

PPL Corporation (PPL)

\$25.26 (As of 04/15/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

PPL Corp will invest nearly \$14 billion through 2020-2024 and is poised to gain from these investments aimed to strengthen generation, transmission and distribution operation. The company has re-established its hedge levels to offset any near-term decline in GBP. These hedges will help the company perform in the expected lines even if the exchange rate falls below current levels. 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, shares of PPL Corp have underperformed the industry in the past 12 months. 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.

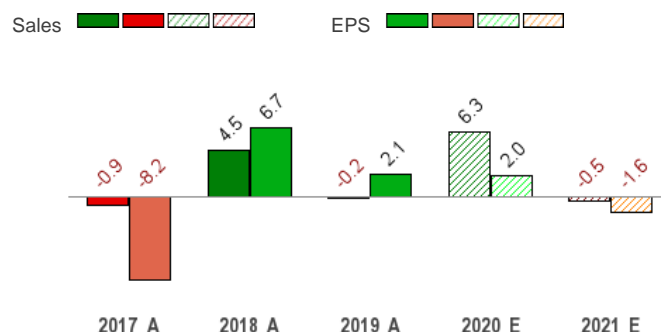
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.83 - \$18.12
20 Day Average Volume (sh)	7,251,775
Market Cap	\$19.4 B
YTD Price Change	-29.6%
Beta	0.82
Dividend / Div Yld	\$1.66 / 6.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 22% (56 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.6%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	10.3
P/E F1	10.1
PEG F1	2.0
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,220 E
2020					8,260 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	\$0.71 E	\$0.57 E	\$0.58 E	\$0.58 E	\$2.46 E
2020	\$0.72 E	\$0.54 E	\$0.56 E	\$0.60 E	\$2.50 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 04/15/2020. The reports text is as of 04/16/2020.

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**.

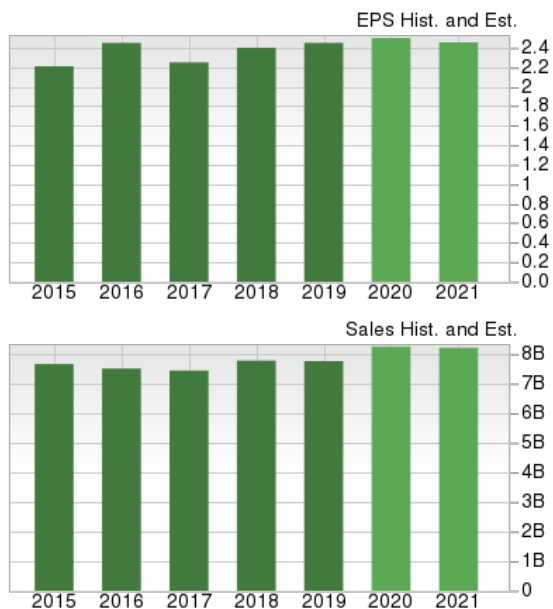
The company has three reportable segments. Kentucky Regulated, U.K. Regulated and Pennsylvania Regulated. The segment earnings details are mentioned below:

Kentucky Regulated – In 2019, total operating revenues in the segment amounted to \$3.2 billion.

U.K. Regulated - In 2019, total operating revenues in the segment amounted to \$ 2.2 billion.

Pennsylvania Regulated - In 2019, total operating revenues in the segment amounted to \$ 2.4 billion.

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



Reasons To Buy:

- ▲ PPL Corp'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 \$500 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. After investing \$29 billion in the past decade, the company is going to invest nearly \$14 billion through 2020-2024. 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.

Based on systematic investments and timely recovery, the company expects to achieve compound annual earnings growth of 4-6% in the long term. These planned investments will expand rate base from \$28.3 billion in 2019 to \$34.2 billion in 2024 at a CAGR of 4%.

