

US Utilities & Clean Tech

PowerPoints: AEP CEO & results, AES LT guidance, and PEG 4Q

Industry Overview

AEP: Unexpected CEO change after Icahn Board seats

Ahead of announcing 4Q23 earnings, American Electric Power (AEP) announced an “involuntary termination” of its CEO, shortly after Icahn Capital L.P. (Icahn Group) took two Board seats – [see background here](#). Current Board of Directors member and former Xcel Energy (XEL) CEO/Chairman Ben Fowke is assuming the interim CEO role. AEP’s Board release stated that “now is the right time to make this leadership decision” after conducting detailed conversations with the prior CEO Julie Sloat who worked at the company for 23 years and was CEO for just 13 months. Sloat will remain with AEP through April 8th; however, the 10K is signed by Ben Fowke as the principal executive officer rather than Sloat. We expect shares of AEP to react positively to the update after the multiple regulatory missteps the company has had with optimism about improved execution. We maintain Neutral on shares of AEP which are trading approximately at fair value as we see multiple challenges to the long-term EPS growth profile.

AEP: 4Q23/FY23 misses as FY24+ guidance reaffirmed

AEP reaffirmed its \$5.53-\$5.73 FY24 adjusted EPS versus \$5.60 Consensus, despite the -\$0.04 lower starting point (\$5.25 actual vs \$5.29 guidance midpoint) in the drivers with significant changes just since EEI. Corporate is now expected to be +\$0.06 YoY vs -\$0.01 previously due to +\$0.11 O&M savings. \$1.23 4Q23 adjusted EPS missed \$1.26 Consensus. \$0.64 4Q23 GAAP excluded -\$0.35 fuel disallowance, -\$0.15 Turk impairment, -\$0.04 severance charges, -\$0.04 FERC disallowances, -\$0.03 New Mexico impairment, +\$0.09 accumulated deferred income tax regulatory liability, +\$0.03 unregulated renewables sale. \$5.25 FY23 adjusted EPS versus \$5.24-\$5.34 revised and \$5.19-\$5.39 initial guidance. AEP reaffirmed its 6-7% EPS CAGR and all relevant long-term financial guidance. 13.2% FY23 FFO / debt, a meaningful improvement QoQ from 11.4% 9/30/23 TTM but low in the 13-14% guidance range provided last quarter. Management reaffirmed its 14-15% 2024 and long-term credit metric target.

AES: Boosts LT EPS/EBITDA guide; cuts dividend growth

AES Corp (AES) introduced \$1.87-1.97 2024 adjusted EPS guidance, a beat vs \$1.89 BofA/Consensus. FY24 \$2.6-2.9Bn adjusted EBITDA was initiated, +2% YoY growth at the midpoint and a miss vs \$3.0Bn BofA. \$3.55-\$3.95Bn adjusted EBITDA with tax credits is comparable with \$3.8Bn BofA/Consensus. Critically, AES raised the long-term EPS growth rate target to a range of 7-9% from 6-8% through 2027. The target EBITDA growth rate was also raised to a range of 5-7% from 3-5% through 2027. Conversely, AES now expects to grow the dividend 2-3% annually after 2024 as mgmt. indicated a larger pool of investment opportunities. This compares to historical growth of ~6% annually and mgmt.’s prior target of 4-6% annually. While we expect the stock to react well to management’s revised growth expectations, we maintain our Neutral rating on shares of AES which trade at a balanced risk-reward profile.

27 February 2024

Equity
United States
Utilities & Clean Tech

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FFO: Funds from operations
O&M: Operating and maintenance
OPEB: Other post-employment
benefits
MW: Megawatt | GW: Gigawatt
MtM: Mark-to-market
LT: Long -term

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AEP: No longer pursuing some small sales. EPS comparison

AEP is no longer pursuing the sale of its non-core Prairie Wind & Pioneer and Transource transmission joint ventures a cautious development as we had anticipated accretive, albeit small transactions. Management expects Prairie Wind & Pioneer to contribute \$0.01 EPS and \$0.03 EPS in FY24. The retail and distribution resources sales are described in the final stages, albeit seemingly delayed. AEP now expects 2Q24 process conclusion vs a 1Q24 announcement and 1H24 financial close.

