



Bullish American Electric Trades as Bond Proxy Utility Group Trades Strong

Ticker/Price: AEP (\$89.75)

Analysis:

American Electric Power (AEP) strong setup with shares flagging under 52-week highs and bullish longer-term flow accumulating recently in the February \$92.50 calls, January \$92.50 calls, November \$95 calls, and yesterday the November \$87.50 calls. On 6-24 the January 2021 \$82.50 calls were bought for \$12.10, a \$1.24M buy. AEP shares are back at cloud support and rebounding this week with a breakout over \$92 targeting \$100. MACD is curling back over and nearing a bull cross while RSI is back above 50, ready to run. The \$44.3B utility trades 20.4X earnings, 2.29X book and 12.15X FCF with a 3% yield. AEP sees mid-single digit EPS growth and 3.7% and 3.1% revenue growth the next two years, up from 1.5% in 2019. AEP is undergoing a \$2.2B investment plan announced in 2018 as they revamp infrastructure and expand in wind/solar. The company is reportedly eyeing a \$2B buy of more than 1,485 MW of wind projects in OK. AEP has seen strength in OK and TX but tariffs weighing on sales to industrial customers. Analysts have an average target for shares of \$86.50 with 6 buy ratings and 6 hold. BAML raising their PT to \$98. The firm sees upside optionality from Ohio's HB6 which was passed on 7-17. The bill protects renewable energy purchase agreements as well as allows for bilateral contracts between AEP and another company that would want to enter in a contract for renewables. They also see favorability due to rate changes in the vertically integrated utilities (WV, IN, MI, OK). Short interest is 1.6%. Hedge Fund ownership fell 4.5%. AQR, Energy Income Partners, Brookfield, and Carlson Capital notable holders. The company will present at the EEI conference in November, a key event every year where they layout timelines for upcoming projects

Hawk Vision:



Hawk's Perspective: AEP is a high quality Utility though NEE remains my favorite with the alternative energy exposure.

Confidence Ranking: \$\$