

PPL Corporation (PPL)

\$35.25 (As of 01/13/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

Shares of PPL Corp have outperformed the industry in the past six months. The company will invest nearly \$15 billion through 2019-2023 and is poised to gain from these investments aimed to strengthen generation, transmission and distribution operation. PPL Corp expects to recover 80% of its invested capital within a year, which provides strong earnings visibility. It has re-established its hedge levels to offset any near-term decline in GBP. PPL Electric Utilities about to complete a multi-year advanced meter replacement project in Pennsylvania. The company has a long history of dividend payment. However, the company is exposed to the risks related to the changes in laws and regulations in U.K. Unplanned outages at power plants may increase expenses, lower revenues as well as affect financial performance.

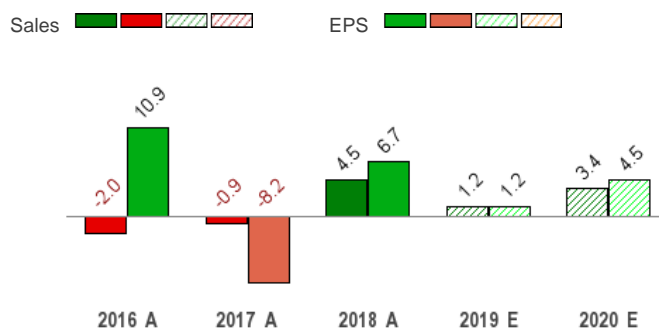
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.28 - \$28.53
20 Day Average Volume (sh)	4,008,060
Market Cap	\$25.6 B
YTD Price Change	-1.3%
Beta	0.51
Dividend / Div Yld	\$1.65 / 4.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 35% (166 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.3%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	14.7
P/E F1	13.9
PEG F1	2.8
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					8,140 E
2019	2,079 A	1,803 A	1,933 A		7,875 E
2018	2,126 A	1,848 A	1,872 A	1,939 A	7,785 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.74 E	\$0.61 E	\$0.62 E	\$0.58 E	\$2.54 E
2019	\$0.70 A	\$0.58 A	\$0.61 A	\$0.55 E	\$2.43 E
2018	\$0.74 A	\$0.55 A	\$0.59 A	\$0.52 A	\$2.40 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Allentown, PA-based PPL Corp. is a diversified utility holding company, was founded in 1920. Currently, the company serves 10 million utility customers in the U.S. and the UK. The company primarily generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; markets wholesale or retail energy chiefly in northeastern and northwestern portions of the U.S.; delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee in the U.S.; and the UK and supplies natural gas in Kentucky. The company has more than 12,000 employees.

PPL Corp.'s principal subsidiaries are: Louisville Gas and Electric Company and Kentucky Utilities Company (LKE), PPL Electric Utilities Corporation, and Western Power Distribution.

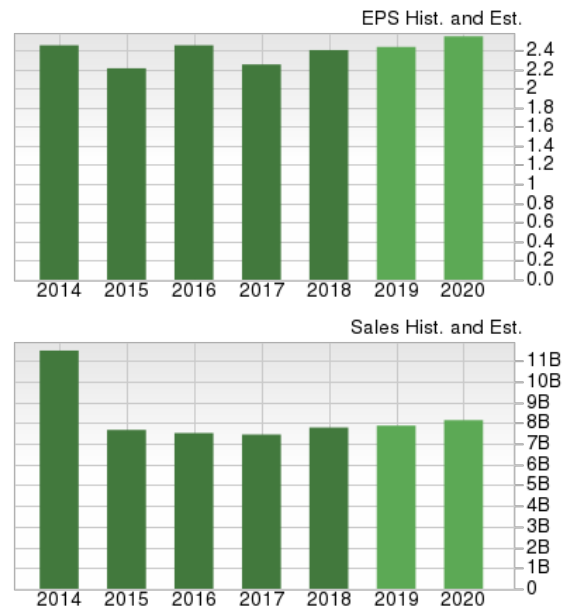
The company has three reportable segments. **Kentucky Regulated**, **U.K. Regulated** and **Pennsylvania Regulated**. The segment earnings details are mentioned below:

Kentucky Regulated –In 2018, total operating revenues in the segment amounted to \$ 3.2 billion.

U.K. Regulated - In 2018, total operating revenues in the segment amounted to \$ 2.3 billion.

Pennsylvania Regulated - In 2018, total operating revenues in the segment amounted to \$ 2.3 billion.

The **Corporate and Other** segments include unallocated corporate-level financing as well as other costs.



Reasons To Buy:

- ▲ In the past six months, shares of PPL Corp have gained 16.1% compared with the industry's growth of 5.6%. The company's asset portfolio and business model are made to be adaptable to various market scenarios. It continues to follow an organic growth strategy to expand and upgrade its electric and gas infrastructure.

PPL Electric Utilities is near to completion of a multi-year advanced meter replacement project in Pennsylvania with total value of \$470 million. This project involves the installation of 1.4 million advanced meters. These meters will enable the company to respond more quickly and efficiently to customer requests by remotely connecting and disconnecting service.

