

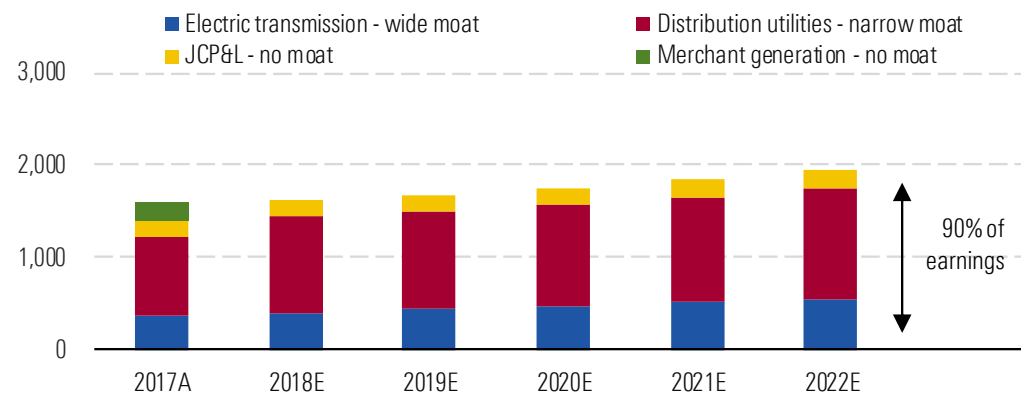
FirstEnergy: Life After FES Bankruptcy

On April 23, then amended on July 31, FirstEnergy announced an agreement to provide payments, assurances, and asset transfers to FirstEnergy Solutions' creditors that we estimate total about \$2.7 billion, matching the amount we had forecast in a [December 2017 report](#) that FirstEnergy shareholders would be on the hook for. With the market converging toward our view on the FES bankruptcy, FirstEnergy's stock has rebounded—total return has outpaced the S&P 500 by 15% since we added the stock to our Best Ideas list at the beginning of the year. But we still think there's about 10% upside left in FirstEnergy shares.

We believe the market fails to fully appreciate the company's ability to invest over \$2.5 billion per year in its wide-moat transmission businesses, which provide an almost guaranteed economic benefit to shareholders, and narrow-moat utilities in constructive state regulatory environments, which together will account for 90% of earnings. We are also seeing improvement in New Jersey regulation that should eventually benefit no-moat Jersey Central Power & Light and allow it to earn closer to its allowed return. We believe solid earnings growth and a growing dividend will be the catalysts for the market valuing FirstEnergy shares more in line with its regulated utility peers with economic moats.

Exhibit 1 Wide- and Narrow-Moat Businesses 90% of Earnings After Separation From Bankrupt FES

Operating earnings, millions USD



Source: FirstEnergy, Morningstar; Note: Operating earnings exclude corporate and other

- The recent agreement with FirstEnergy Solutions allows FirstEnergy to avoid years of litigation separating itself from its bankrupt merchant unit. The company can now focus on accelerating investments in its wide- and narrow-moat businesses that should result in strong earnings growth and put FirstEnergy in position to begin increasing its common dividend.
- Together, wide- and narrow-moat businesses represent roughly 90% of earnings after the separation from bankrupt FirstEnergy Solutions, or FES.
- We expect 2018 consolidated earnings per share to decline almost 20% versus 2017 to \$2.50 per share, due in large part to the loss of FES earnings and approximately \$2.75 billion of additional equity needed to strengthen the company's balance sheet.
- After the EPS decline in 2018, we estimate that a fully regulated FirstEnergy will average annual operating EPS growth of over 5% between 2018 and 2022, driven by transmission businesses growing

