

The AES Corporation(AES)

\$20.57 (As of 01/16/20)

Price Target (6-12 Months): **\$22.00**

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:A

Value: A

Growth: B

Momentum: B

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 is focused 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. Besides asset divestment, the company is teaming up with other companies to expand its footprint in potential markets. Furthermore, In the past 12 months, shares of AES Corp have outperformed its industry. However, focus on long-term supply contracts exposes the company to commodity price risks. The political landscape in Brazil is unstable and has caused a delay in its reform plans. As a result, the company suffers higher interest rates, devaluation in foreign currencies and inflation in Brazil.

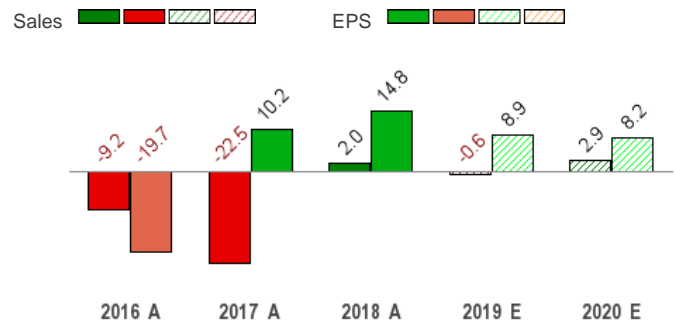
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.60 - \$14.60
20 Day Average Volume (sh)	3,289,187
Market Cap	\$13.7 B
YTD Price Change	3.4%
Beta	1.09
Dividend / Div Yld	\$0.57 / 2.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.0%
Last Sales Surprise	-11.5%
EPS F1 Est- 4 week change	1.2%
Expected Report Date	02/26/2020
Earnings ESP	-3.8%
P/E TTM	14.9
P/E F1	14.1
PEG F1	1.8
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					10,986 E
2019	2,650 A	2,483 A	2,625 A	2,775 E	10,674 E
2018	2,740 A	2,537 A	2,837 A	2,622 A	10,736 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.32 E	\$0.27 E	\$0.47 E	\$0.40 E	\$1.46 E
2019	\$0.28 A	\$0.26 A	\$0.48 A	\$0.35 E	\$1.35 E
2018	\$0.28 A	\$0.25 A	\$0.35 A	\$0.36 A	\$1.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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 2018, the company had a customer base of 2.4 million.

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

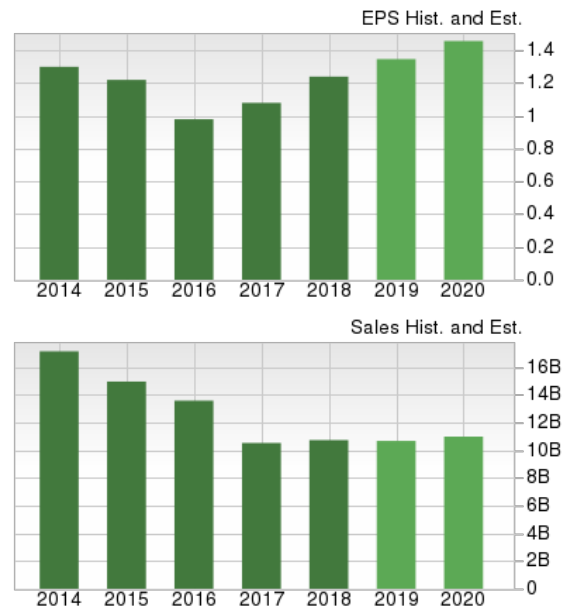
Generation

In the Generation business, the company operates power plants to generate and sell power to wholesale customers such as utilities and other intermediaries. AES Corp has a total generating capacity of 36 gigawatts. 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.

As of May 7, 2019, AES Corp's generation mix consisted of 37% gas, 31% coal, 29% renewable and 3% oil, diesel & pet coke. In addition, the company had a gross 31,792 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, the company sold its businesses in Northern Ireland and plans to sell its Jordan-based businesses by the end of the year. Besides asset divestment, the company is teaming up with other companies to expand its 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 won contracts for 806 megawatts in the first three quarters of 2019. No doubt, this investment has positioned the company at the forefront of the battery-based energy storage market. Moreover, AES Corp and Google have recently entered a 10-year strategic alliance for the expansion of clean energy projects. As a result, AES Corp's share price has also increased 37.1% in the past year compared with the industry's growth of 26.2%.

- ▲ 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. 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 82% complete as of October 2019. 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 921 MW of renewable capacity during the third quarter, increasing its backlog to 6,109 MW.

This includes 3,030 MW under construction, with the expectation of commencing operation through 2021, and 3,079 MW of renewables signed under long-term PPAs. It also includes 560 MW of solar and solar plus storage at sPower in the United States; 416 MW of Green Blend and Extend contracts at AES Gener in Chile; 346 MW of wind and solar in Mexico, the Dominican Republic and Panama; and 13 MW of wind and solar at AES Colombia. Such developments should fortify AES Corp's position in the global renewables space.

