

PPL Corporation (PPL)

\$25.59 (As of 05/20/20)

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

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: B

Growth: C

Momentum: C

Summary

PPL Corp reported lower-than-expected results in the first quarter of 2020. It will invest nearly \$14 billion through 2020-2024 to strengthen generation, add renewable assets, as well as enhance transmission and distribution operation. The company has re-established its hedge levels to offset any near-term decline in GBP. Its strong liquidity position will enable it to meet its near-term debt obligation without any difficulties. 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 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.

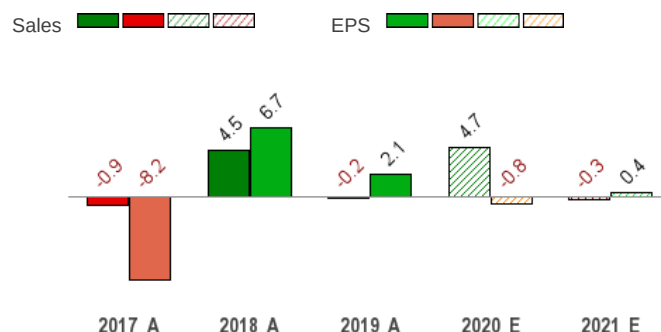
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.83 - \$18.12
20 Day Average Volume (sh)	5,147,100
Market Cap	\$19.7 B
YTD Price Change	-28.7%
Beta	0.74
Dividend / Div Yld	\$1.66 / 6.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 30% (76 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	10.5
P/E F1	10.6
PEG F1	2.1
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,114 E
2020	2,054 A				8,137 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	\$0.70 E	\$0.56 E	\$0.58 E	\$0.58 E	\$2.44 E
2020	\$0.67 A	\$0.54 E	\$0.56 E	\$0.57 E	\$2.43 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 05/20/2020. The reports text is as of 05/21/2020.

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**.

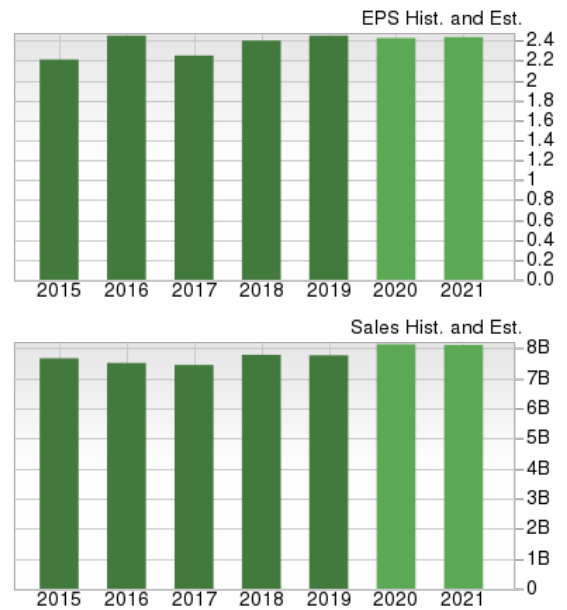
The company has three reportable segments. Kentucky Regulated, U.K. Regulated and Pennsylvania Regulated. The segment earnings details are mentioned below:

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. has a strong liquidity position and it will be able to defer capital spending if necessary. The company had liquidity of \$4.7 billion at Apr, 30, 2020, which is sufficient to meet its near-term debt obligation.

The company's long-term debt amounted to \$20,670 million in the first quarter, down from \$20,721 million in the fourth quarter. Its times interest earned ratio is at 3.3 in the first quarter, higher than 3.2 fourth-quarter 2019. This strong ratio indicates that the firm will be able to meet debt obligations in the near future without any difficulties.

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

- ▲ 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 March 31, 2020, PPL Corp's has hedged 86% of its foreign currency earnings at an average rate of \$1.55 per GBP for remainder of 2020 and 8% hedged for 2021 at an average rate of \$1.32 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 297th 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 14.8% compared with the industry's decline of 7.3%. 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.
- ▼ 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.

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 Q1 Earnings Lag Estimates, Revenues Down Y/Y

PPL Corporation delivered first-quarter 2020 adjusted earnings per share (EPS) of 67 cents, which missed the Zacks Consensus Estimate of 72 cents by 7%.

The figure declined 4% year over year, primarily due to share dilution and lower sales volumes stemming from unfavorable weather in the United States.

On a GAAP basis, the company generated EPS of 72 cents compared with 64 cents in the year-ago quarter.

Total Revenues

PPL Corp posted revenues of \$2,054 million in the first quarter, which declined 1.2% year over year.

Segment Results

U.K. Regulated: Adjusted earnings fell 7.1% from the prior-year quarter's tally to 39 cents per share.

Kentucky Regulated: Adjusted earnings were 16 cents, in line with the year-ago quarter's figure.

Pennsylvania Regulated: Adjusted earnings declined 5.8% from the prior-year quarter's tally to 16 cents.

Corporate and Other: The segment reported a loss of 4 cents in the quarter, which was narrower than a loss of 5 cents in the prior-year quarter.

Operational Highlights

PPL Corp's total operating expenses fell 4.7% year over year to \$ 1,237 million in the reported quarter.

The company reported operating income of \$817 million, up 4.6% \$781 million in the prior-year quarter.

Interest expenses moved up 3% to \$248 million from the year-ago quarter's tally of \$241 million.