Exhibit 1: AEP 2023 EPS Drivers – 2023 guidance vs actuals

Unregulated outperformance allowed AEP to achieve FY23 guidance

2023 EPS Drivers	Nov '22	Feb '24	Delta
FY22	\$5.02	\$5.09	\$0.07
Vertical Utilities	\$0.20	-\$0.09	-\$0.29
T&D Utilities	\$0.06	\$0.14	\$0.08
TransCo	\$0.19	\$0.11	-\$0.08
Generation	-\$0.24	\$0.09	\$0.33
Corp & Other	\$0.06	-\$0.09	-\$0.15
FY23	\$5.29	\$5.25	-\$0.04

Source: Company Filings

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Exhibit 2: AEP 2024 EPS Drivers – 2024 guidance vs revised guidance

2024 guidance includes a new +\$0.11 parent O&M reduction

2024 EPS Drivers	Nov '23	Feb '24	Delta
FY23	\$5.29	\$5.25	-\$0.04
Vertical Utilities	\$0.32	\$0.38	\$0.06
T&D Utilities	\$0.24	\$0.20	-\$0.04
TransCo	\$0.05	\$0.08	\$0.03
Generation	-\$0.26	-\$0.34	-\$0.08
Corp & Other	-\$0.01	\$0.06	\$0.07
FY24	\$5.63	\$5.63	\$0.00

Source: Company Filings

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In 2023, within generation +\$0.33, there was +\$0.15 renewables, +\$0.07 wholesale, and +\$0.12 retail. In general we view regulated earnings as having a higher value than unregulated earnings, particularly in this case given AEP's planned and pending at the time asset sale plans

AES: Positive Uplight & bookings news.4Q beat on taxes

Uplight solid (related party) mark-to-market

In the 10K, AES disclosed that its ownership interest in Uplight is declining to ~25% from 29.4% following Schneider Electric transaction with Uplight. Schneider Electric paid \$40Mn and contributed AutoGrid business in return for the ~4pp stake increase. While a related party transaction, this implies at least a \$1.0Bn value for Uplight at 100% (~4% for \$40Mn) without attributing value to AutoGrid. This is a favorable mark-to-market for AES indicating at least \$250Mn for its stake that we do not believe is contributing EPS or EBITDA today (likely a drag on EPS at a minimum). On balance, adds to credibility for further nimble asset sale raises over time.

Backlog seasonally shrinks in 4Q but a strong 4Q for originations

The backlog declined QoQ to 12,300MW from 13,138MW as there was 2,200MW completed in the quarter, implying a solid +~1,400MW net originations since the 3Q23 update from ~1,900MW new signings.

4Q23 adjusted EPS strong, seemingly on ~\$50Mn taxes (~\$0.07)

AES reported \$0.76 4Q23 adjusted EPS, a beat vs both \$0.69 BofA/\$0.68 Consensus, which appears to be driven by higher than expected tax credits. For 4Q23 EBITDA, AES reported \$1.16Bn including tax attributes of \$542Mn. This compares to our estimate of \$1.21Bn, including tax attributes of \$492Mn. Results for the quarter included a \$559Mn impairment loss, bringing FY23 impairment losses to \$877Mn – most of which were previously incurred through 9/30/23. Impairments for 4Q23 include \$198Mn at Warrior Run coal plant, \$139Mn at New York Wind, \$103Mn at AES Clean Energy, and \$88Mn at Mong Duong coal plant. AES reached an agreement to cancel the Warrior Run power purchase agreement in exchange for future aggregate payments of \$357Mn through 2030. AES also reached an agreement to sell its entire 51% stake in the Mong Duong plant during 2023 and recognized fair value of the asset of \$413Mn as of Dec. 2023 vs. the prior carrying value of \$575Mn.

[AES: Debating valuation, catalysts, and more. Can AES catch the datacenter halo? 14 February 2024](#)

PEG: FY24 guide and long-term capex reiterated

Public Service Enterprise Group (PEG) reported \$0.54 4Q23 operating EPS, a slight beat versus \$0.53 BofA/\$0.52 Consensus. EPS attributable to Public Service Electric and Gas (PSE&G) declined to \$0.59 from \$0.70 in the prior-year quarter as expected given lower pension income and OPEB credits, as well as O&M timing and higher depreciation and financing expense not yet reflected in rates, partially offset by growth in T&D investment. At PSEG Power & Other, drag improved to -5c from -6c prior due to stronger energy margin, offset by lower capacity revenues and weaker pension income and OPEB credits. For FY23, weather-normalized electric sales declined 1% YoY while gas sales rose 4%.

