

The AES Corporation(AES)

\$17.67 (As of 08/17/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

AES Corp. ended the second quarter of 2020 on a mixed note, with earnings surpassing the Zacks Consensus Estimate, while revenues lagging the same. Its businesses experienced a demand crunch due to the coronavirus pandemic. Internationally, demand decreased in the range of low-single digits to low-double digits in its various key markets. It expects significant economic disruptions from COVID-19 in the third quarter and potentially for the remainder of the year. Moreover, its debt-to-capital ratio at the end of the second quarter stood at 0.82, which increased sequentially and also remained highest in the trailing eight quarters. However, AES Corp. focuses on preserving its financial flexibility by reducing costs, which will include overhead reductions and operational improvements. In the past year, its shares have outperformed the industry.

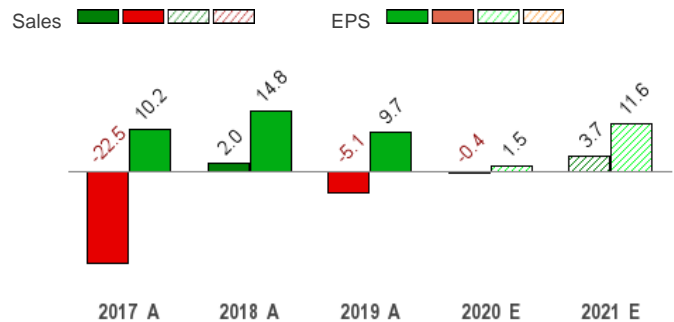
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.23 - \$8.11
20 Day Average Volume (sh)	5,343,411
Market Cap	\$11.8 B
YTD Price Change	-11.2%
Beta	1.00
Dividend / Div Yld	\$0.57 / 3.2%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 24% (192 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.7%
Last Sales Surprise	-11.2%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	11/04/2020
Earnings ESP	2.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,522 E
2020	2,338 A	2,217 A	2,664 E	2,729 E	10,145 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	\$0.32 E	\$0.28 E	\$0.54 E	\$0.39 E	\$1.54 E
2020	\$0.29 A	\$0.25 A	\$0.47 E	\$0.39 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	12.9
P/E F1	12.8
PEG F1	1.6
P/S TTM	1.2

The data in the charts and tables, except sales and EPS estimates, is as of 08/17/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/18/2020.

Overview

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

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

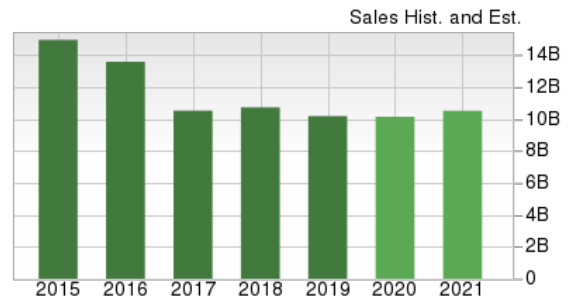
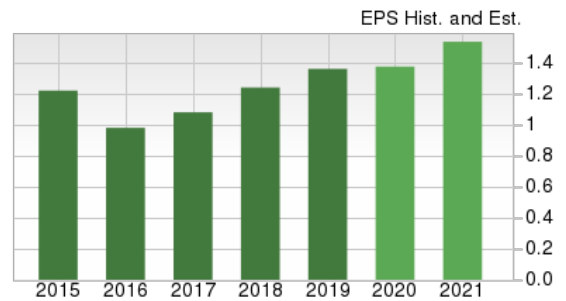
Generation

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

Utilities

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

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



Reasons To 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.

▼ 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 11.4% in the past year compared to the industry's decline of 5.5%.

▼ AES Corp.'s businesses experienced a slight decrease in demand during the second quarter of 2020, as a result of the coronavirus outbreak. The demand at its U.S. Utilities dropped in mid-single digits, whereas demand in other markets declined in the range of low-single digits to low-double digits. AES Corp. is also experiencing a decline in electricity spot prices in some of its markets due to lower system demand.

