



### COMPANY UPDATE / ESTIMATE CHANGE

#### Key Metrics

AEP - NYSE (Price as of 7/28/17)	\$70.43
Price Target	NA
52-Week Range	\$72.97 - \$57.89
Shares Outstanding (mm)	491.0
Market Cap. (\$mm)	\$34,581
3-Mo. Average Daily Volume	2,563,000
Institutional Ownership	68.0%
Debt/Total Capital (6/30)	54.5%
ROE (ttm)	10.4%
Book Value/Share	\$35.02
Price/Book Value	2.0x
Indicated Dividend / Yield	\$2.36 3.4%
Dividend Cycle	March, June, Sept., Dec.

#### EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$3.94	\$3.68	\$3.64		\$3.88
P/E	17.9x		19.3x		18.2x
Payout	60%		65%		61%

Note: Figures exclude non-recurring items

#### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$16,370	--	\$15,210	--	\$15,465

**Company Description:** American Electric Power is one of the largest electric utilities in the United States, delivering electricity to nearly 5.4 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 31,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 40,000-mile network that includes more than 765-kilovolt extra-high voltage transmission lines, more than all other U.S. transmission systems combined. Generation sources: Coal 60%, Natural Gas/Oil 23%, Nuclear 5%, Other 12%.

## American Electric Power

AEP -- NYSE -- Neutral -- 2

### Company reports solid second quarter earnings and reaffirms 2017 guidance

#### Investment Highlights

- **AEP reported second quarter operating earnings of \$0.75 per share versus \$0.95 per share in 2016's second quarter.** Earnings were below expectations of \$0.86 per share. However, comparisons are different this quarter because of the sale of AEP's competitive generation assets and greater focus on regulated operations. The company also experienced milder than normal weather in the quarter. Moreover, through the first six months of 2017 earnings have been negatively impacted by \$0.12 per share from weather. Total normalized sales increased by 0.7% in the second quarter. A strong 4.0% increase in industrial sales offset declines in both residential and commercial sales.
- **Management reaffirms 2017 guidance.** AEP continues to expect this year's earnings to be in a range of \$3.55 to \$3.75 per share. Earnings are anticipated to be lower than last year's due to dilution from the competitive generation asset sale announced in third-quarter 2016. AEP expects earnings to grow by a 5% to 7% annual rate with 2017 as the base. This future growth is expected to come from ongoing significant capital investments in its core regulated utility businesses. We are trimming our 2017 EPS estimate of \$3.68 to \$3.64 and maintaining our 2018 EPS estimate of \$3.88.
- **Company announces new major wind project.** On July 26, AEP announced a major clean energy project, Wind Catcher Energy Connection, that will provide nearly 9 million megawatt-hours of new wind energy annually to its customers in Arkansas, Louisiana, Oklahoma and Texas. Total investment for the project will be \$4.5 billion. We believe the project could potentially be a major long-term earnings driver.
- **We maintain our Neutral rating on AEP as we believe the stock is fairly valued.** We continue to believe AEP has an increasingly positive long-term fundamental outlook. In our view, AEP is a good utility that will be able to deliver consistent earnings and dividend growth.

**Note Important Disclosures on Page 2 - 3.**

**Note Analyst Certification on Page 2.**

**Suitability**

We assign a suitability rating of 2 to American Electric Power. The bulk of AEP's earnings are regulated, which provides earnings consistency. Moreover, the company is in the process of exiting its competitive generation business, which should reduce risk. Also, we note the company has paid dividends continuously for over 100 years. We view AEP as a suitable holding for utility investors seeking both capital appreciation and rising dividends.

*Additional information is available upon request.*

**Analyst Certification**

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

**Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
	# of	% of		
<u>Rating</u>	<u>Stocks Covered</u>	<u>Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.