- ▲ Earlier during the year, AES Corp. completed its merger with Simple Energy to form Uplight, which is now the market leader in providing cloud-based energy solutions in the U.S., serving 74 electric and gas utilities, which includes big utility majors such as Xcel Energy and Consumers Energy, a CMS Energy subsidiary. Evidently, the inclusion of such big utility companies and the rapid acceptance of AI within the utility sector will help Uplight extensively grow and cater to a larger market in the longer term. This, in turn, will lead to an escalation in revenues and customer growth for AES Corp. We thereby expect the creation of Uplight to be a strategically apt decision for the company, with Uplight expected to duly reap the benefits of the growing AI-based utility sector.
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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.
- ▼ Although the company has outperformed its industry in the past one year, a comparative analysis of its 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 20.77. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 15.37. 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 Q3 Earnings Beat Estimates, Revenues Down Y/Y

AES Corporation's third-quarter 2019 adjusted earnings of 48 cents per share surpassed the Zacks Consensus Estimate of 40 cents by 20%. Moreover, earnings grew 37.1% from the year-ago quarter's 35 cents per share.

Barring one-time adjustment, the company delivered GAAP earnings of 32 cents per share in the reported quarter compared with 15 cents in the prior-year period.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-11.50%
EPS Surprise	20.00%
Quarterly EPS	0.48
Annual EPS (TTM)	1.38

Highlights of the Release

AES Corp generated total revenues of \$2,625 million in the third quarter, down 7.5% year over year. The top line also lagged the Zacks Consensus Estimate of \$2,966 million by 11.5%.

Total cost of sales was \$1,924 million in the third quarter, down 11.2% year over year. General and administrative expenses were \$41 million, 4.7% lower than the year-ago quarter's \$43 million.

Operating income stood at \$701 million, up 4.5% from \$671 million in the year-ago period.

Interest expenses summed \$250 million, down 2% from \$255 million in the year-earlier period.

Highlights of the Quarter

AES Corp. signed 921 MW of new PPAs during the third quarter of 2019, for a total of 1.9 GW year-to-date. The Company formed a 10-year strategic alliance with Google to develop and implement solutions to enable broad adoption of clean energy. It also received approval from the Government of Vietnam to develop the 2.2 GW Son My 2 CCGT.

Financial Condition

AES Corp reported cash and cash equivalents of \$1,145 million as of Sep 30, 2019, compared with \$1,166 million as of Dec 31, 2018.

Non-recourse debt totaled \$14,323 million as of Sep 30, 2019, up from \$13,986 million as of Dec 31, 2018.

In the third quarter of 2019, cash from operating activities was \$761 million compared with the year-ago quarter's \$767 million.

Total capital expenditures during the third quarter amounted to \$558 million, which increased from \$598 million incurred in the year-ago quarter.

Guidance

For 2019, AES Corp reaffirmed its 2019 Adjusted EPS guidance of \$1.30-\$1.38. It also reaffirmed its average annual growth rate target of 7-9% through 2022.

The Zacks Consensus Estimate for earnings is currently pegged at \$1.34, which is the mid-point of the company's guided range.

AES Corp also reaffirmed its 2019 Parent Free Cash Flow expectation of \$700-\$750 million.

Recent News

On **Dec 9, 2019**, The AES Corporation announced that its board of directors has approved a 5% hike in its first-quarter 2020 common stock quarterly dividend to 14.33 cents, thus taking the annualized payout to 57.32 cents per share. The new quarterly dividend will be paid out on Feb 14, 2020 to its shareholders of record as of Jan 31, 2020. The company's current annual dividend yield is 3.05% compared with the industry's 2.94% and Zacks S&P 500 composite's average yield of 1.82%.

On **Oct 18, 2019**, AES Corporation announced the start of operations of the first liquefied natural gas (LNG) hub in Panama and Central America, located at the AES Colón plant. AES Colón consists of the 180,000 m3 LNG tank and a 381 MW combined cycle power plant, which reached commercial operations in 2018 and had been previously operating with gas from temporary sources.

The commercial operation of the LNG storage facility will allow for the use of LNG throughout the region and establish Panama as the natural gas hub for the Central American region.

On **Oct 8, 2019**, sPower, a joint venture between The AES Corporation and the Alberta Investment Management Corporation, was set to start commercial operation at its Antelope DSR 3 solar project. The electricity, expected to be generated by this 20-Megawatt (MW) AC project at full capacity, can light up to 7,300 average homes in California. The project, located in California, will provide energy to Edison International's (EIX - Free Report) subsidiary — Southern California Edison (SCE) — under a long-term power purchase agreement.

