

For 2020, AES Corp. has reduced the midpoint of its adjusted EPS guidance by 5% per share, to a range of \$1.32-\$1.42. The Zacks Consensus Estimate for 2020 earnings is pegged at \$1.42, which is above the midpoint of the company's guided range.

AES Corp. also reaffirms its 2020 Parent Free Cash Flow expectation of \$725-\$775 million and the average annual growth rate target of 7-9% through 2022.

## Recent News

On **June 1, 2020**, AES Distributed Energy, a division of The AES Corporation, was selected by Hawaiian Electric Companies to develop and operate two new utility-scale solar+storage facilities on O'ahu, Hawai'i. Combined, these two projects are expected to generate a total of 137,000 MWh of locally produced, reliable renewable energy, serving upwards of 23,000 homes. The projects represent AES' continued commitment in helping the State of Hawai'i and its people achieve their 100% renewable energy goals while accelerating a smarter, safer and greener energy future.

## Valuation

AES Corp.'s shares are down 24.3% in the year to date period and 14.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 15.3% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 10.1% whereas the sector is down 12.4%.

The S&P 500 index is down 0.5% in the year-to-date period and up 7.8% in the past year.

The stock is currently trading at 10.3X of forward 12-month earnings, which compares to 13.1X for the Zacks sub-industry, 12.4X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 6.5X, with a 5-year median of 10.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 10.9X 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	10.28	13.14	12.4	22.72
	5-Year High	14.98	15.53	15.32	22.72
	5-Year Low	6.52	11.12	11.4	15.25
	5-Year Median	10.36	13.23	13.78	17.52
P/S F12M	Current	0.95	2.25	2.68	3.55
	5-Year High	1.28	2.45	3.29	3.55
	5-Year Low	0.36	1.54	1.75	2.53
	5-Year Median	0.58	1.9	2.06	3.02
EV/EBITDA TTM	Current	10.49	12.77	17.82	11.88
	5-Year High	12.65	13.8	20.58	12.86
	5-Year Low	7.45	7.81	10.59	8.25
	5-Year Median	10.39	10.39	13.79	10.87

As of 07/15/2020

## Industry Analysis Zacks Industry Rank: Top 41% (104 out of 251)



## Top Peers

Company (Ticker)	Rec	Rank
DTE Energy Company (DTE)	Neutral	3
Edison International (EIX)	Neutral	3
Eversource Energy (ES)	Neutral	3
Entergy Corporation (ETR)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
Pinnacle West Capital Corporation (PNW)	Neutral	3
NRG Energy, Inc. (NRG)	Underperform	4

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AES	X Industry	S&P 500	DTE	EIX	ETR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	B	C	A
Market Cap	10.02 B	8.95 B	22.66 B	21.03 B	20.10 B	19.26 B
# of Analysts	4	2	14	5	5	4
Dividend Yield	3.80%	3.43%	1.83%	3.71%	4.61%	3.87%
Value Score	B	-	-	B	B	B
Cash/Price	0.24	0.07	0.07	0.03	0.07	0.07
EV/EBITDA	13.00	9.66	12.99	11.41	9.66	8.90
PEG Ratio	1.38	3.56	2.97	3.02	3.81	3.03
Price/Book (P/B)	2.12	1.61	3.12	1.75	1.29	1.89
Price/Cash Flow (P/CF)	4.38	8.05	12.14	8.43	5.64	5.87
P/E (F1)	10.81	17.61	22.04	16.72	12.44	17.39
Price/Sales (P/S)	1.01	1.81	2.38	1.73	1.63	1.80
Earnings Yield	9.16%	5.62%	4.32%	5.98%	8.03%	5.75%
Debt/Equity	4.00	1.02	0.76	1.43	1.23	1.78
Cash Flow (\$/share)	3.44	4.27	6.94	12.95	9.81	16.39
Growth Score	C	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	4.07%	5.04%	10.85%	6.69%	2.41%	0.30%
Proj. EPS Growth (F1/F0)	1.47%	0.26%	-9.64%	3.65%	-5.49%	2.50%
Curr. Cash Flow Growth	4.43%	5.70%	5.51%	7.70%	7.87%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	0.82%	6.02%	8.55%	4.88%	0.92%	0.41%
Current Ratio	1.06	0.89	1.30	0.89	0.79	0.66
Debt/Capital	80.00%	50.49%	44.46%	58.86%	55.17%	63.50%
Net Margin	2.97%	10.46%	10.59%	9.10%	10.15%	10.50%
Return on Equity	23.42%	9.19%	15.75%	9.82%	11.33%	11.40%
Sales/Assets	0.29	0.22	0.54	0.30	0.19	0.21
Proj. Sales Growth (F1/F0)	1.20%	0.00%	-2.52%	-1.87%	3.82%	4.68%
Momentum Score	C	-	-	A	C	B
Daily Price Chg	2.10%	0.00%	1.91%	0.39%	-2.45%	-1.42%
1 Week Price Chg	-0.83%	0.00%	-0.41%	-2.24%	-0.38%	1.33%
4 Week Price Chg	12.38%	1.48%	1.88%	1.88%	-7.70%	-0.86%
12 Week Price Chg	18.85%	2.81%	16.37%	6.68%	-6.29%	-3.26%
52 Week Price Chg	-14.62%	-14.28%	-4.22%	-16.05%	-20.67%	-8.81%
20 Day Average Volume	6,912,564	395,165	2,266,132	1,302,920	3,415,547	1,329,998
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.15%	0.00%	0.00%
(F1) EPS Est 12 week change	-2.59%	-1.01%	-5.76%	0.31%	-0.55%	0.09%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>B</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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