Financial Position

As of Mar 31, 2020, the company had cash and cash equivalents of \$915 million compared with \$815 million as of Dec 31, 2019.

Long-term debt (excluding debts due within a year) was \$20,670 million as of Mar 31 compared with \$20,721 million at the end of 2019.

Net cash flow from operating activities at the end of the first quarter of 2020 was \$692 million compared with \$474 million at the end of the first quarter 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 \$2.43.

The company also maintained its 2021 EPS guidance in the range of \$2.40 -\$2.60 with a midpoint of \$2.50, higher than the Zacks Consensus Estimate of \$2.44.

Quarter Ending 03/2020

Report Date	May 08, 2020
Sales Surprise	NA
EPS Surprise	-6.94%
Quarterly EPS	0.67
Annual EPS (TTM)	2.43

Valuation

PPL Corporation, shares are down 28.7% in the year to date period, and 14.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 15.3% and 17.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 7.3% and sector is down 21.8%, respectively.

The S&P 500 index is down 9.2% in the year to date period and up 2.2% in the past year.

The stock is currently trading at 10.154X of forward 12 months earnings, which compares to 12.62X for the Zacks sub-industry, 11.9X for the Zacks sector and 21.33X 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 14.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 11.15X 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	10.54	12.62	11.9	21.33
	5-Year High	18.09	15.53	15.32	21.33
	5-Year Low	7.45	11.12	11.4	15.23
	5-Year Median	14.03	13.23	13.78	17.49
P/S F12M	Current	2.42	2	2.54	3.3
	5-Year High	3.5	2.45	3.29	3.44
	5-Year Low	1.73	1.54	1.75	2.53
	5-Year Median	2.79	1.88	2.04	3.01
P/B TTM	Current	1.48	1.71	3.33	3.99
	5-Year High	2.75	1.94	4.05	4.56
	5-Year Low	1.04	1.21	2.01	2.83
	5-Year Median	2.05	1.57	2.6	3.65

As of 05/20/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
The AES Corporation (AES)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	3
Edison International (EIX)	Neutral	3
Entergy Corporation (ETR)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	3
WEC Energy Group, Inc. (WEC)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PPL	X Industry	S&P 500	ED	LNT	XEL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	D
Market Cap	19.67 B	7.07 B	20.26 B	23.63 B	11.64 B	31.64 B
# of Analysts	2	3	14	4	2	5
Dividend Yield	6.49%	3.60%	2.09%	4.33%	3.26%	2.85%
Value Score	B	-	-	D	D	C
Cash/Price	0.05	0.07	0.07	0.07	0.00	0.01
EV/EBITDA	8.90	9.27	12.22	9.59	11.94	11.59
PEG Ratio	2.12	3.33	2.72	8.11	3.49	3.67
Price/Book (P/B)	1.48	1.48	2.79	1.28	2.12	2.38
Price/Cash Flow (P/CF)	6.00	7.70	10.87	7.53	9.92	9.64
P/E (F1)	10.62	17.36	20.21	16.23	19.36	21.77
Price/Sales (P/S)	2.54	1.80	2.07	1.92	3.26	2.83
Earnings Yield	9.46%	5.69%	4.73%	6.16%	5.17%	4.60%
Debt/Equity	1.56	1.05	0.76	1.10	1.06	1.28
Cash Flow (\$/share)	4.27	4.15	7.01	9.39	4.70	6.25
Growth Score	C	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	1.65%	4.94%	10.87%	1.79%	7.03%	5.69%
Proj. EPS Growth (F1/F0)	-1.02%	1.56%	-10.31%	-0.23%	4.33%	4.85%
Curr. Cash Flow Growth	7.26%	3.90%	5.51%	12.02%	10.43%	7.69%
Hist. Cash Flow Growth (3-5 yrs)	3.35%	5.54%	8.55%	7.14%	6.17%	8.62%
Current Ratio	0.56	0.88	1.29	0.80	0.55	0.51
Debt/Capital	60.95%	50.78%	44.54%	52.27%	50.57%	56.12%
Net Margin	23.68%	10.48%	10.54%	10.53%	17.12%	12.07%
Return on Equity	14.46%	9.54%	16.27%	7.92%	12.03%	10.39%
Sales/Assets	0.17	0.22	0.54	0.21	0.22	0.22
Proj. Sales Growth (F1/F0)	4.73%	0.00%	-2.49%	2.66%	0.00%	4.78%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	0.95%	0.76%	1.89%	-0.20%	0.73%	0.92%
1 Week Price Chg	-6.13%	-3.27%	-4.56%	-5.15%	-4.25%	-4.01%
4 Week Price Chg	1.11%	-2.43%	6.22%	-15.91%	-8.56%	-7.76%
12 Week Price Chg	-23.01%	-17.22%	-11.76%	-19.33%	-19.32%	-11.85%
52 Week Price Chg	-14.84%	-14.88%	-6.30%	-19.17%	-3.73%	2.97%
20 Day Average Volume	5,147,100	475,490	2,611,239	2,144,227	1,485,650	3,458,897
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.76%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.02%	-0.33%	-4.10%	-1.76%	-0.82%	0.65%
(F1) EPS Est 12 week change	-3.77%	-3.68%	-16.63%	-3.24%	-1.23%	-0.97%
(Q1) EPS Est Mthly Chg	0.00%	-0.14%	-9.35%	2.07%	NA	2.55%

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	C
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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