On **July 15, 2019**, AES Corporation recently announced the merger of two Colorado-based energy services providers — Simple Energy and Tendril — to form a new company named Uplight. The merger combines Tendril's data analytics platform with Simple Energy's consumer engagement marketplace, and aims to offer a comprehensive suite of customer-facing solutions for electric and gas utilities.

AES Corp. made an investment worth \$53 million in the Uplight merger, in addition to the investments it had made in Simple Energy last year.

Valuation

AES Corp.s' shares are up 19.2% in the past six months period and up 37.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 8.7% and 5.7% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 26.2% whereas the sector is up 6.8%.

The S&P 500 index is up 11.5% in the past six months period and is up 26.5% in the past year.

The stock is currently trading at 14.05X of forward 12-month earnings, which compares to 14.81X for the Zacks sub-industry, 13.64X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.98X and as low as 7.16X, with a 5-year median of 10.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$22 price target reflects 15.03X 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	14.05	14.81	13.64	18.96
	5-Year High	14.98	14.81	15.33	19.34
	5-Year Low	7.16	11.19	12.61	15.17
	5-Year Median	10.33	13.09	13.68	17.44
P/S F12M	Current	1.23	2.3	2.91	3.53
	5-Year High	1.24	2.3	3.26	3.53
	5-Year Low	0.36	1.5	1.7	2.54
	5-Year Median	0.55	1.83	1.95	3
P/B TTM	Current	2.54	1.88	4.1	4.5
	5-Year High	2.54	1.88	4.1	4.5
	5-Year Low	0.91	1.32	2.01	2.85
	5-Year Median	1.36	1.55	2.55	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



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	A	-	-	D	F	D
Market Cap	13.66 B	9.42 B	24.61 B	25.17 B	27.45 B	24.88 B
# of Analysts	3	2	13	4	4	4
Dividend Yield	2.65%	2.71%	1.74%	3.05%	3.33%	2.98%
Value Score	A	-	-	C	D	C
Cash/Price	0.14	0.04	0.04	0.00	0.02	0.04
EV/EBITDA	9.80	11.40	14.24	13.27	27.74	15.61
PEG Ratio	1.77	3.91	2.07	3.39	3.11	3.20
Price/Book (P/B)	2.54	1.83	3.38	2.31	1.79	2.48
Price/Cash Flow (P/CF)	6.23	9.36	13.75	10.46	7.58	6.66
P/E (F1)	13.88	19.82	19.09	20.36	16.56	22.42
Price/Sales (P/S)	1.32	2.34	2.68	1.90	2.22	2.28
Earnings Yield	7.10%	4.91%	5.24%	4.91%	6.03%	4.46%
Debt/Equity	3.32	1.08	0.72	1.28	1.11	1.69
Cash Flow (\$/share)	3.30	4.03	6.94	12.70	10.10	18.75
Growth Score	B	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	0.77%	4.40%	10.56%	7.64%	0.35%	4.11%
Proj. EPS Growth (F1/F0)	8.23%	5.41%	7.57%	4.99%	-2.63%	5.04%
Curr. Cash Flow Growth	16.44%	7.23%	14.73%	10.89%	-8.10%	0.51%
Hist. Cash Flow Growth (3-5 yrs)	-0.61%	4.93%	9.00%	4.53%	1.37%	2.60%
Current Ratio	1.10	0.81	1.24	0.77	0.78	0.72
Debt/Capital	76.85%	51.70%	42.99%	56.15%	52.64%	62.21%
Net Margin	4.90%	9.75%	11.14%	8.24%	-1.60%	7.38%
Return on Equity	22.67%	9.57%	17.16%	9.93%	11.98%	11.13%
Sales/Assets	0.31	0.24	0.55	0.36	0.21	0.22
Proj. Sales Growth (F1/F0)	2.92%	3.33%	4.16%	5.17%	3.56%	1.19%
Momentum Score	B	-	-	C	A	D
Daily Price Chg	0.54%	0.61%	0.89%	0.70%	-0.48%	0.98%
1 Week Price Chg	1.92%	0.44%	0.39%	-0.05%	0.96%	1.58%
4 Week Price Chg	5.22%	3.43%	2.65%	2.51%	4.28%	4.55%
12 Week Price Chg	21.86%	2.91%	7.55%	2.95%	6.05%	3.05%
52 Week Price Chg	32.79%	18.12%	22.12%	17.43%	43.08%	45.24%
20 Day Average Volume	3,289,187	277,517	1,536,375	921,453	1,620,994	1,191,146
(F1) EPS Est 1 week change	-0.17%	0.00%	0.00%	-0.05%	0.82%	0.00%
(F1) EPS Est 4 week change	1.22%	0.00%	0.00%	-0.05%	1.59%	0.00%
(F1) EPS Est 12 week change	1.39%	-0.13%	-0.40%	1.00%	2.04%	0.04%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.00%

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.

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.

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