



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

| | |
|----------------------------------|--------------------------|
| AEP - NYSE (Price as of 1/25/18) | \$69.70 |
| Price Target | NA |
| 52-Week Range | \$62.14 - \$78.07 |
| Shares Outstanding (mm) | 491.9 |
| Market Cap. (\$mm) | \$34,222 |
| 3-Mo. Average Daily Volume | 2,619,000 |
| Institutional Ownership | 68.0% |
| Debt/Total Capital (12/31) | 55.5% |
| ROE (ttm) | 10.4% |
| Book Value/Share | \$36.74 |
| Price/Book Value | 1.9x |
| Indicated Dividend / Yield | \$2.48 3.6% |
| Dividend Cycle | March, June, Sept., Dec. |

EPS FY 12/31

| | 2016 | Prior 2017E | Actual 2017 | Prior 2018E | Curr. 2018E |
|--------|--------|-------------|-------------|-------------|-------------|
| 1Q | | -- | | -- | -- |
| 2Q | | -- | | -- | -- |
| 3Q | | -- | | -- | -- |
| 4Q | | -- | | -- | -- |
| Year | \$3.94 | \$3.64 | \$3.68 | \$3.88 | \$3.90 |
| P/E | 17.7x | | 18.9x | | 17.9x |
| Payout | 60% | | 66% | | 64% |

Note: Figures exclude non-recurring items

Revenue (\$mm)

| | 2016 | Prior 2017E | Actual 2017 | Prior 2018E | Curr. 2018E |
|------|----------|-------------|-------------|-------------|-------------|
| 1Q | | -- | | -- | -- |
| 2Q | | -- | | -- | -- |
| 3Q | | -- | | -- | -- |
| 4Q | | -- | | -- | -- |
| Year | \$16,370 | -- | \$16,264 | -- | \$16,125 |

Company Description: American Electric Power is one of the largest electric utilities in the United States, delivering electricity to nearly 5.4 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 31,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 40,000-mile network that includes more than 765-kilovolt extra-high voltage transmission lines, more than all other U.S. transmission systems combined. Generation sources: Coal 60%, Natural Gas/Oil 23%, Nuclear 5%, Other 12%.

American Electric Power

AEP -- NYSE -- Neutral -- 2

Company reports higher fourth quarter earnings and reaffirms 2018 guidance

Investment Highlights

- **AEP reported fourth quarter operating earnings of \$0.85 per share versus \$0.67 per share in 2016's fourth quarter.** Earnings were above expectations of \$0.79 per share and helped by utility rate changes and lower operations and maintenance expense. The company experienced solid year-over-year gains in both core utility operations and its transmission business. For the year, AEP reported \$3.68 per share compared to \$3.94 per share in 2016. While earnings were lower in 2017, this was expected due to the company's sale of its competitive generation assets. The company's core regulated utility assets performed well in 2017 and AEP's transmission business continues to grow. Total normalized Gigawatt sales increased 0.3% in 2017, led by significant strength in industrial sales.
- **Management reaffirms 2018 guidance.** AEP continues to expect this year's earnings to be in a range of \$3.75 to \$3.95 per share. In addition, AEP continues to target a long-term earnings growth rate of 5% to 7%. Growth is expected to come from ongoing significant capital spending in its regulated utility and transmission businesses.
- **A decision on whether to proceed with the Wind Catcher Energy Connection project is expected in April.** This is a potential \$4.5 billion project which would provide nearly 9 million megawatt-hours of new wind energy in Oklahoma, Texas, Arkansas and Louisiana. The company is seeking regulatory approval in each of these states. We believe the project could potentially be a major long-term earnings driver should the company move forward.
- **We maintain our Neutral rating on AEP as we believe it is fairly valued.** Yet we continue to believe AEP has a positive long-term fundamental outlook. In our view, the company is well positioned to deliver consistent earnings and dividend growth. We would maintain positions in the stock.

Note Important Disclosures on Page 2 - 3.

Note Analyst Certification on Page 2.

Suitability

We assign a suitability rating of 2 to American Electric Power. The bulk of AEP's earnings are regulated, which provides earnings consistency. Moreover, the company is in the process of exiting its competitive generation business, which should reduce risk. Also, we note the company has paid dividends continuously for over 100 years. We view AEP as a suitable holding for utility investors seeking both capital appreciation and rising dividends.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

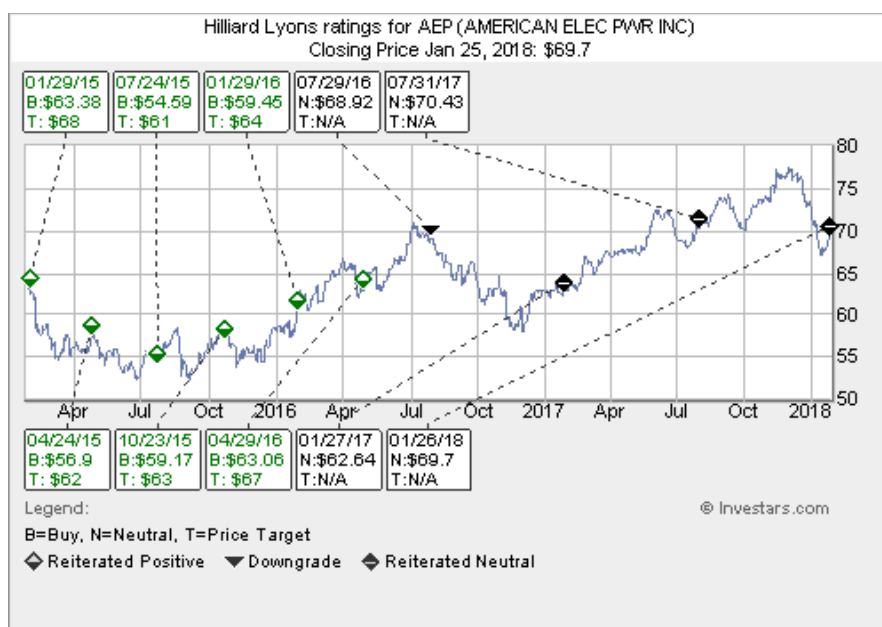
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



| Hilliard Lyons Recommended Issues | | | Investment Banking Provided in Past 12 Mo. | |
|-----------------------------------|---------------------|---------------------|--|------------|
| Rating | # of Stocks Covered | % of Stocks Covered | Banking | No Banking |
| Buy | 31 | 28% | 10% | 90% |
| Hold/Neutral | 75 | 67% | 9% | 91% |
| Sell | 6 | 5% | 0% | 100% |

As of 8 January 2018

Other Disclosures

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