Best Ideas

Company and Industry	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)	Analyst
Basic Materials								
Cameco (CCJ)	★★★★	\$17	\$11.04	High	Narrow	0.65	4.39	Inton
Compass Minerals International (CMP)	★★★★	\$83	\$65.4	High	Wide	0.79	2.21	Goldstein
Martin Marietta Materials (MLM)	★★★★	\$265	\$203.52	High	Narrow	0.77	12.82	Inton
Communication Services								
BT Group (BT.A)	★★★★	GBX 360	GBX 229	High	Narrow	0.64	22.72	C. Nichols
China Mobile (941)	★★★★★	HKD 100	HKD 71.85	Medium	Narrow	0.72	1471.16	Baker
Comcast (CMCSA)	★★★★	\$42	\$35.49	Medium	Wide	0.85	162.61	Macker
Telefonica (TEF)	★★★★★	\$13	\$7.47	High	Narrow	0.57	38.79	C. Nichols
Telstra (TLS)	★★★★★	AUD 4.4	AUD 2.84	Medium	Narrow	0.65	33.78	Han
Consumer Cyclical								
Advance Auto Parts (AAP)	★★★	\$157	\$147.79	Medium	Narrow	0.94	10.94	Akbari
Bayerische Motoren Werke (BMW)	★★★★	EUR 117	EUR 84.81	High	Narrow	0.72	55.13	Hilgert
Expedia Group (EXPE)	★★★★	\$185	\$132.74	High	Narrow	0.72	19.84	Wasiolek
General Motors (GM)	★★★★	\$45	\$37.51	High	None	0.83	52.92	Whiston
Great Wall Motor (2333)	★★★★★	HKD 13.5	HKD 4.8	High	None	0.36	66.92	Su
Hanesbrands (HBI)	★★★★★	\$27	\$18.78	Medium	Narrow	0.70	6.77	Hottovy
InvoCare (IVC)	★★★★	AUD 17	AUD 14.37	Medium	Wide	0.85	1.58	Ragonese
Mattel (MAT)	★★★★	\$21.5	\$15.61	High	Narrow	0.73	5.37	Katz
Norwegian Cruise Line Holdings (NCLH)	★★★★	\$69	\$50.95	High	Narrow	0.74	11.28	Katz
Walt Disney (DIS)	★★★★	\$130	\$114.16	Medium	Wide	0.88	169.78	Macker
WPP (WPP)	★★★★	GBX 1500	GBX 1217.5	Medium	Narrow	0.81	15.36	Mogharabi
Consumer Defensive								
G8 Education (GEM)	★★★★	AUD 4	AUD 2.33	High	None	0.58	1.06	James
General Mills (GIS)	★★★★★	\$59	\$45.27	Low	Wide	0.77	26.86	Vora
Imperial Brands (IMB)	★★★★★	GBX 3700	GBX 2974.5	Low	Wide	0.80	28.37	Gorham
Kao (4452)	★★★★	JPY 8800	JPY 8141	Low	Wide	0.93	3968.09	Wei
Mondelez International (MDLZ)	★★★★	\$51	\$42.16	Medium	Wide	0.83	61.83	Lash
PepsiCo (PEP)	★★★★	\$123	\$113.7	Low	Wide	0.92	160.81	Vora
Procter & Gamble (PG)	★★★★	\$97	\$81.41	Low	Wide	0.84	202.52	Lash
Reckitt Benckiser Group (RB.)	★★★★	GBX 7300	GBX 6879	Low	Wide	0.94	48.61	Gorham
Energy								
Cenovus Energy (CVE)	★★★★	\$21	\$12.92	Very High	None	0.62	15.88	Gemino
Enbridge (ENB)	★★★★	\$64	\$47.26	Medium	Wide	0.74	81.07	Gemino
Enterprise Products Partners (EPD)	★★★★	\$35.5	\$29.51	Low	Wide	0.83	64.21	Ellis
Royal Dutch Shell (RDS.B)	★★★★	\$78	\$67.74	Low	None	0.87	277.13	Good
Total (TOT)	★★★★	\$74	\$63.84	Medium	None	0.86	168.48	Good
Financial Services								
Agricultural Bank of China (601288)	★★★★	CNY 4.2	CNY 3.61	High	Narrow	0.86	1253.13	Tan
American International Group (AIG)	★★★★	\$76	\$52	Medium	None	0.68	46.20	Horn
Capital One Financial (COF)	★★★★	\$127	\$97.62	Medium	Narrow	0.77	46.70	Plunkett
Credit Suisse Group (CSGN)	★★★★	CHF 22	CHF 15.24	High	Narrow	0.69	38.86	Scholtz
Invesco (IVZ)	★★★★★	\$38	\$25.49	Medium	Narrow	0.67	10.47	Warren

Best Ideas

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Financial Services (cont.)								
Mitsubishi UFJ Financial Group (8306)	★★★★	JPY 880	JPY 669.5	Medium	None	0.76	8756.18	Wu
Pendal Group (PDL)	★★★★	AUD 11	AUD 8.9	Medium	Narrow	0.81	2.50	Likos
QBE Insurance Group (QBE)	★★★★	AUD 12	AUD 10.28	High	None	0.86	13.96	Ellis
Westpac Banking (WBC)	★★★★	AUD 35	AUD 29.57	Medium	Wide	0.84	100.13	Ellis
Healthcare								
Allergan (AGN)	★★★★★	\$263	\$184.06	Medium	Wide	0.70	62.48	Waterhouse
McKesson (MCK)	★★★★★	\$210	\$123.88	Medium	Wide	0.59	24.75	Lekraj
Medtronic (MDT)	★★★★	\$105	\$91.22	Medium	Wide	0.87	123.30	Wang
Ramsay Health Care (RHC)	★★★★★	AUD 82	AUD 54.8	Medium	Narrow	0.67	11.07	Kallos
Roche Holding (ROG)	★★★★★	CHF 337	CHF 238.6	Low	Wide	0.71	204.56	Andersen
Shire (SHP)	★★★★	GBX 4990	GBX 4498.5	Medium	Narrow	0.90	41.13	Andersen
Industrials								
Allegion (ALLE)	★★★★	\$91	\$82.56	Medium	Wide	0.91	7.84	Bernard
Anixter International (AXE)	★★★★★	\$107	\$72.85	Medium	Narrow	0.68	2.44	Bernard
Beijing Enterprises Holdings (392)	★★★★★	HKD 58	HKD 37.2	Medium	Narrow	0.64	46.95	Song
Brambles (BXB)	★★★★	AUD 11.2	AUD 9.69	Medium	Wide	0.87	15.43	Fleck
CK Hutchison Holdings (1)	★★★★	HKD 118	HKD 88.85	Medium	None	0.75	342.75	Tan
G4S (GFS)	★★★★	GBX 337	GBX 260.1	Medium	None	0.77	4.04	Field
GEA Group (G1A)	★★★★★	EUR 47	EUR 33.67	Medium	Wide	0.72	6.08	Molina
General Dynamics (GD)	★★★	\$220	\$192.57	Medium	Wide	0.88	57.05	Higgins
Grupo Aeroportuario del Pacifico (GAP B)	★★★★	MXN 217	MXN 178.38	High	Wide	0.82	100.07	Higgins
Guangshen Railway (525)	★★★★★	HKD 6.8	HKD 3.94	High	None	0.58	32.57	Song
Johnson Controls International (JCI)	★★★★	\$53	\$37.33	High	Narrow	0.70	34.53	Bernard
KION GROUP (KGX)	★★★★★	EUR 90	EUR 59.76	Medium	Narrow	0.66	7.06	Molina
Royal Philips (PHIA)	★★★★	EUR 42	EUR 38.13	Medium	Narrow	0.91	35.52	Vonk
Sodexo (SW)	★★★★	EUR 110	EUR 95.3	Medium	Narrow	NA	14.13	Field
Stericycle (SRCL)	★★★★	\$86	\$61.58	High	Narrow	0.72	5.29	Young
Real Estate								
AVEO Group (AOG)	★★★★	AUD 2.8	AUD 2.2	Medium	None	0.79	1.28	Sherlock
Sun Hung Kai Properties (16)	★★★★	HKD 153	HKD 121.4	Medium	Narrow	0.79	351.69	Zhong
Welltower (WELL)	★★★★	\$74	\$63.46	High	None	0.86	23.61	Brown
Technology								
Intel (INTC)	★★★★	\$65	\$50.14	Medium	Wide	0.77	231.20	Davuluri
Microchip Technology (MCHP)	★★★★	\$112	\$98.08	Medium	Wide	0.88	23.10	Colello
MYOB Group (MYO)	★★★★	AUD 3.82	AUD 3.05	Medium	Narrow	0.80	1.83	James
ServiceNow (NOW)	★★★★	\$221	\$188.34	Medium	Wide	0.85	33.51	Fitzsimmons
Synaptics (SYNA)	★★★★	\$64	\$48.17	Very High	None	0.75	1.67	Davuluri
TDK (6762)	★★★	JPY 12500	JPY 11240	High	None	0.90	1418.99	Ito
Tencent Holdings (700)	★★★★★	HKD 641	HKD 370	High	Wide	0.58	3523.23	Tam
Utilities								
Dominion Energy (D)	★★★★	\$84	\$71.03	Low	Wide	0.85	46.44	Fishman
Enel (ENEL)	★★★★	EUR 5.7	EUR 4.56	Medium	None	0.80	46.39	Fulop
FirstEnergy (FE)	★★★★	\$41	\$36.3	Low	Narrow	0.89	17.64	Fishman
SCANA (SCG)	★★★★	\$56	\$38.28	Medium	Narrow	0.68	5.46	Miller