



Electric Utilities

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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

FE - NYSE (Price as of 2/22/17)	\$30.79
Price Target	NA
52-Week Range	\$36.60 - \$29.33
Shares Outstanding (mm)	431.0
Market Cap. (\$mm)	\$13,270
3-Mo. Average Daily Volume	4,003,000
Institutional Ownership	73.0%
Debt/Total Capital (12/31)	61.0%
ROE (ttm)	4.1%
Book Value/Share	\$27.02
Price/Book Value	1.1x
Indicated Dividend / Yield	\$1.44 4.7%
Dividend Cycle	March, June, Sept., Dec.

EPS FY 12/31

	2015	2016A	Prior 2017E	Curr. 2017E
1Q	--	--	--	--
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$2.71	\$2.63	\$2.67	\$2.75
P/E	11.4x	11.7x		11.2x
Payout	53%	55%		52%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2015	2016A	Prior 2017E	Curr. 2017E
1Q	--	--	--	--
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$15,026	\$14,562	--	\$15,125

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 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 fourth quarter results and revises 2017 guidance

Investment Highlights

- **FirstEnergy reported fourth quarter operating earnings of \$0.38 per share versus \$0.58 per share in 2015's fourth quarter.** Earnings were modestly below the consensus estimate of \$0.40 per share. For the full year, FE earned \$2.63 per share compared to \$2.71 per share in 2015. Both the company's regulated distribution and regulated transmission businesses posted higher year-over-year earnings contributions. FE's regulated distribution business generated \$651 million in net income in 2016 versus \$588 million in 2015. The regulated transmission unit saw net income of \$331 million compared to \$328 million in 2015. Also, FE recorded an impairment charge of over \$9 billion with its competitive energy business that it plans to exit.
- **Management revised 2017 earnings guidance to a range of \$2.70 to \$3.00 per share from \$2.55 to \$2.85 per share, previously.** However, the increase is due primarily to lower depreciation and amortization expense associated with the impairment charge. We believe the earnings from the core utility business this year will be between \$2.55 to \$2.60 per share.
- **Company continues its plans to exit the merchant generation business.** FirstEnergy has sold some of its assets already but others may prove more difficult to sell. The company continues to review its options but remains committed to exiting the sector by mid-2018.
- **We maintain our Neutral rating on FirstEnergy.** While we are encouraged by the company's transition to a fully regulated model, we believe there are still risks associated with the process. Yet, we feel the company's longer term fundamental outlook is improving due to its new strategy. In addition, the stock offers an attractive 4.7% dividend yield.

**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 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 quality and future 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.

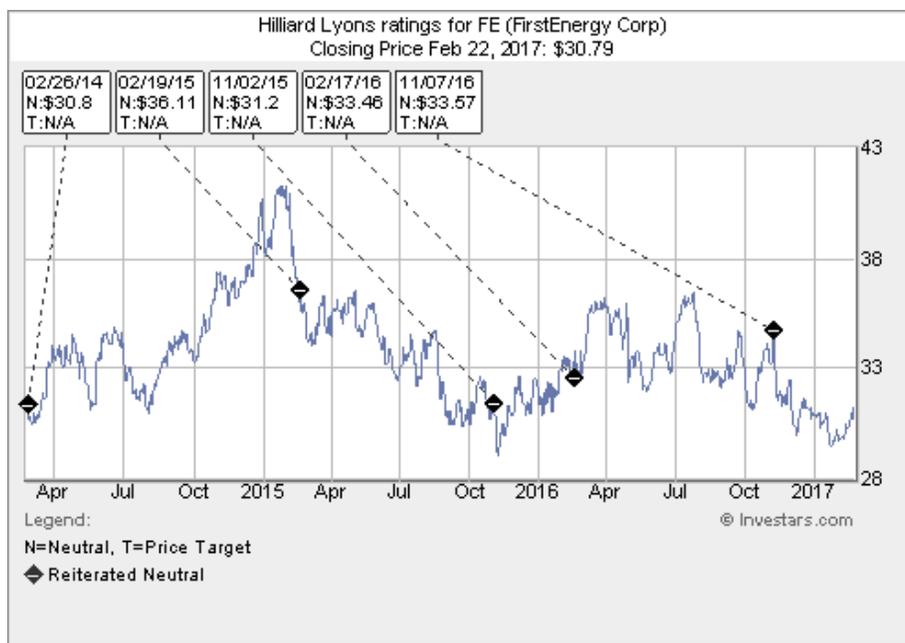
Suitability Ratings

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



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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