The AES Corporation (AES)

Updated March 3rd, 2025 by Quinn Mohammed

Key Metrics

Current Price:	$12	**5 Year CAGR Estimate:**	22.9%	**Market Cap:**	$8.2 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/01/2025
% Fair Value:	54%	**5 Year Valuation Multiple Estimate:**	13.2%	**Dividend Payment Date:**	05/15/2025
Dividend Yield:	6.1%	**5 Year Price Target:**	$29	**Years of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

The AES (Applied Energy Services) Corporation was founded in 1981 as an energy consulting company. In 1991, AES listed on the NYSE under the ticker symbol AES and then expanded globally in 1992. The corporation now has businesses in 14 countries and a portfolio of approximately 160 generation facilities. AES produces power through various fuel types, such as gas, renewables, coal, and oil/diesel. The company has more than 36,000 Gross MW in operation. In 2024, AES produced $12.3 billion in revenues. It is headquartered in Arlington, Virginia and has a market capitalization of $8.2 billion.

AES Corporation reported fourth quarter results on February 28th, 2025, for the period ending December 31, 2024. Adjusted EPS decreased 26% to $0.54 for Q4 2024, but this still beat analyst estimates by $0.19.

For the full year, AES' adjusted EPS rose 22% to $2.14 from $1.76 in 2023. The company constructed and acquired 3 GW of renewable energy in 2024, as well as constructed a 670 MW combined cycle gas plant in Panama.

Leadership initiated its 2025 guidance, expecting adjusted EPS of $2.10 to $2.26 for the full fiscal year. Additionally, the company reaffirms its expectation it can grow EPS on average 7% to 9% through 2025 from a base year of 2020. It also expects annual EPS growth of 7% to 9% from 2023 through 2027.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Adj. EPS	$1.24	$0.94	$1.08	$1.24	$1.36	$1.44	$1.52	$1.67	$1.76	$2.14	***$2.15***	***$2.88***
DPS	$0.41	$0.45	$0.49	$0.53	$0.55	$0.57	$0.60	$0.63	$0.66	$0.69	***$0.70***	***$0.78***
Shares[1]	667	659	660	662	667	668	667	668	668	713	***715***	***730***

AES has produced decent EPS growth over the long term, but adjusted EPS results have improved at a higher rate in recent years. In the last nine and five years, AES Corporation has increased adjusted EPS by a 6.3% and 9.5% CAGR, respectively.

The company is actively engaged in developing and acquiring new energy projects; it currently has a backlog of nearly 12 GW of renewables. AES expects to complete the majority of these projects over the next three years, but as it continues expanding, new projects could push this date out. To fund attractive growth opportunities, the company is likely to continue issuing equity and debt, and through asset sales. On October 31st, 2024, it closed the sale of 47.3% equity interest in AES Brasil which fetched $630 million of proceeds, and it plans to sell a 30% indirect interest of AES Ohio to CDPQ for $546 million, which it will use to invest in renewables and US utilities. All in all, AES has announced or closed $2.8 billion of its $3.5 billion asset sale target through 2027.

Management targets at least 10% CAGR in US Utilities rate base and is also forecasting 7% to 9% annual adjusted EPS growth through 2027. We see AES growing adjusted EPS at 6% on average over the next five years.

The corporation has grown the dividend ever since it was instated at $0.08 in 2012, for a total of eleven years to date. The dividend has grown 6.3% per year on average since 2015, and 9.5% per year on average in the past five years. AES aims to increase its dividend by only 2% to 3% per year after 2024, as it focuses its capital on investment opportunities

[1] In millions

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and aims to minimizes stock issuance. The dividend appears safe, and we see it growing at 2.0% over the next five years to reach $0.78 in 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.5	12.8	10.5	9.0	9.5	11.8	16.7	14.2	11.7	8.0	***5.4***	***10.0***
Avg. Yld.	1.8%	3.4%	4.0%	4.4%	4.1%	3.4%	2.3%	2.5%	3.3%	4.0%	***6.1%***	***2.7%***

The current PE of 5.4 is extremely undervalued based on AES' historical PE ratio. In the past nine and five years, the average PE was 11.6 and 12.5, respectively. We believe that fair value for AES is approximately 10 times adjusted earnings as the company executes on its growth and expansion strategy. If AES stock trades at 10.0 times earnings in five years, it will benefit from a 13.2% annualized gain due to multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	33%	48%	45%	43%	40%	40%	40%	38%	38%	32%	***33%***	***27%***