During the second quarter of 2020, the COVID-19 pandemic had a moderate impact on the financial results and operations of the company, as anticipated during the first-quarter earnings call. However, it expects significant economic disruptions from COVID-19 in the third quarter of 2020 and potentially for the remainder of 2020. Looking ahead, as the duration and severity of the pandemic 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 \$19,332 million as of Jun 30, 2020, slightly higher than \$18,867 million as of Mar 31, 2020. The company's cash equivalents worth \$2,203 million as of Jun 30, 2020, declined sequentially from \$2,298 million and were 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 second quarter stood at 0.82, which increased sequentially and also remained highest in 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.

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

Risks

- 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 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 had a total backlog to 1.6 GW as of Jun 30, 2020. It is also expected to increase 15-20 GW annually. This year, Fluence's revenues are expected to reach \$500 million, an increase of 400% from the last year. This might have caused its investors to gain confidence in this stock. As a result, AES Corp.'s share price has gained 15% in the past year against the industry's decline of 7.8%.
 - In the second quarter of 2020, the company was awarded 852 megawatts of new renewable PPAs. This brings its year-to-date total to 1.5 gigawatts, including 346 megawatts of energy storage. As a result, the company's backlog of new renewables projects increased to 6.2 gigawatts. Almost half of this backlog is in the United States and the majority is expected to come online between 2021 and 2024. In addition to the 6.2-gigawatt backlog, AES Corp. has a pipeline of 15 gigawatts of renewable projects under active development in the United States. This pipeline count is expected to boost the company's position in the U.S. renewable space.
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Last Earnings Report

AES Corp Q2 Earnings Beat Estimates, Revenues Down Y/Y

AES Corporation's second-quarter 2020 adjusted earnings of 25 cents per share beat the Zacks Consensus Estimate of 23 cents by 8.7%. However, earnings fell 3.8% from the year-ago quarter's 26 cents per share.

Barring one-time adjustment, the company incurred GAAP losses of 13 cents per share in the reported quarter against the GAAP earnings of 2 cents in the prior-year period.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-11.24%
EPS Surprise	8.70%
Quarterly EPS	0.25
Annual EPS (TTM)	1.37

Highlights of the Release

AES Corp generated total revenues of \$2,217 million in the second quarter, down 10.7% year over year. The top line also lagged the Zacks Consensus Estimate of \$2,498 million by 11.2%.

Total cost of sales was \$1,693 million in the second quarter, down 14.5% year over year. General and administrative expenses were \$40 million, 18.4% lower than the year-ago quarter's \$49 million.

Operating income stood at \$524 million, up 4.4% from \$502 million in the year-ago period.

Interest expenses summed \$218 million, down 20.1% from \$273 million in the year-earlier period.

Financial Condition

AES Corp reported cash and cash equivalents of \$1,417 million as of Jun 30, 2020, compared with \$1,029 million as of Dec 31, 2019.

Non-recourse debt totaled \$15,639 million as of Jun 30, 2020, up from \$14,914 million as of Dec 31, 2019.

In the second quarter of 2020, cash from operating activities was \$447 million compared with the year-ago quarter's \$324 million.

Total capital expenditures during the second quarter amounted to \$386 million, which increased from \$566 million incurred in the year-ago quarter.

Guidance

For 2020, AES Corp. has reaffirmed its EPS guidance of \$1.32-\$1.42. The Zacks Consensus Estimate for 2020 earnings is pegged at \$1.37, which lies at 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 **Aug 10, 2020**, The AES Corporation announced today that its subsidiary, AES Gener, reached an agreement for the early termination of two tolling agreements (Power Purchase Agreements, PPAs) with the 558 MW Angamos coal-fired plant in Chile. Per this agreement, the PPAs will cease in August 2021. This year, Angamos will receive a payment of \$720 million, primarily reflecting the present value of fixed charges through 2029, as stipulated in the PPAs.

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 11.2% in the year to date period although up 15% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 13.3% and 13.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 7.8% whereas the sector is down 8.8%.

The S&P 500 index is up 4.8% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 12X of forward 12-month earnings, which compares to 13.7X for the Zacks sub-industry, 12.8X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 6.5X, with a 5-year median of 10.4X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 10.2X 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	11.97	13.72	12.75	22.87
	5-Year High	14.98	15.36	15.28	22.87
	5-Year Low	6.52	11.07	11.3	15.25
	5-Year Median	10.41	13.2	13.72	17.58
P/S F12M	Current	1.13	2.31	2.7	3.71
	5-Year High	1.28	2.46	3.29	3.71
	5-Year Low	0.36	1.55	1.75	2.53
	5-Year Median	0.59	1.91	2.07	3.05
EV/EBITDA TTM	Current	10.43	11.82	18.62	12.78
	5-Year High	12.65	13.87	21.06	12.85
	5-Year Low	7.45	7.85	10.59	8.25
	5-Year Median	10.35	10.5	13.91	10.91

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 252)



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	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	AES	X Industry	S&P 500	DTE	EIX	ETR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	D	B
Market Cap	11.75 B	8.18 B	23.75 B	22.55 B	19.58 B	20.14 B
# of Analysts	4	3	14	6	4	4
Dividend Yield	3.24%	3.45%	1.62%	3.46%	4.92%	3.70%
Value Score	A	-	-	B	C	B
Cash/Price	0.19	0.07	0.07	0.03	0.03	0.05
EV/EBITDA	14.12	9.80	13.49	11.98	9.76	9.20
PEG Ratio	1.62	3.46	3.03	3.09	3.47	3.13
Price/Book (P/B)	2.53	1.60	3.18	1.90	1.19	1.93
Price/Cash Flow (P/CF)	5.13	7.75	12.85	9.04	5.28	6.14
P/E (F1)	12.77	17.50	22.17	17.51	11.59	18.04
Price/Sales (P/S)	1.22	1.88	2.49	1.90	1.57	1.93
Earnings Yield	7.81%	5.71%	4.32%	5.71%	8.63%	5.55%
Debt/Equity	4.16	1.05	0.77	1.47	1.17	1.75
Cash Flow (\$/share)	3.44	4.27	6.94	12.95	9.81	16.39
Growth Score	C	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	5.56%	5.32%	10.44%	6.30%	2.74%	-2.08%
Proj. EPS Growth (F1/F0)	1.10%	0.83%	-5.97%	6.08%	-4.95%	3.29%
Curr. Cash Flow Growth	4.43%	6.78%	5.22%	7.70%	7.87%	-3.90%
Hist. Cash Flow Growth (3-5 yrs)	0.82%	6.02%	8.52%	4.88%	0.92%	0.41%
Current Ratio	1.10	0.86	1.33	0.83	0.81	0.58
Debt/Capital	80.64%	50.98%	44.59%	59.49%	53.91%	63.60%
Net Margin	2.01%	9.66%	10.13%	10.13%	9.42%	11.95%
Return on Equity	24.35%	9.28%	14.51%	10.50%	9.80%	11.36%
Sales/Assets	0.28	0.22	0.51	0.28	0.19	0.20
Proj. Sales Growth (F1/F0)	-0.43%	0.00%	-1.67%	-2.21%	3.54%	2.36%
Momentum Score	D	-	-	B	B	B
Daily Price Chg	0.57%	-0.04%	-0.02%	-0.57%	-1.73%	-0.33%
1 Week Price Chg	2.39%	-0.86%	1.09%	-0.97%	-3.52%	-3.57%
4 Week Price Chg	15.79%	0.88%	4.83%	7.17%	-5.67%	2.25%
12 Week Price Chg	44.36%	7.62%	13.09%	14.61%	-8.24%	2.69%
52 Week Price Chg	15.04%	-10.40%	2.77%	-10.51%	-28.73%	-8.37%
20 Day Average Volume	5,343,411	333,845	1,932,479	1,037,795	2,128,771	1,079,750
(F1) EPS Est 1 week change	0.18%	0.00%	0.00%	0.38%	0.17%	0.00%
(F1) EPS Est 4 week change	0.36%	0.08%	1.80%	2.19%	0.53%	0.78%
(F1) EPS Est 12 week change	-1.79%	0.00%	2.88%	2.27%	0.45%	1.17%
(Q1) EPS Est Mthly Chg	2.57%	-0.68%	0.80%	-4.62%	0.00%	3.89%

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	C
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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