

AEP Meeting Note - UW Recommendation

Corporate Structure & Classifications

Primary Ticker (Reference Security): AEP 6.95 12/15/54	Country of Risk: US
Analyst Selected Issuer Equity Ticker: AEP US	BCLASS Level 2: Utility
Corporate Ticker: AEP	BCLASS Level 3: Electric
CAST Parent Equity Ticker: AEP US Equity	BCLASS Level 4: Electric

External Credit Ratings & ESG Scores

Moody's: Baa3 STABLE	MSCI Rating: A	Disclosure Score: 73
S&P: BBB- NEG	MSCI Trend: 0	Bloomberg E Score: 4.0
Fitch: BB+ STABLE	MSCI Industry Score: 6.70	Bloomberg S Score: 4.7
Default Risk: IG2	Sustainalytics Risk Score: 22	Bloomberg G Score: 8.0

Internal Credit Opinion

Fundamental View: Like	ESG Rating: Leading	
Fundamental Trend: Stable	ESG Score: 3	

Investment Thesis:

A transmission-investment pipeline of \$30 billion and the need for 20 gigawatts of generation assets in the next 10 years may support AEP's annual EPS growth goal of 6-7% beyond its 2024-28 plan. The robust five-year capital-spending budget of \$43 billion will likely require equity issuance of over \$3 billion as AEP looks to enhance its balance sheet by sustaining its funds from operations-to-debt target of 14-15%. Meeting growth goals is likely underpinned by boosting earned return on equity of 8.9% in 2Q, making the regulatory strategy a focus for recently appointed CEO Bill Fehrman.

ESG Thesis:

AEP plans to retire ~4.1 GW of coal capacity (~5.2 GW in FY 2022, ~14% of operations) by 2028. Furthermore, it plans to add ~13.9 GW of RE capacity by 2033. The company targets 80% carbon reduction by 2030 (vs. 2005 baseline). However, its plan of adding ~5.1 GW of gas capacity by 2033 may add complexities in mitigating risks tied to carbon regulations as the U.S. aims for a decarbonized power sector by 2035. AEP's efforts to mitigate risks tied to pollution lag those of industry peers.

Internal OW/UW Recommendation - Payment Rank Level:

	Ticker	Payment Rank	Representative ID	Rec	IG Rec	HY Rec	Global Rec
P*	AEP	Jr Subordinated Unsecured	BBG01NC3JTR5	UW			
A1	AEP	Sr Unsecured	BBG01908FZS7	MW			
A2							

Internal Buy/Sell Recommendation – Instrument Level:

	ID	Security Name	Rank	Mty	Yield	OAS	DM	Buy/Sell
P*	YX8136799	AEP 6.95 12/15/54	Jr Subordinated Unsecured	30.2	6.27	262.01	627.22	Add
А3								
A4								
A5								

Bloomberg

A6								
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Entity Level Notching:

	Entity ID	Entity Name	DebtOut(mln)	# Bonds	# Loans	Adjustment
A7	100060	American Electric Power Co Inc	8,514	14	2	-3
A8	100295	AEP Texas Inc	5,868	14		+2
A9						

Approval & Covenants:

Approval Status: Pending	Covenant Compliance: No	
Restricted List Status: Cleansed	Covenant Review Due Date:	
Restricted List Expiration Date: 08-Mar-2024	Covenant Review Frequency:	

Primary & Additional Ticker Mappings:

Ticker Mapping	Purpose	User input
Primary Ticker	Market data source & CORP+CAST CDE upload	AEP 6.95 12/15/2054 Corp
Primary Ticker - Issuer	Issuer level market data source	AEP US
Additional ticker 1	Payment rank recommendation 2	AEP 4.5 08/01/2032 Corp
Additional ticker 2	Payment rank recommendation 3	Additional Ticker
Additional ticker 3	Security level recommendation 2	Additional Ticker
Additional ticker 4	Security level recommendation 3	Additional Ticker
Additional ticker 5	Security level recommendation 4	Additional Ticker
Additional ticker 6	Security level recommendation 5	Additional Ticker
Additional ticker 7	Entity specific adjustment factor 2	AEP US Equity
Additional ticker 8	Entity specific adjustment factor 3	45200Q US Equity
Additional ticker 9	Entity specific adjustment factor 5	Additional Ticker