

<b>Company:</b> American Electric Power	<b>Ticker:</b> AEP	<b>Current Price:</b> \$ 83.73	<b>Industry:</b> Utilities	<b>Sub Industry:</b> Electric Utilities
Target Price: \$102.31	TTM P/E: 18.20	Beta: 1.012	Credit Rating: A- (S&P)	Market Cap: \$42.71B
Stop Loss: \$66.97	Forward P/E: 17.02	Rating Outlook: Positive		Avg Vol (3M): 2.56M
52 Week High/Low: \$94.21 / \$ 74.80	EPS: \$4.68			Dividend Yield: 3.66%

#### Company Background:

American Electric Power Company, Inc. (AEP) operated as a public utility holding company. The Company generates, transmits, distributed, and sells electricity to residential and commercial customers. AEP serves customers in the United States. Serving markets in Ohio, Michigan, Indiana, and other midwestern states, American Electric Power (AEP) is one of the largest power generators and distributors in the US. The holding company owns the nation's largest electricity transmission system and distribution lines, comprising a network of more than 227,000 miles. AEP's electric utilities boast 5.4 million customers in about 10 states and has about 21,100 megawatts of largely coal-fired generating capacity, although it is adding renewable sources to its generation portfolio. AEP is also a top wholesale energy company.

#### Industry Outlook:

- Stronger-than-expected residential-customer sales & faster recoveries in commercial and industrial-customer revenue may boost utilities' 2021 aggregated EPS growth above consensus' 2.6%.
- President Joe Biden's infrastructure push could fuel higher spending on clean energy and transmission, boding well for earnings.
- Yield spread may narrow further 2021 but remain above the historical average of about 100bps since 2005. The utilities sector dividend yield could stay in low 3% range and payout ratio around the low 60% area.
- Total industry capital spending on transmission is estimated at \$25 billion a year by Edison Electric Ins.
- 200,000 miles of new transmission would be needed to make the U.S. all renewable.

#### Investment Thesis:

- P/E ratio lower than the utilities industry.
- Safety of margin provided by intrinsic value & high dividend yield.
- Higher EVA spread than its peers. (With 11.19% EVA spread)
- Higher ESG score than its peers and maintain in a good ESG score level.
- EBIT margin improved by cost-control & robust capital spending program.
- 75% institution ownership.

#### Investment Risks:

- Reginal & national economic conditions
- Interest rate
- Plant availability
- The rate of taxes imposed on American Electric Power could change.
- Failure to attract and retain an appropriately qualified workforce could harm results of operations.
- Flooding, expansion storm, extreme wind, severe weather can damage company's equipment.

#### Quick takeaways from last quarter investor call transcript:

- American Electric Power's goal for dividends payout ratio 60% - 70%.
- American Electric Power's deal to sell Kentucky Power, one of its weakest performing units, should boost the corporate balance sheet.
- Also supporting the guidance of 5-7% EPS growth is the strong recovery in sales, now estimated at 2.2% for 2021 vs. 2020, up from 0.2% previously.
- Investing \$5 billion in renewables through 2025.

#### Financial Performance:

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue	16,453.20	16,380.10	15,424.90	16,195.70	15,561.40	14,918.50
Rev. growth %	0.5	-0.4	-5.8	5	-3.9	-4.1
Gross Profit	10,345.00	10,649.80	10,113.10	10,409.20	10,455.30	10,548.80
EBITDA	5,488.20	5,490.50	5,512.00	5,178.90	5,819.70	6,016.30
EBITDA %	33.4	33.5	35.7	32	37.4	40.3
Net Income	1,763.40	1,935.10	1,807.90	1,945.00	2,094.80	2,177.20
Net Income margin	10.7	11.8	11.7	12	13.5	14.6
EPS	3.59	3.94	3.67	3.94	4.23	4.37
ROE	11.79	3.46	10.72	10.3	9.92	10.93
ROA	3.38	0.98	2.98	2.88	2.66	2.81
ROC	6.99	3.06	6.25	6.68	5.83	6.31
ROIC	4.56	2.13	4.66	5.4	5.05	5.14
D/E	113.78	126.12	124.48	131.76	152.5	165.38
Current ratio	0.31	0.26	0.3	0.29	0.23	0.25
P/E ratio	16.23	15.99	20.06	18.96	22.34	19.04
DIV per share	2.15	2.27	2.39	2.53	2.71	2.84
Free Cash Flow	218.5	-390.3	-1,528.90	-1,133.80	-1,873.60	-2,483.10

#### Discounted Cash Flow

Debt ratio	47.56%
Equity ratio	52.44%
Levered beta	1.012
Treasury rate	1.56%
Market risk premia	5.00%
CAPM	<b>6.62%</b>
Cost of debt	2.39%
Size premium	0
Tax rate	7.50%
WACC	<b>4.52%</b>

Buy: 14	Hold: 5	Sell: 1
	Rating	Target
S&P Net Advantage	Hold	\$93
Bloomberg Terminal	N/A	\$95.53
Value Line	Timeliness:3	\$69 - 131

#### Relative Valuation

	Average	AEP	ETR	EIX	XEL	PEG	WEC
Mkt Cap	30.89B	42.26B	20.32B	24.34B	33.80B	31.44B	28.06B
P/E ratio	17.68	18.2	11.46	11.93	21.49	16.66	20.91
DIV yield	44.59%	53.38%	30.02%	38.45%	39.71%	55.10%	74.75%
D/E ratio	159.23%	167.74%	222.68%	171.38%	163.15%	141.99%	132.21%
Revenue	12.25B	15.42B	11.07B	12.32B	11.40B	9.09B	7.65B
Bas EPS	2.72%	6.13%	10.97%	8.47%	6.33%	1.31%	7.34%
EBIT/Net	18.25%	22.85%	12.28%	11.82%	19.49%	15.71%	23.22%
N/I margin	12.19%	11.72%	12.78%	12.91%	10.27%	18.05%	13.03%
Environment Score	4.71	3.24	4.79	6.7	4.91	5.08	4.8
Social Score	4.91	5.14	5.44	4.84	5.9	2.75	5.27

#### ESG Score

ESG Score	AEP	Industry Avg.
ESG Disclosure Score	57.36	52.96
Governance Disclosure Score:	73.21	66.85
Social Disclosure Score	51.56	52.78
Environmental Disclosure Score	54.14	49.46

Prepared by Ronald Feng (Nov 9, 2021) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance