



Electric Utilities

Analyst: David Burks
502.588.8648 / DBurks@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W. L. Lyons, LLC
May 1, 2017

COMPANY UPDATE

Key Metrics

FE - NYSE (Price as of 4/28/17)	\$29.94
Price Target	NA
52-Week Range	\$36.60 - \$29.33
Shares Outstanding (mm)	443.0
Market Cap. (\$mm)	\$13,263
3-Mo. Average Daily Volume	4,284,000
Institutional Ownership	73.0%
Debt/Total Capital (3/31)	61.0%
ROE (ttm)	4.1%
Book Value/Share	\$27.02
Price/Book Value	1.1x
Indicated Dividend / Yield	\$1.44 4.8%
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		\$2.55
P/E	11.4x		10.9x		11.7x
Payout	55%		52%		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		\$14,525

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 solid first quarter results; merchant generation exit uncertainty persists.

Investment Highlights

- **FirstEnergy reported first quarter operating earnings of \$0.78 per share versus \$0.80 per share in 2016's first quarter.** Earnings were modestly above the consensus estimate of \$0.74 per share. Both the company's regulated distribution and regulated transmission businesses posted higher year-over-year earnings contributions while the competitive energy services segment experienced a decline. Despite the milder winter 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.
- **Management reaffirmed 2017 operating earnings guidance of \$2.70 to \$3.00 per share.** We are maintaining our 2017 EPS of \$2.75 and are initiating a 2018 estimate of \$2.55. We believe the earnings from the core utility business this year will be between \$2.55 to \$2.60 per share.
- **The company's planned exit from its merchant generation issue remains the biggest near-term issue for FE.** While the company's goal is to exit this business completely by mid-2018, there remains considerable uncertainty as to how the issue is ultimately resolved, both from a potential liability and timeline perspective. FE is awaiting the results of legislation and a study by the Department of Energy before making its next moves.
- **We maintain our Neutral rating on FirstEnergy.** While we believe FE's plans to exit the merchant generation business are prudent, there remains much uncertainty as to how and when it plays out. 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



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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.