PEG affirmed its \$3.60 to \$3.70 2024 EPS guidance and long-term EPS CAGR of 5-7%. Long-term capital spending still expected to be \$18-21Bn from 2024 to 2028, driving rate base CAGR of 6-7.5% - both consistent with the January 2024 update. PSE&G recently filed a \$462Mn electric rate increase request and a \$364Mn natural gas rate increase (+12% residential bill increase for customer with both electric & gas service) with the New Jersey Board of Public Utilities (BPU), raising concern with some investors weary of regulatory as an emerging “macro” concern for the space, yet we see headroom to rates given the company’s below-average electric bill wallet share and region-leading gas bill wallet share. Additionally on the regulatory front and as expected, the zero emission certificate (ZEC) program is rolling off as the BPU did not award any ZECs for the period June 2024 to May 2028. This could provide further customer savings (approximately \$200Mn in PEG customer savings) that could partially offset the large rate base increase requested by PEG. PEG discussed this on its 4Q23 earnings call as a favorable affordability driver. When asked about the recent rate case outcomes for its peers, PEG management described them as constructive outcomes and evidence that the New Jersey regulatory construct is still favorable.

Nuclear hedging disclosures limited given ZEC guidance delay

PSEG provided updated information regarding its nuclear generation and price hedging, with 90-95% of forecasted 30-32 TWh generated in FY24 hedged at an average price of \$38/MWh. This reflects a very modest change from 85-90% of 30-32 TWh generated hedged at \$38/MWh in PSEG’s prior disclosures. However, we were looking for greater visibility to hedging activity for 2025, yet no such information was provided. On the earning call, PEG implied that it has entered into some limited 2025 hedging activity. Management stated that it is still ‘in a waiting game’ for Treasury guidance on the nuclear Production Tax Credit (PTC) guidelines to better inform the hedging practices.

We maintain Buy on PEG given its relatively strong outlook versus the sector and attractive relative valuation.

BofA Global Research Reports

Title: Subtitle

[SunRun: SunRun off to the races; 4Q23 print derisks volume, FY24 run rate cash guide](#)
[Fluence Energy: Contracting concerns: possible explanations for the volatility of late?](#)
[US Utilities & IPPs: PowerPoints: NEE FL, D Datacenters, FE Ohio, WTRG, TA, HE, Bitcoin, & Buffet](#)
[Sunnova Energy: 4Q23 review: messaging misses mark with investors, FY24 numbers likely won't](#)
[Sunnova Energy: NOVA shares tumble on ATM, no paydown on convertible debt; attractive opportunity](#)
[US Utilities & Clean Tech: PowerPoints: PCG Guide up, ETR, D lower pension income, LNG, ORA, CWEN, & OGS](#)
[SolarEdge Technologies: Holding back shipments comes at a cost – Reiterate Underperform](#)

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Exhibit 3: Primary stocks in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEP	AEP US	American Elec Power	US\$ 80.77	A-2-7
AES	AES US	AES Corp	US\$ 15.55	B-2-7
PEG	PEG US	Public Service	US\$ 59.64	B-1-7

Source: BofA Global Research

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Price objective basis & risk**AES (AES)**

Our price objective is \$18 and is based on a sum of the parts analysis applying a blended valuation approach which is the summation of: 1) EV/EBITDA approach for US Renewable Generation using a 10.0x 2025E base for US peers 2.) NPV approach for DevCo using a 13% discount on 5.0GW+ of annual renewables beyond '25, 3.) EV/EBITDA approach for Legacy Southland (US), 4.) NPV for Warrior Run (US) 5.) P/E approach for US Utilities using a 13.4x 2025E base for US peers plus a premium/discount, 6.) EV/EBITDA approach for LATAM non-public subsidiaries, 7.) MTM value of publicly listed LATAM subsidiaries, 8.) Asia Generation is marked to carrying value while the Asian LNG import facility is valued on EPS accretion relative to total build cost. We also credit the company with its investment in Uplight and Fluence.

Risks are: 1) regulatory, legislative, and political changes, 2) international currencies devaluing against the US dollar, 3) changes in value of Fluence (FLNC) subsidiary stock, 4) overall inability to execute on the renewables plan, 5) ability to control costs, 6) financing needs, and 7) tax policies. Upside risk from declining rates & improved commodity backdrop enabling robust divestment values on infra biz. Downside risk principally tied to timely execution of renewable execution ramp.

American Electric Power (AEP)

Our price objective of \$78 is based on sum-of-the-parts (SOTP) analysis. We ascribe a peer forward FY26E P/E multiple (13.6x) with a 1.0x premium for its Texas transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for Ohio. We apply a -3x for ApCo on under-earn and coal securitization risk. We apply -4x at SWEPCO on regulatory execution risk. Elsewhere we apply -2x on earnings lag and below-average jurisdictions. Vertically integrated utilities are assigned a -2x discount on regulatory and execution risks. For the unregulated portion, we apply a 3.5x discount to the legacy energy supply and marketing business and an 8x premium to the contracted renewables business to reflect sale aspirations. Risks to achievement of the price objective are 1) regulatory outcomes are less favorable than expected, which could result in reduced return on equity (ROE), 2) large capital intensive projects are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate risk to fund their business, which affects cost of capital, 5) uncertainty around announced asset divestitures versus guidance expectations, 6) volatility in volume of electric sales, 7) other adverse regulatory, political, or similar actions.

Public Service Enterprise Group (PEG)

Our \$66 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (14.2x) and gas (14.2x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply a +10% premium to PSE&G Utility due to increasing comfort with the growth outlook in a favorable jurisdiction. PSE&G Utility offering low-risk transmission & distribution (T&D)

profile. The Power business is valued at a 14% 2025 free cash flow yield. The other businesses and corporate drag are valued using a discounted P/E versus utility assets.

Upside/downside risks to achievement of our price objective are: 1) regulatory/political/legislative outcomes, 2) changes in capital expenditures relative to forecasts, 3) nuclear incidents and natural disasters, 4) equity and capital markets needs, cost and timing adjustments for offshore wind developments, 5) ability to earn the regulated rate of return, 6) inflation, 7) interest rates, and 8) pension returns.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith

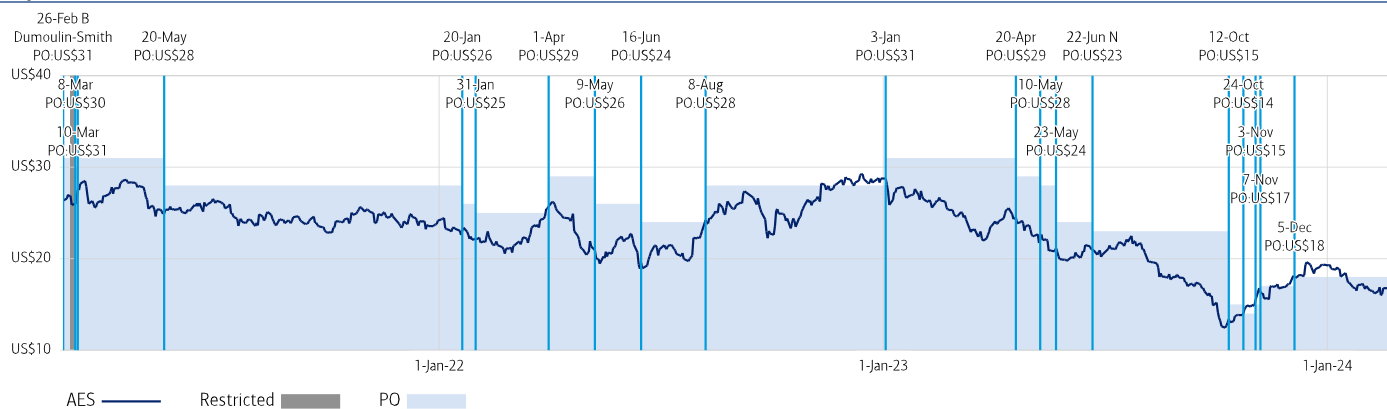
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	New Fortress Energy	NFE	NFE US	Cameron Lochridge

