

PPL Corporation (PPL)

\$29.12 (As of 08/13/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

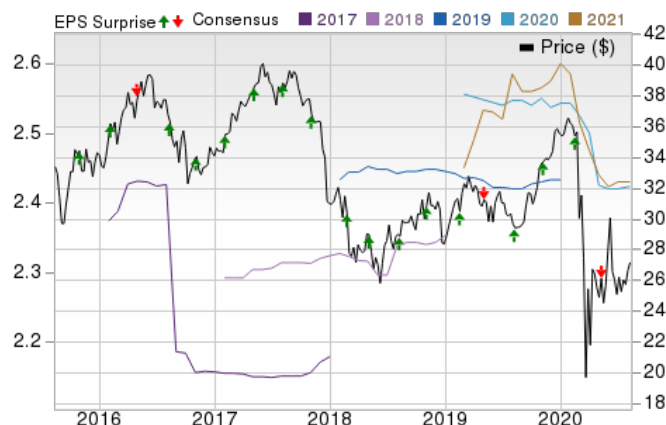
Growth: C

Momentum: D

Summary

PPL Corp's second-quarter earnings missed estimates due to lower sales volumes and higher share count. The company has 5 year capital investment plan to expand its renewable-generation capacity, add transmission and distribution pipelines and focus on new technology to increase reliability and resilience of its operation. The company's strong liquidity position will enable it to meet its near-term debt obligation. Recently, the utility announced plans to divest the U.K. utility business, to focus on core domestic operations and strengthen balance sheet. Shares of PPL Corp have outperformed the industry in the past three months. However, the company is exposed to risks related to changes in laws and regulations in U.K. Unplanned outages at power plants may increase expenses, lower revenues as well as affect financial performance.

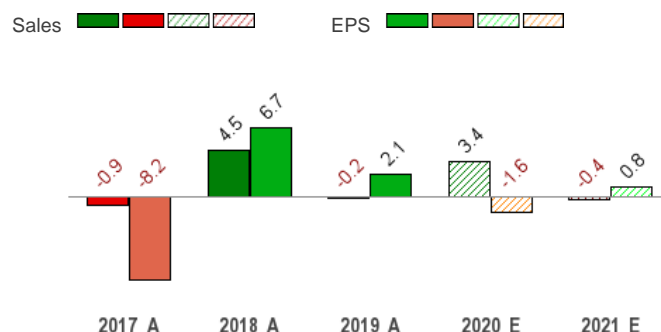
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.83 - \$18.12
20 Day Average Volume (sh)	5,006,289
Market Cap	\$22.4 B
YTD Price Change	-18.8%
Beta	0.73
Dividend / Div Yld	\$1.66 / 5.7%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 26% (186 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	11/03/2020
Earnings ESP	0.3%
P/E TTM	12.1
P/E F1	12.1
PEG F1	NA
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,998 E
2020	2,054 A	1,144 A			8,033 E
2019	2,079 A	1,803 A	1,933 A	1,954 A	7,769 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.73 E	\$0.56 E	\$0.58 E	\$0.58 E	\$2.43 E
2020	\$0.67 A	\$0.55 A	\$0.62 E	\$0.59 E	\$2.41 E
2019	\$0.70 A	\$0.58 A	\$0.61 A	\$0.57 A	\$2.45 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

Allentown, PA-based PPL Corp. is a diversified utility holding company, was founded in 1920. Currently, the company serves more than 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 12,280 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**.

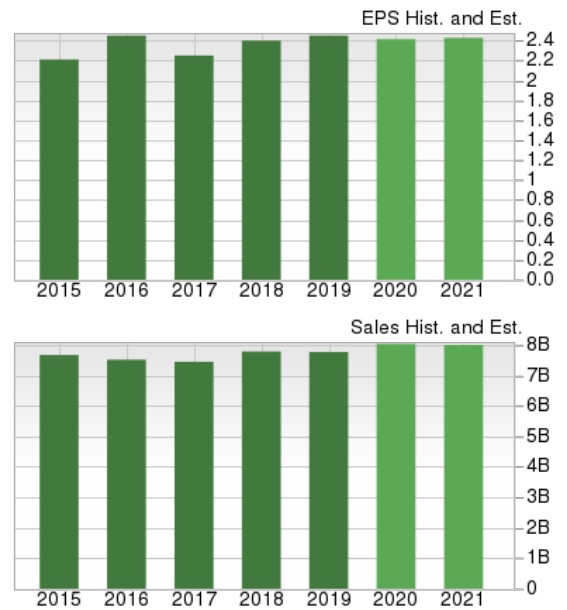
The company has three reportable segments. Kentucky Regulated, U.K. Regulated and Pennsylvania Regulated. The segment earnings details are mentioned below:

