

American Electric Power Ticker: AEP Sector: Utilities Industry: Electric Utilities	Intrinsic Value: \$56.59 Current Price: \$47.04 Stop Loss: \$40.10 Upside Review: \$65.08	TTM P/E: 19.8 Forward P/E: 14.17 FV Imp. P/E: 21.47 Beta: 0.44	Market Cap: \$22.92BN Dividend Yield: 4.3% 52 Wk Range: \$40.56 - \$51.60
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Industry Trends: AEP is in the electric utility business where firms operate or lease coal, natural gas, oil, or nuclear fired power plants to generate and distribute electricity to customers. Excess power is traded back to the grids for additional revenues streams in competitive markets. Highly sensitive to commodities prices and interest rates many business lines are highly reregulated and utilities often operate on very tight margins. Rising natural gas prices may increase margins for coal fueled plants while lower gas prices may allow room for CAPEX. Aging infrastructure and cheap gas prices are shifting the focus to natural gas fired plants, while renewable fuels sources are also receiving attention. Extreme temperature swings and population growth are all factors that influence revenue for utilities.

Investment Thesis: Among the electric utilities AEP has demonstrated consistent dividends and earnings growth coupled with positive free cash flow to the firm. 95% of their business comes from regulated electricity markets providing stable and predictable earnings. Recent cost cutting measures have boosted EPS and management supports 4 – 6% earnings CAGR through 2016. Several billion dollar transmission and environmental investments will boost future earnings. AEP increased its dividend by 4.3% in April and another 2% in October reflecting its commitment to deliver profits to shareholders. AEP offers a solid dividend yield with price upside from transmission and environmental investments its stability and future growth prospects make it a strong buy.

Business Overview: AEP is a holding company that provides electric utility services to customers in 11 states. Their services include the generation, transmission, and distribution of electricity to wholesale and retail customers. Their generation mix is 60% coal, 23% natural gas, and 5% nuclear. As a compliment to their utility business AEP is also engaged in energy trading and transportation of dry bulk commodities such as coal.

Pros:

- Future growth prospects in transmission and environmental investments support 4 - 6% earnings growth exceeding the 2016 guidance timeframe
- Cost cutting measures, consistent dividend increases, and regulated business lines ensure growth and stability
- Higher natural gas prices will raise margins for coal generators in competitive markets

Risk Factors:

- Rising interest rates may inhibit AEP's ability raise capital and can cause investors to favor bonds over utilities
- Fluctuating energy prices and environmental concerns may pose problems for business model
- Government regulation and transition from regulated markets to competitive pricing increases competition

Total Return Estimates:

3 Yr FV Reversion*: 13.9%
5 Yr FV Reversion*: 11.7%
 (* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth: 4.00%
 WACC: 4.83%
 Expected Inflation: 3.00%
 Terminal Growth Rate: 3.00%
 10 yr. Risk Free Rate: 2.82%
 Equity Risk Premium: 5.9%
 Effective Tax Rate: 30.32%

Key Financial Data:

Est. 2013 EPS: \$2.38
 Est. 2014 EPS: \$2.92
 PEG (TTM): 3.71

Credit Quality: BBB

ROE: 8.42%

ROA: 2.36%

Price /Book: 1.45

Current Ratio: 0.67

Quick Ratio: 0.36

CSR Scores vs. Industry Average:

Human Rights: 1 / 0
 Business Ethics Policy: 1 / 1
 ESG Disclosure: 43.02 / 34.27
 Equal Opportunity: 1 / 1
 Emission Reduction: 1 / 1
 Environmental Disclosure Score: 28.28 / 27.36

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5 year stock performance



US Utility Companies Sales					
Company	Symbol	Price	Change	Market Cap	P/E
Exelon Corporation	EXC	28.67	0.00	24.56B	15.33
American Electric Power Co., Inc.	AEP	47.04	0.00	22.92B	19.80
FirstEnergy Corp.	FE	38.12	0.00	15.94B	51.58
Edison International	EIX	49.47	0.00	16.12B	215.09
Dominion Resources, Inc.	D	64.09	0.00	37.11B	149.39
Southern Company	SO	41.02	0.00	35.85B	22.27
Public Service Enterprise Group Inc.	PEG	33.82	0.00	17.11B	13.53
PG&E Corporation	PCG	42.32	0.00	18.98B	25.95
Consolidated Edison Inc.	ED	58.41	0.00	17.11B	17.03
CenterPoint Energy, Inc.	CNP	24.41	0.00	10.46B	55.48