- ▲ PPL Corporation's capital investment plan primarily focuses on infrastructure construction projects for generation, transmission and distribution. The company is going to invest nearly \$15 billion through 2019-2023. Investments will be done to strengthen grid, expand renewable generation capacity and focus on new technology to serve customers more efficiently.

Based on systematic investments and timely recovery, the company expects to achieve compound annual earnings growth of 5-6% through 2020 from midpoint of original 2018 earnings guidance of \$2.30 per share. The company reaffirmed 2021 earnings forecast guidance of \$2.50 to \$2.80 per share. These investments will expand rate base from \$27.1 billion in 2018 to \$30.4 billion in 2020 at a CAGR of 5-7%. The growth in rate base will enable the company to recoup investments through periodic rate hikes. The company expects to recover 70% of the investment within six months and more than 80% within one year, paving the way for growth and future investments.

Moreover, the company has completed construction of a new community solar facility in late July. This 1,400-panel array is the first of eight plan Solar Share developments. These an option for customers to support local solar energy without installing equipment on their properties.

- ▲ In light of the fluctuating currency, PPL Corp. has re-established its hedge levels to shield itself from any near-term decline in the Great Britain Pound (GBP). Post the tax reform that lowered corporate income tax, the company updated its hedge portfolio. For 2019, PPL Corp's foreign exchange exposure related to budgeted earnings was 100% hedged at an average rate of \$1.45 per GBP. It has increased hedge percentage to 70% for 2020 from 63% in the second quarter. The average rate will be \$1.46 per GBP.

Initiatives undertaken by the company has lowered its foreign currency risk substantially. These hedges will help the company perform in the expected lines even if the exchange rate falls below current levels.

- ▲ PPL Corp has a long history of dividend payment. In August, the company declared a quarterly common stock dividend of 41.25 cents per share, which was paid on Oct 1, 2019. This represents the company's 295th consecutive quarterly dividend. The strong cash flow generation capacity enables the company to pay consistent dividend to shareholders. The current dividend yield of the company is 4.66%, higher than the industry's 2.81% and the Zacks S&P 500 composite's 1.78%.

Ongoing capital investments to strengthen infrastructure and recovery of 80% of these investments within a year, growth in domestic operation as well as hedging programs are tailwinds.

Reasons To Sell:

- ▼ The company's U.K. distribution business contributes a significant amount to earnings, which is exposed to the risks related to operating outside the United States. Risks associated with changes in U.K. laws and regulations, taxes, economic conditions as well as political conditions and policies of the government may impact the company's revenues negatively.
- ▼ Operations related to power plants, transmission and distribution facilities, information technology systems as well as other assets and activities subjects the company to a variety of risks. These include the breakdown or failure of equipment, accidents, security breaches, viruses or outages that affect information technology systems, cause labor disputes, lead to obsolescence, create delivery/transportation problems and disruptions of fuel supply as well as dent performance. These events may lead to unplanned outages at power plants. The company's facilities may not operate as planned, which may increase expenses and lower revenues as well as affect financial performance.
- ▼ As a capital-intensive business, PPL Corporation's depends on adequate long-term and short-term financing to fund its significant capital expenditures, debt service and operating needs. At present, the debt-to-capital ratio of the company is 64.42% compared with S&P 500's 42.99%. With its current ratio of 0.66, the company might find it difficult to borrow funds at favorable rates. In the first nine months of 2019, the company's interest expenses increased 3.8% to \$746 million compared with the prior-quarter's levels.

Higher debt levels, unplanned outages at power plants as well as stringent law and regulations outside the United States are headwinds for PPL Corporation.

Last Earnings Report

PPL Corp Posts In-Line Q3 Earnings, Tightens 2019 View

PPL Corporation reported third-quarter 2019 earnings per share of 61 cents, which matched the Zacks Consensus Estimate. The figure rose 3% year over year, primarily on strong operational performance from its Kentucky utilities.

On a GAAP basis, the company generated EPS of 65 cents compared with 62 cents in the year-ago quarter. The difference between GAAP and operating earnings stemmed from benefits in the U.K. Regulated segment.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	0.61
Annual EPS (TTM)	2.41

Total Revenues

The company generated revenues worth \$1,933 million in the third quarter, which improved 3.3% year over year from the year-ago quarter's figure of \$1,872 million.

Segment Results

U.K. Regulated: Adjusted earnings were 28 cents per share, down 2 cents from the prior-year quarter's figure. Dilution of shares and lower sales volumes adversely impacted third-quarter earnings of the segment.

Kentucky Regulated: Adjusted earnings were 20 cents, up from 17 cents in the year-ago quarter. The upside can be primarily attributed to higher retail rates.

Pennsylvania Regulated: Adjusted earnings were 16 cents, flat year over year. The results benefited from return on additional capital investments in transmission offset by higher operation and maintenance expenses.

Corporate and Other: The segment incurred a loss of 3 cents in the quarter compared with 4 cents incurred in the year-ago quarter.

Operational Highlights

PPL Corp's total operating expenses increased 1.8% year over year to \$ 1,207 million in the quarter.

The company generated operating income of \$726 million, improving 5.8% from \$686 million in the prior-year quarter.