Kentucky Regulated: In 2019, this segment generated net income and total operating revenues of \$436 million and \$3.2 billion, respectively. As of Dec 31, 2019, this segment provided services to 1.3 million users scattered across 9,400 square miles of serviceable area.

U.K. Regulated: In 2019 this segment generated net income and total operating revenues of \$977 million and \$ 2.2 billion, respectively. As of Dec 31, 2019, this segment provided services to 7.9 million users in serviceable area covering 21,600 square miles. While this segment has been delivering a strong performance, the company is planning to sell its international operations and focus the domestic business.

Pennsylvania Regulated: In 2019, this segment generated net income and total operating revenues of \$458 million and \$2.4 billion each. As of Dec 31, 2019, this segment provided services to 1.4 million users in 10,000 square miles of serviceable area.

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



Reasons To Buy:

- ▲ PPL Corp. has a strong liquidity position and it will be able to defer capital spending if necessary. The company had liquidity of more than \$4 billion at Jun 30, 2020, which is sufficient to meet its near-term debt obligation.

The company's long-term debt amounted to \$21,098 million in the second quarter, up from \$20,721 million in the fourth quarter 2019. While its times interest earned ratio is at 3.13 in the second quarter, lower than 3.17 fourth-quarter 2019, even then such a strong ratio indicates that the firm will be able to meet debt obligations in the near future without any difficulties. Moreover, shares of the company have rallied 18.9% in the past three months, outperforming the industry's gain of 6.8%.

- ▲ PPL Corporation's capital investment plan primarily focuses on infrastructure construction projects for generation, transmission and distribution. After investing \$29 billion in the past decade, the company is going to invest \$13.8 billion through 2020-2024 of which \$5.9 billion was allocated to the U.K. Regulated segment. The company will make investments to strengthen grid, electricity and gas distribution, electricity transmission and expand renewable generation capacity as well as focus on new technology to serve customers more efficiently. These planned investments will expand rate base from \$29.9 billion in 2020 to \$34.2 billion in 2024 at a CAGR of 4%.

The company's carbon emission reduction target is presently following the objective to meet the below 2-degree Celsius scenario. It plans to reduce carbon emission 80% by 2050 from 2010 levels through introduction of new carbon capture technology and adding more renewable sources in its generation folio.

- ▲ In August, PPL Corp. announced its plans to divest its U.K. utility business. Though Western Power Distribution (WPD) continues to deliver a strong performance, the company believes that this sale and the strategic repositioning of its portfolio to be fully U.S.-base dare expected to boost its shareowner value. The company intends to use the sales proceeds to strengthen its balance sheet and enhance its long-term earnings growth.

Furthermore, this decision will simplify its business mix along with providing greater financial flexibility. Moreover, it will help the company focus on building tomorrow's energy infrastructure and advance toward a cleaner energy future in the United States. Also, with the winding up of the international operations, PPL Corp.'s operations will no more be subject to foreign currency risk.

- ▲ PPL Corp has a long history of dividend payment. On Feb 14, 2020, it announced an increase of its quarterly common stock dividend to 41.5 cents per share. The July 1st dividend payment marked the company's 298th consecutive quarterly dividend payout.

Its current dividend yield is 5.75% compared to industry's average of 3.39%. The strong cash flow generation capacity enables the company to pay consistent dividend to shareholders.

Ongoing capital investments to strengthen infrastructure, divestiture of the U.K. utility, focus on cleaner generation and growth in domestic operation are tailwinds.

Reasons To Sell:

- ▼ Though the company has been executing several pollution-control measures at its power generating facilities, stringent environmental regulations on maintaining clean water is a major concern. The company might have to incur significant costs related to the additional permitting and remediation requirements.

