



**Electric Utilities**

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COMPANY UPDATE / ESTIMATE CHANGE

FE - NYSE (Price as of 7/31/17)	\$31.91
Price Target	NA
52-Week Range	\$34.96 - \$27.93
Shares Outstanding (mm)	444.0
Market Cap. (\$mm)	\$14,168
3-Mo. Average Daily Volume	4,670,000
Institutional Ownership	73.0%
Debt/Total Capital (6/30)	61.0%
ROE (ttm)	4.1%
Book Value/Share	\$27.02
Price/Book Value	1.2x
Indicated Dividend / Yield	\$1.44 4.5%
Dividend Cycle	March, June, Sept., Dec.

**EPS FY 12/31**

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$2.63	\$2.75	\$2.80		\$2.55
P/E	12.1x		11.4x		12.5x
Payout	55%		51%		56%

Note: Figures exclude non-recurring items

**Revenue (\$mm)**

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$14,562		\$14,475	--	\$14,365

**Company Description:** FirstEnergy is a diversified energy company based in Akron, Ohio. The company operates one of the nation's largest investor-owned electric systems with more than 24,000 miles of transmission lines that connect the Midwest and Mid-Atlantic regions, along with a diverse generating fleet with a total capacity of more than 17,000 megawatts. The company has over six million customers and operates in six states. Fuel Sources: Coal 65%, Nuclear 24%, Natural Gas 7%, Renewable 3%, Other 1%.

**FirstEnergy**

FE -- NYSE -- Neutral -- 3

**Company posts solid second quarter results; FE moving forward with FES separation plans**

**Investment Highlights**

- **FirstEnergy reported second quarter operating earnings of \$0.61 per share versus \$0.56 per share in 2016's second quarter.** Earnings were slightly above the consensus estimate of \$0.60 per share. Both the company's regulated distribution and regulated transmission businesses posted higher year-over-year earnings while the competitive energy services segment experienced a decline. Despite the milder than normal weather, FE's distribution and transmission businesses benefitted from rate increases. The competitive energy services unit saw a significant decline in earnings primarily due to lower capacity revenues and lower contract sales, partially offset by increased wholesale sales and lower capacity expense.
- **Management reaffirmed 2017 operating earnings guidance of \$2.70 to \$3.00 per share.** We are raising our 2017 EPS by \$0.05 to \$2.80. Our lower 2018 EPS estimate of \$2.55 is due to the planned exit of FES.
- **The company's planned exit from its FirstEnergy Solutions merchant generation business is moving forward.** Management is beginning discussions with creditors of First Energy Services about seeing if an agreement can be reached to potentially avoid a lengthy bankruptcy proceeding. However, the parties may or may not reach some type of settlement. FirstEnergy remains committed to exiting the merchant generation business completely to focus on its traditional core regulated operations.
- **We maintain our Neutral rating on FirstEnergy.** While we believe FE's plans to exit the merchant generation business are prudent, there continues to remain uncertainty as to how it occurs. Longer term, we expect FirstEnergy's outlook to improve.

**Note Important Disclosures on Pages 2 and 3.  
Note Analyst Certification on Page 2.**

**Suitability**

We assign a 3 suitability rating to FirstEnergy. While the company has a core regulated utility business that generates typically solid results, it also currently has a merchant generation business that has negatively impacted earnings in recent years. As a result, we believe FE's current earnings outlook is less attractive than that of the average utility. However, FirstEnergy is committed to exiting the merchant generation business, which could enhance both the company's balance sheet quality and future long-term earnings outlook. In our view, FE is appropriate for utility investors who can accept an added degree of risk.

*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.

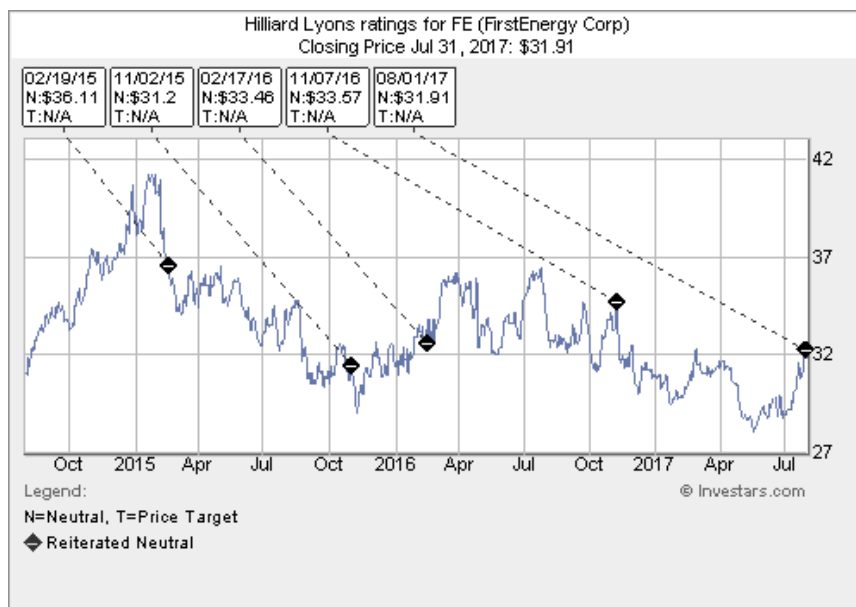
**Suitability Ratings**

**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



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

As of 7 July 2017

**Other Disclosures**

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