Interest expenses increased 6.2% to \$259 million from the year-ago quarter's figure of \$244 million.

Financial Position

As of Sep 30, 2019, the company had cash and cash equivalents of \$670 million compared with \$621 million as of Dec 31, 2018.

Long-term debt (excluding debts due within a year) was \$21,547 million as of Sep 30, 2019 compared with \$20,069 million as of Dec 31, 2018.

Net cash flow from operating activities in the first nine months of 2019 was \$1,888 million compared with \$2,210 million in the year-ago period.

Guidance

PPL Corp tightened its earnings per share guidance for 2019. The company now expects earnings in the range of \$2.35-\$2.45 per share compared with the earlier range of \$2.30-\$2.50. The midpoint of the new earnings guidance is \$2.40. The projected figure is lower than the current Zacks Consensus Estimate of \$2.43.

Valuation

PPL Corporation, shares are up 16.1% in the last six months period, and 20.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 5.6% and 2.7% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 20.6% and sector is up 2.1%, respectively.

The S&P 500 index is up 9% in the last six months period and 24.2% in the past year.

The stock is currently trading at 13.92X of forward 12 months earnings, which compares to 14.51X for the Zacks sub-industry, 13.41X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.09X and as low as 10.84X, with a 5-year median of 14.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 14.96X of our forward 12 months earnings.

The table below shows summary valuation data for PPL

Industry Analysis Zacks Industry Rank: Bottom 35% (166 out of 254)



Top Peers

The AES Corporation (AES)	Outperform
Consolidated Edison Inc (ED)	Neutral
Edison International (EIX)	Neutral
Entergy Corporation (ETR)	Neutral
FirstEnergy Corporation (FE)	Neutral
Alliant Energy Corporation (LNT)	Neutral
WEC Energy Group, Inc. (WEC)	Neutral
Xcel Energy Inc. (XEL)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PPL Neutral	X Industry	S&P 500	ED Neutral	LNT Neutral	XEL Neutral
VGM Score	C	-	-	D	F	C
Market Cap	25.62 B	9.12 B	24.31 B	29.18 B	13.36 B	33.23 B
# of Analysts	3	2	13	3	2	6
Dividend Yield	4.66%	2.75%	1.76%	3.37%	2.55%	2.56%
Value Score	B	-	-	C	D	C
Cash/Price	0.03	0.04	0.04	0.01	0.01	0.03
EV/EBITDA	10.52	11.26	14.12	11.70	14.16	12.54
PEG Ratio	2.78	3.81	2.05	9.68	4.15	3.99
Price/Book (P/B)	2.15	1.78	3.34	1.61	2.69	2.53
Price/Cash Flow (P/CF)	8.87	9.17	13.66	9.81	12.69	10.71
P/E (F1)	13.88	19.43	18.82	19.37	22.78	22.75
Price/Sales (P/S)	3.30	2.25	2.64	2.32	3.67	2.86
Earnings Yield	7.17%	5.04%	5.29%	5.16%	4.39%	4.40%
Debt/Equity	1.81	1.08	0.72	1.01	1.11	1.28
Cash Flow (\$/share)	3.99	4.03	6.94	8.95	4.38	5.92
Growth Score	D	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	0.67%	4.40%	10.56%	1.98%	6.06%	5.63%
Proj. EPS Growth (F1/F0)	4.52%	5.56%	7.49%	5.00%	6.09%	6.57%
Curr. Cash Flow Growth	8.24%	7.23%	14.83%	6.99%	11.59%	9.42%
Hist. Cash Flow Growth (3-5 yrs)	2.87%	4.93%	9.00%	5.46%	6.04%	8.08%
Current Ratio	0.66	0.81	1.23	0.58	0.53	0.72
Debt/Capital	64.42%	51.70%	42.99%	50.30%	51.71%	56.14%
Net Margin	23.17%	9.75%	11.08%	10.98%	14.86%	11.15%
Return on Equity	14.73%	9.57%	17.16%	7.92%	11.43%	10.35%
Sales/Assets	0.18	0.24	0.55	0.23	0.23	0.24
Proj. Sales Growth (F1/F0)	3.36%	3.21%	4.23%	3.13%	NA	6.22%
Momentum Score	C	-	-	C	D	D
Daily Price Chg	-0.03%	0.67%	0.73%	0.34%	0.93%	1.17%
1 Week Price Chg	0.17%	0.44%	0.39%	-1.29%	2.36%	-0.06%
4 Week Price Chg	-2.26%	1.57%	1.84%	-0.50%	3.93%	0.54%
12 Week Price Chg	8.51%	0.59%	6.48%	-5.28%	4.57%	-1.43%
52 Week Price Chg	22.34%	17.92%	23.15%	17.92%	34.74%	29.51%
20 Day Average Volume	4,008,060	273,241	1,578,594	1,374,202	1,580,252	2,773,877
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.06%
(F1) EPS Est 4 week change	0.26%	0.00%	0.00%	0.17%	0.00%	-0.06%
(F1) EPS Est 12 week change	0.26%	-0.19%	-0.48%	-0.82%	0.41%	-0.24%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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