Also, there is an on-going case at the U.S. District Court related to containment of water and the plant's water discharge permit. This is further likely to keep the legal costs and losses of the company high.

Unplanned outages at power plants as well as stringent law and regulations outside the United States are headwinds for PPL Corporation.

- ▼ 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.
 - ▼ The company's businesses are subject to seasonal demand cycles. The company's first quarter earnings decrease driven by lower sales volumes, primarily due to mild weather.
-

Last Earnings Report

PPL Corp Q2 Earnings Lag Estimates, Revenues Fall Y/Y

PPL Corp reported second-quarter 2020 adjusted earnings per share of 55 cents, which missed the Zacks Consensus Estimate of 56 cents by a penny.

The bottom line also declined 5.2% year over year. The results were impacted by lower sales volumes, stemming from the ongoing pandemic and share dilution.

On a GAAP basis, the company generated earnings per share (EPS) of 45 cents compared with 60 cents in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	NA
EPS Surprise	-1.79%
Quarterly EPS	0.55
Annual EPS (TTM)	2.40

Total Revenues

PPL Corp posted revenues of \$1,739 million in the second quarter, which dipped 3.5% year over year.

Segment Results

U.K. Regulated: Adjusted earnings fell 8.3% from the prior-year quarter to 33 cents per share.

Kentucky Regulated: Adjusted earnings were 10 cents, down 23.1% from the year-ago quarter's figure.

Pennsylvania Regulated: Adjusted earnings increased 15.4% from the prior-year quarter's number to 15 cents.

Corporate and Other: The segment reported a loss of 3 cents in the quarter, narrower than a loss of 4 cents in the prior-year quarter.

Operational Highlights

PPL Corp's total operating expenses fell 1.6% year over year to \$1,144 million in the reported quarter.

The company reported operating income of \$595 million, down 7% from \$640 million in the prior-year quarter.

Interest expenses inched up 2.8% to \$253 million from the year-ago quarter's \$246 million.

Financial Position

As of Jun 30, 2020, the company had cash and cash equivalents of \$1,278 million compared with \$815 million as of Dec 31, 2019.

Long-term debt (excluding debts due within a year) was \$21,098 million as of Jun 30 compared with \$20,721 million at the end of 2019.

Net cash provided by operating activities at the end of the first half of 2020 was \$1,299 million compared with \$1,070 million at the end of the first half of 2019.

Guidance

PPL Corp maintained its guidance for 2020 EPS from ongoing operations in the range of \$2.40-\$2.60 with a midpoint of \$2.50, which is higher than the Zacks Consensus Estimate of \$2.42.

However, the company withdrew its 2021 EPS guidance, reflecting company's announced process to sell the U.K. business.

Recent News

PPL Corp Plans to Sell U.K. Utility, Focus on U.S. Operations – Aug 10, 2020

Shares of PPL Corp have gained 6.3% since the company announced plans to sell its U.K. utility business. This rally reflects investors' bullish sentiment about the decision.

The company engaged JP Morgan Securities LLC as its financial advisor to assist in the sale process with an intent to announce a transaction in the first half of 2021. A comprehensive strategic review was conducted by the board of directors that assessed the company's business mix and growth opportunities before taking the final call to proceed with U.K. assets' sell-off process.

Management mentioned that it will be evaluating a variety of offers for the sale of WPD including all cash or a combination of cash and U.S. utility assets.

Valuation

PPL Corporation, shares are down 18.9% in the year to date period, and 0.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 11.8% and 12.2% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 5.5% and sector is down 6.8%, respectively.

The S&P 500 index is up 4.8% in the year to date period and 18.8% in the past year.

The stock is currently trading at 12X of forward 12 months earnings, which compares to 13.94X for the Zacks sub-industry, 12.91X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.09X and as low as 7.45X, with a 5-year median of 13.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 12.77X of our forward 12 months earnings.

