



Electric Utilities

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COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

FE - NYSE (Price as of 10/27/17)	\$32.30
Price Target	NA
52-Week Range	\$27.93 - \$34.83
Shares Outstanding (mm)	444.0
Market Cap. (\$mm)	\$14
3-Mo. Average Daily Volume	3,783,000
Institutional Ownership	73.0%
Debt/Total Capital (9/30)	61.0%
ROE (ttm)	4.1%
Book Value/Share	\$27.02
Price/Book Value	1.2x
Indicated Dividend / Yield	\$1.44 4.4%
Dividend Cycle	March, June, Sept., Dec.

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$2.63	\$2.80	\$3.03	\$2.55	\$2.59
P/E	12.3x		10.7x		12.5x
Payout	55%		48%		55%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$14,562		\$14,365	--	\$14,125

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 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 third quarter results & raises 2017 guidance; FES exit process continues

Investment Highlights

- **FirstEnergy reported third quarter operating earnings of \$0.97 per share versus \$0.90 per share in 2016's third quarter.** Earnings were above the consensus estimate of \$0.86 per share. Both the company's regulated distribution and regulated transmission businesses posted higher year-over-year earnings while the competitive energy services segment, FirstEnergy Solutions (FES), posted flat results. Though the company's service territory experienced milder than normal weather, FE's distribution and transmission businesses benefitted from rate increases. The competitive energy services unit remains under pressure from lower contract sales.
- **Management raised 2017 earnings guidance to a range of \$3.00 to \$3.10 per share.** FirstEnergy's previous earnings guidance was a range of \$2.70 to \$3.00 per share. FE raised guidance primarily due to an improved short-term outlook for FirstEnergy Solutions (FES). We are raising our 2017 EPS estimate by \$0.23 to \$3.03. Our 2018 EPS estimate goes to \$2.59. The 2018s estimate excludes a contribution from FES.
- **The company's planned exit from its FirstEnergy Solutions merchant generation business is moving forward.** Management indicated discussions with creditors of FirstEnergy Solutions have been ongoing since September. The company hopes to reach an outcome that would avoid FES filing for bankruptcy. FE will focus on its core regulated utility operations.
- **We maintain our Neutral rating on FirstEnergy.** While we believe FE's plan to exit the merchant generation business is prudent, there remains uncertainty as to how it occurs. Longer term, we still 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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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