Disclosures

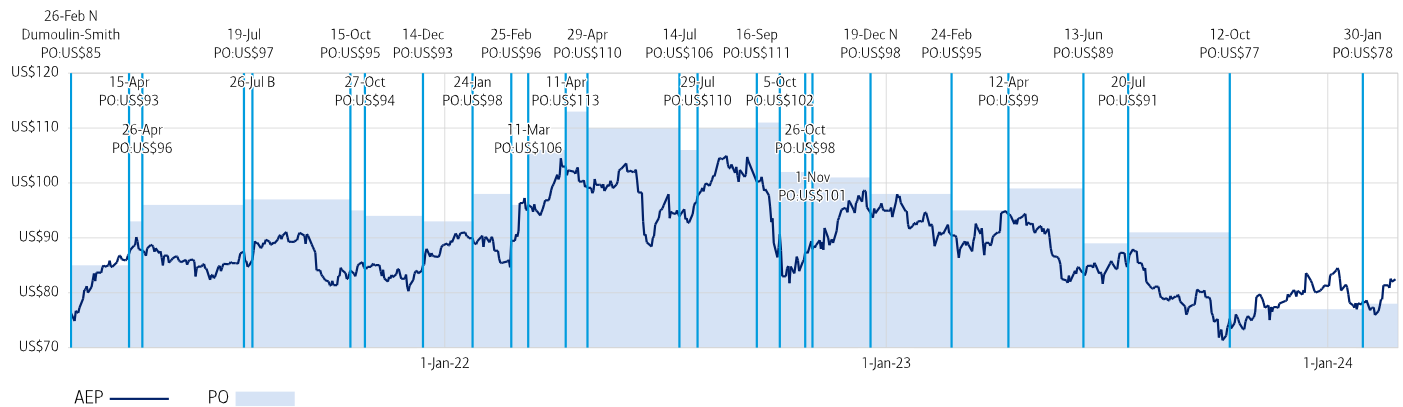
Important Disclosures

AES Corp (AES) Price Chart



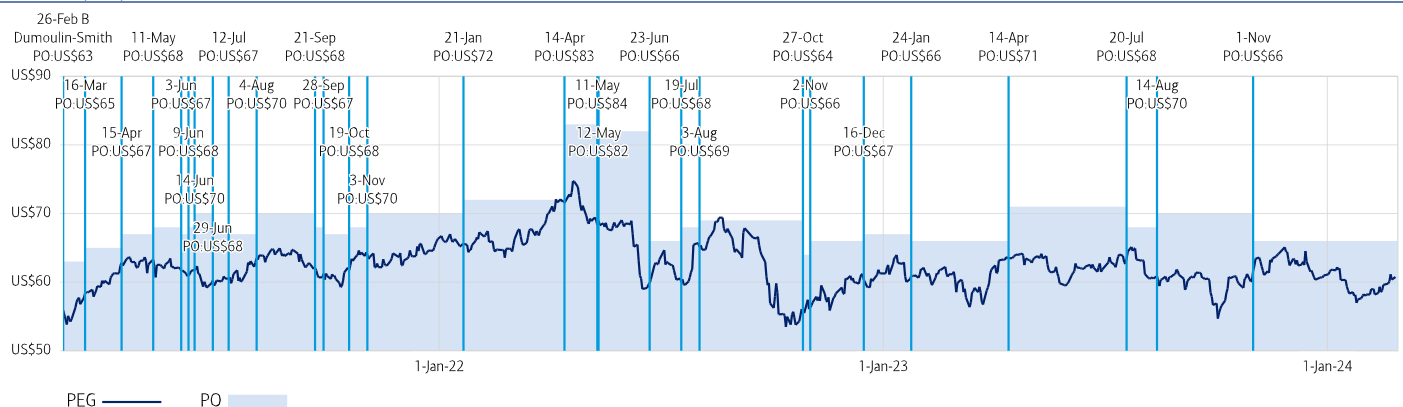
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

American Elec Power (AEP) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Public Service (PEG) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: AES Corp, American Elec Power, Public Service.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: AES Corporation, Amer Elec Power, Public Service.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: AES Corporation, Amer Elec Power, Public Service.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: AES Corporation, Amer Elec Power, Public Service.

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