The table below shows summary valuation data for PPL

Valuation Multiples -PPL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12	13.94	12.91	22.91
	5-Year High	18.09	15.4	15.29	22.91
	5-Year Low	7.45	11.1	11.32	15.25
	5-Year Median	13.78	13.19	13.73	17.58
P/S F12M	Current	2.79	2.33	2.73	3.7
	5-Year High	3.5	2.45	3.29	3.7
	5-Year Low	1.73	1.54	1.75	2.53
	5-Year Median	2.79	1.9	2.07	3.05
P/B TTM	Current	1.69	1.75	3.75	4.71
	5-Year High	2.75	2.05	4.17	4.71
	5-Year Low	1.04	1.28	2.01	2.83
	5-Year Median	2.03	1.58	2.63	3.74

As of 8/13/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
China Resources Power Holdings Co. (CRPJV)	Outperform	2
Brookfield Infrastructure Partners LP (BIP)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	2
Consolidated Edison Inc (ED)	Neutral	4
Eversource Energy (ES)	Neutral	3
Fortis Inc. (FTS)	Neutral	3
WEC Energy Group, Inc. (WEC)	Neutral	3
The AES Corporation (AES)	Underperform	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PPL	X Industry	S&P 500	CRPJV	ES	WEC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	A	C	C
Market Cap	22.39 B	8.62 B	23.58 B	6.09 B	30.13 B	28.84 B
# of Analysts	3	3	14	1	7	4
Dividend Yield	5.70%	3.40%	1.68%	6.56%	2.58%	2.77%
Value Score	C	-	-	A	D	C
Cash/Price	0.04	0.08	0.07	0.11	0.00	0.00
EV/EBITDA	9.61	9.80	13.34	4.65	15.61	14.73
PEG Ratio	NA	3.48	2.99	NA	3.69	4.14
Price/Book (P/B)	1.72	1.60	3.20	0.55	2.14	2.76
Price/Cash Flow (P/CF)	6.82	7.84	12.83	2.77	12.97	13.99
P/E (F1)	12.08	17.47	21.99	5.49	24.30	24.42
Price/Sales (P/S)	3.16	1.90	2.53	NA	3.52	4.00
Earnings Yield	8.28%	5.72%	4.35%	18.21%	4.12%	4.09%
Debt/Equity	1.62	1.05	0.77	0.80	0.99	1.02
Cash Flow (\$/share)	4.27	4.27	6.94	6.85	6.78	6.53
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	1.65%	5.32%	10.41%	NA	5.32%	6.65%
Proj. EPS Growth (F1/F0)	-1.50%	0.87%	-6.32%	32.06%	4.89%	4.61%
Curr. Cash Flow Growth	7.26%	6.78%	5.20%	14.02%	3.84%	8.12%
Hist. Cash Flow Growth (3-5 yrs)	3.35%	6.02%	8.55%	-0.89%	8.38%	15.13%
Current Ratio	0.63	0.86	1.33	0.51	0.72	0.49
Debt/Capital	61.79%	51.07%	44.59%	44.52%	50.09%	50.54%
Net Margin	24.52%	10.02%	10.13%	NA	13.52%	16.26%
Return on Equity	14.20%	9.02%	14.51%	NA	8.99%	11.36%
Sales/Assets	0.15	0.22	0.51	NA	0.21	0.21
Proj. Sales Growth (F1/F0)	3.39%	0.00%	-1.43%	-0.21%	5.01%	-1.85%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	0.94%	-0.56%	-0.44%	0.00%	0.01%	-0.90%
1 Week Price Chg	1.95%	0.53%	2.30%	4.40%	-1.17%	-0.93%
4 Week Price Chg	12.65%	2.08%	4.38%	4.40%	2.46%	4.19%
12 Week Price Chg	13.31%	7.91%	13.59%	17.21%	11.55%	5.49%
52 Week Price Chg	-0.34%	-8.34%	5.75%	-10.88%	11.56%	0.83%
20 Day Average Volume	5,006,289	316,274	1,984,154	33	1,290,537	1,168,595
(F1) EPS Est 1 week change	-0.41%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.28%	0.00%	2.08%	0.00%	0.01%	0.47%
(F1) EPS Est 12 week change	-0.48%	0.00%	2.66%	12.70%	0.05%	0.54%
(Q1) EPS Est Mthly Chg	5.65%	-0.49%	0.94%	NA	-0.49%	-2.40%

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	C
Growth Score	C
Momentum Score	D
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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