The company has raised its carbon emission reduction goal to 80% by 2050 from 2010 levels, up from the previous target of 70%. In Kentucky, the company retired 272 megawatts of coal fired generation at EDW round facility. It has completed construction of the first phase of subscription based solar share program. The second phase is expected to be completed in the second quarter of 2020. These are 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. As of Jan 31, 2020, PPL Corp's foreign exchange exposure related to budgeted earnings was 90% hedged at an average rate of \$1.48 per GBP for 2020 and 5% hedged for 2021 at an average rate of \$1.33 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 November 2019, the company declared a quarterly common stock dividend of 41.25 cents per share, which was paid on Jan 2, 2020. On Feb 14, 2020, it announced an increase of its quarterly common stock dividend to 41.5 cents per share. This marked the company's 296th consecutive quarterly dividend payout. The strong cash flow generation capacity enables the company to pay consistent dividend to shareholders.

Ongoing capital investments to strengthen infrastructure, focus on cleaner generation, growth in domestic operation as well as hedging programs are tailwinds.

Reasons To Sell:

- ▼ In the past 12 months, shares of PPL Corp have lost 18.7% against the industry's gain of 2%. 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 61.47% compared with Zacks S&P 500 Composite's 42.36%. With its current ratio of 0.56, if the business fails to run per expectation, it might face difficulties to service its debts. In 2019, the company's interest expenses increased 3.2% to \$994 million compared with 2018.

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's Q4 Earnings Beat Estimates, Revenues Up Y/Y

PPL Corporation delivered fourth-quarter 2018 adjusted earnings per share (EPS) of 57 cents, which beat the Zacks Consensus Estimate of 53 cents by 7.5%. The figure improved 9.6% year over year, primarily due to higher earnings in the Pennsylvania and Kentucky Regulated segments.

On a GAAP basis, the company generated EPS of 48 cents compared with 57 cents in the year-ago quarter.

In 2019, the company delivered adjusted earnings of \$2.45 per share, up 2% from \$2.40 in 2018.

Total Revenues

PPL Corp posted revenues of \$1,954 million in the fourth quarter, which inched up 0.8% year over year.

In 2019, the company posted revenues of \$7,769 million down 0.2% from \$7,785 million in 2018.

Segment Results

U.K. Regulated: Adjusted earnings increased 9.4% from the prior-year quarter's tally to 35 cents per share. The upside was primarily supported by higher prices and higher pension income.

Kentucky Regulated: Adjusted earnings were 10 cents, down from 11 cents in the year-ago quarter. The decline was primarily caused by higher operation and maintenance expenses, lower sales volumes primarily due to weather, higher depreciation expenses and higher interest expenses.

Pennsylvania Regulated: Adjusted earnings improved 23% from the prior-year quarter's tally to 16 cents. The results benefited from returns on additional capital investments in transmission as well as lower operation and maintenance expenses.

Corporate and Other: The segment reported a loss of 4 cents in the quarter, which was in line with the prior-year quarter's figure.

Operational Highlights

PPL Corp's total operating expenses inched down 1.6% year over year to \$ 1,261 million in the reported quarter.

The company reported operating income of \$693 million, up 5.5% than \$657 million in the prior-year quarter.

Interest expenses inched up 1.2% to \$248 million from the year-ago quarter's tally of \$245 million.

Financial Position

As of Dec 31, 2019, the company had cash and cash equivalents of \$815 million compared with \$621 million as of Dec 31, 2018.

Long-term debt (excluding debts due within a year) was \$20,721 million as of Dec 31, 2019 compared with \$20,069 million at the end of 2018.

Net cash flow from operating activities at the end of 2019 was \$2,427 million compared with \$2,821 million in 2018.

Guidance

PPL Corp announced guidance for 2020 EPS from ongoing operations in the range of \$2.40-\$2.60 with a midpoint of \$2.50, which is lower than the Zacks Consensus Estimate of \$2.54.

The company also updated its 2021 EPS guidance in the range of \$2.40 - \$2.60 per share from the prior range of \$2.50- \$2.80, reflecting lower expected foreign currency exchange rate forecasts.

Quarter Ending **12/2019**

Report Date	Feb 14, 2020
Sales Surprise	NA
EPS Surprise	7.55%
Quarterly EPS	0.57
Annual EPS (TTM)	2.46

Valuation

PPL Corporation, shares are down 29.6% in the year to date period, and 18.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 8.5% and 11.6% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 2% and sector is down 15.3%, respectively.

The S&P 500 index is down 11.2% in the year to date period and 0.3% in the past year.

