

# American Electric Power Company, Inc.

US Satellite\*

Recommended since 24.10.2023

07.03.2024



<b>Country</b> US	<b>Market capitalization (bn)</b> USD 44.3	<b>Perf. since reco. (%)</b>
<b>Sector</b> Utilities	<b>Free float</b> 99.9% American Electric Power Company, Inc	12.3
<b>Factset</b> AEP-US	<b>Closing price</b> USD 83.92	<b>Sector</b> 6.4
<b>ISIN</b> US0255371017	<b>ESG Risk score*</b> 23.9 Medium risk	

**Profile**  
 American Electric Power is one of the largest utilities in the United States, founded in 1906. The company serves more than 5 million customers and has c. 32 GW of installed capacity (including 8 GW of merchant, i.e. non-regulated, in the process of disposal) and 40,000 miles of electric transmission and distribution lines in Ohio, Indiana, Michigan and Texas. The group is based in Ohio and employs c. 17,000 people.

**Strengths/opportunities**

- ⊕ Mainly regulated revenue base, i.e. predictability
- ⊕ Solid Investment Grade balance sheet (BBB+)
- ⊕ Dividend yield and growth plan

**Weaknesses/threats**

- ⊕ Sector inversely correlated to long-term rates, in the short-term
- ⊕ Leveraged balance sheet, consistent with the business model
- ⊕ Coal-fired generation still accounts for 10.5% of incomes.

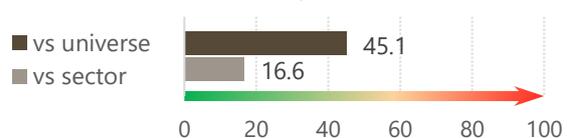
**Investment case**

- ⊕ The Utilities sector was the worst performer in the US market over the year, underperforming the S&P500 by 32%. This is linked to the strong recovery in sovereign rates, which we believe are at their peak, and more recently to the fall in gas prices. The business model of the main US utilities is essentially regulated, providing good visibility on revenues, linked to the generation and/or Transmission & Distribution (T&D) asset base, and leading to balance sheet structures that are more leveraged than average. In the short term, their stock market performance is inversely proportional to rising long-term interest rates in particular.
- ⊕ AEP is a major U.S. utility in terms of capitalization and installed generation capacity (32 GW), with a BBB+ (solid Investment Grade) credit rating, expected annual earnings growth of c. 7% over 2024-27e and an average dividend yield of 4.3% for 2024e. Its investment plan (\$43 billion over 2023-2027) is one of the largest in the sector, relative to its current asset base. More recently, the case has taken on a speculative touch with Carl Icahn's acquisition of a stake at the end of 2023, the allocation of two seats on the Board of Directors in mid-February, and the announcement of the departure of CEO Julie Sloat (replaced ad interim by Ben Fowke, Board member and ex-CEO of XEL). Without giving the stock any speculative value yet, we set a price target of \$93, or 16x EPS 2024e.

**Valuation**

The stock trades on a fwd PE of 14.8x, against a 10-year average of 17.6x and a low of 13.6x at the end of 2023. Over the medium-to-long term, AEP is a proxy for the sector, with over/underperformance leverage correlated to its growth profile.

**ESG risk vs. universe & sector (percentile)\***

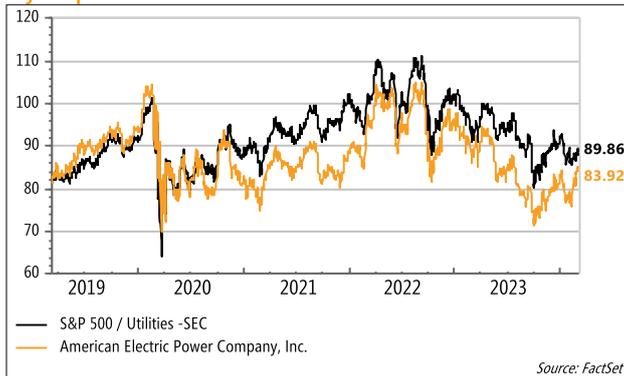


USD	12/2023	2024e	2025e
Sales revenue (mio)	19 000	20 480	21 291
Sales growth	-1.6%	7.8%	4.0%
EBIT adjusted (mio)	#N/A	4 796	5 196
% of sales	#N/A	23.4%	24.4%
Net income (mio)	2 208	2 914	3 151
Net income growth	-4.3%	32.0%	8.1%
FCF/Sales	-4.2%	-3.4%	-8.6%
Net debt/Ebitda	5.8x	5.4x	5.6x
Dividend yield	4.2%	4.3%	4.6%
PE	19.1x	15.0x	14.1x
P/BV	1.7x	1.6x	1.5x

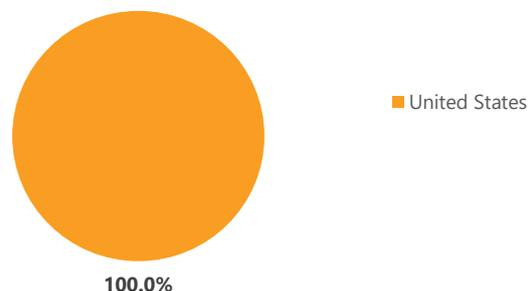
**ESG - risks and key points**

- ⊕ AEP is more exposed than average to ESG risks, due to its power generation activities, which are still partly carbon-based (47% of the installed base is coal-fired).
- ⊕ However, risk governance is considered to be strong, enabling the company to reduce its risk score to 'medium'.
- ⊕ The Group is committed to a decarbonization plan and is aiming for zero net emissions by 2045. Renewable capacity will increase by 15 GW by 2032, with coal falling to 19% by 2035e.

**5-year performance vs sector**



**Sales breakdown - 12/2022**



\*: see overleaf

Source: Factset, Sustainabilitycs

# Glossary

## Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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