**Business Overview:** AEP is a holding company that provides electric utility services to customers in 11 states. Their services include the generation, transmission, and distribution of electricity to wholesale and retail customers. Their generation mix is 60% coal, 23% natural gas, and 5% nuclear. As a compliment to their utility business AEP is also engaged in energy trading and transportation of dry bulk commodities such as coal.

**Pros:**
- Future growth prospects in transmission and environmental investments support 4 - 6% earnings growth exceeding the 2016 guidance timeframe
- Cost cutting measures, consistent dividend increases, and regulated business lines ensure growth and stability
- Higher natural gas prices will raise margins for coal generators in competitive markets

**Risk Factors:**
- Rising interest rates may inhibit AEP’s ability to raise capital and can cause investors to favor bonds over utilities
- Fluctuating energy prices and environmental concerns may pose problems for the business model
- Government regulation and transition from regulated markets to competitive pricing increases competition

**Total Return Estimates:**
- 3 Yr FV Reversion*: 13.9%
- 5 Yr FV Reversion*: 11.7%
- (* - From limit order price of $00.00)

**Key Valuation Assumptions:**
- Est. Revenue Growth: 4.00%
- WACC: 4.83%
- Expected Inflation: 3.00%
- Terminal Growth Rate: 3.00%
- 10 yr. Risk Free Rate: 2.82%
- Equity Risk Premium: 5.9%
- Effective Tax Rate: 30.32%

**Key Financial Data:**
- Est. 2013 EPS: $2.38
- Est. 2014 EPS: $2.92
- PEG (TTM): 3.71
- ROE: 8.42%
- ROA: 2.36%
- Price /Book: 1.45
- Current Ratio: 0.67
- Quick Ratio: 0.36

**CSR Scores vs. Industry Average:**
- Human Rights: 1 / 0
- Business Ethics Policy: 1 / 1
- ESG Disclosure: 43.02 / 34.27
- Equal Opportunity: 1 / 1
- Emission Reduction: 1 / 1
- Environmental Disclosure Score: 28.28 / 27.36

**Prepared By:** George Cerwinski on Nov 5, 2013