The stock is currently trading at 10.13X of forward 12 months earnings, which compares to 13.37X for the Zacks sub-industry, 12.5X for the Zacks sector and 18.98X 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 14.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 10.84X 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	10.13	13.37	12.5	18.98
	5-Year High	18.09	15.53	15.39	19.34
	5-Year Low	7.45	11.12	11.38	15.19
	5-Year Median	14.14	13.23	13.82	17.45
P/S F12M	Current	2.35	2.16	2.66	3.16
	5-Year High	3.5	2.45	3.29	3.44
	5-Year Low	1.73	1.54	1.75	2.54
	5-Year Median	2.79	1.88	2.03	3.01
P/B TTM	Current	1.49	1.58	3.24	3.77
	5-Year High	2.75	1.87	4.04	4.55
	5-Year Low	1.04	1.17	2.02	2.84
	5-Year Median	2.05	1.56	2.59	3.64

As of 04/15/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 253)



Top Peers

The AES Corporation (AES)	Neutral
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	D	-	-	D	F	C
Market Cap	19.39 B	7.39 B	19.18 B	29.03 B	12.63 B	33.74 B
# of Analysts	2	2	14	4	2	5
Dividend Yield	6.57%	3.34%	2.24%	3.52%	2.95%	2.67%
Value Score	C	-	-	C	D	D
Cash/Price	0.04	0.05	0.06	0.04	0.00	0.01
EV/EBITDA	8.87	9.65	11.46	10.69	12.43	12.18
PEG Ratio	2.00	3.72	2.08	9.82	3.83	3.82
Price/Book (P/B)	1.41	1.45	2.58	1.59	2.38	2.55
Price/Cash Flow (P/CF)	5.92	7.70	10.15	9.26	10.95	10.29
P/E (F1)	9.98	17.46	17.24	19.63	21.11	23.00
Price/Sales (P/S)	2.50	1.87	1.99	2.31	3.46	2.93
Earnings Yield	9.90%	5.67%	5.64%	5.09%	4.74%	4.35%
Debt/Equity	1.60	1.06	0.70	1.06	1.06	1.31
Cash Flow (\$/share)	4.27	4.27	7.01	9.39	4.70	6.25
Growth Score	D	-	-	D	D	A
Hist. EPS Growth (3-5 yrs)	1.24%	4.77%	10.92%	1.89%	6.44%	5.90%
Proj. EPS Growth (F1/F0)	2.04%	3.03%	-2.92%	1.37%	5.63%	5.91%
Curr. Cash Flow Growth	7.26%	3.60%	5.93%	12.02%	10.43%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	3.35%	5.68%	8.55%	7.14%	6.17%	8.62%
Current Ratio	0.56	0.83	1.24	0.68	0.43	0.68
Debt/Capital	61.47%	51.32%	42.36%	51.49%	50.58%	56.80%
Net Margin	22.47%	10.79%	11.64%	10.69%	15.56%	11.90%
Return on Equity	14.73%	9.86%	16.74%	8.02%	11.52%	10.74%
Sales/Assets	0.17	0.23	0.54	0.22	0.22	0.23
Proj. Sales Growth (F1/F0)	6.32%	0.00%	0.00%	3.02%	0.00%	6.99%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	-4.75%	-2.97%	-3.26%	-2.61%	-3.95%	-2.94%
1 Week Price Chg	22.65%	13.76%	16.01%	12.89%	17.70%	14.54%
4 Week Price Chg	10.74%	10.74%	16.73%	-5.67%	5.17%	4.77%
12 Week Price Chg	-30.16%	-17.96%	-22.44%	-4.60%	-10.82%	-2.88%
52 Week Price Chg	-18.75%	-7.50%	-14.41%	3.66%	12.20%	17.40%
20 Day Average Volume	7,251,775	673,417	3,301,889	2,949,553	2,051,125	4,591,429
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.34%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.70%	-6.78%	-0.34%	0.00%	-0.07%
(F1) EPS Est 12 week change	-1.96%	-1.21%	-9.07%	-1.72%	0.00%	0.39%
(Q1) EPS Est Mthly Chg	-5.26%	0.00%	-11.31%	0.60%	NA	1.03%

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	D
Momentum Score	C
VGM Score	D

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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