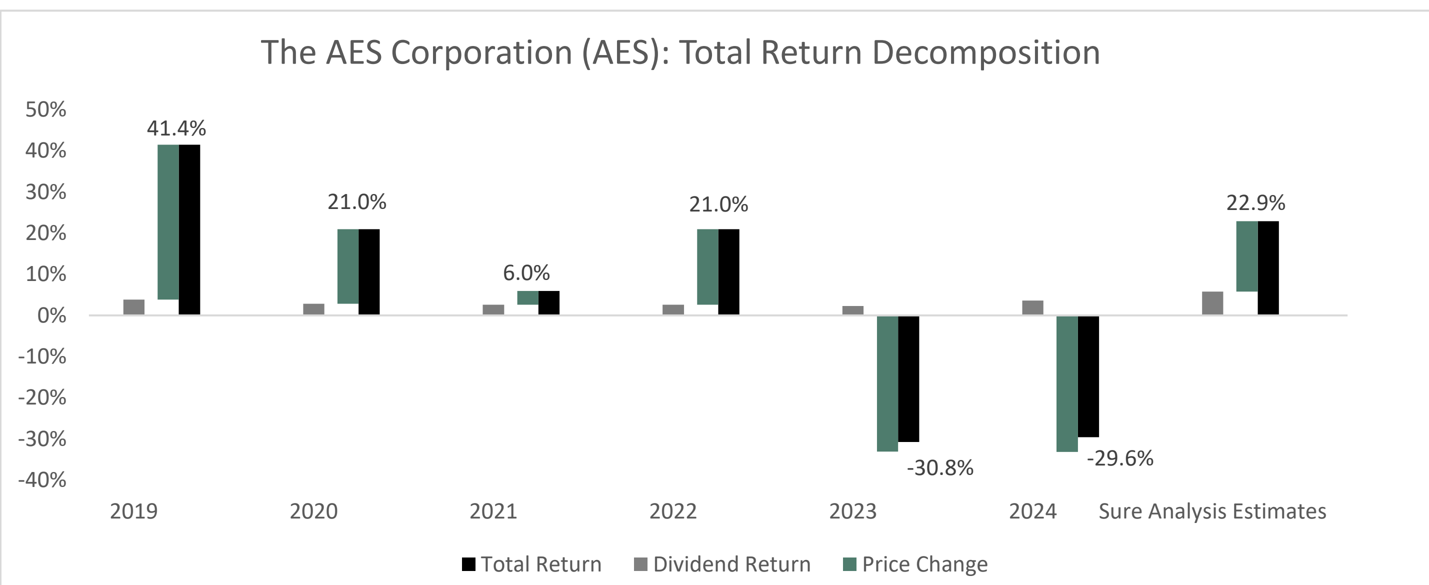
AES' payout ratio has remained fairly stable and is currently well covered. Its payout ratio has never exceeded half of its adjusted earnings, and we see the dividend continuing to grow as it has for the past eleven years.

During the great financial crisis, the AES Corporation's share price fell significantly, however, on an adjusted EPS basis, the company remained quite stable and was not in financial duress. Also, at the time, the corporation had no dividend established and thus no dividend was threatened. Energy is an essential product, regardless of the overall health of the economy. The AES Corporation's competitive advantage is its global presence in 28+ markets and technologically differentiated, customer-centric products, services, and digital packages.

Final Thoughts & Recommendation

The AES Corporation is executing on its solid growth strategy and expanding its renewables energy portfolio. The majority of total returns for AES will come valuation expansion, which is estimated at 13.2% annually. We forecast that AES can achieve annualized total returns of 22.9% over the next five years. This includes a 6.1% yield and 6.0% annualized EPS growth. We are reiterating our buy rating on AES.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	11,260	10,281	10,530	10,736	10,189	9,660	11,141	12,617	12670	12280
Gross Profit	2,663	2,383	2,465	2,573	2,349	2,693	2,711	2,548	2504	2314
Gross Margin	23.7%	23.2%	23.4%	24.0%	23.1%	27.9%	24.3%	20.2%	19.8%	18.8%
D&A Exp.	196	194	215	192	196	165	166	207	1128	1264
Operating Profit	2,467	2,137	2,250	2,374	2,153	2,528	2,545	2,341	2237	2026
Op. Margin	21.9%	20.8%	21.4%	22.1%	21.1%	26.2%	22.8%	18.6%	17.7%	16.5%
Net Profit	1,144	1,176	1,169	1,003	1,045	1,068	1,056	1,053	249	1679
Net Margin	10.2%	11.4%	11.1%	9.3%	10.3%	11.1%	9.5%	8.3%	2.0%	13.7%
Free Cash Flow	306	-1,130	-1,161	1,203	303	46	-409	-546	-4690	-4640
Income Taxes	-174	552	327	222	61	855	-214	-1836	261	59

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	36,470	36,124	33,112	32,521	33,648	34,603	32,963	38,363	44800	47410
Cash & Equivalents	1,257	1,244	949	1,166	1,029	1,089	943	1,374	1426	1524
Goodwill & Int.	2,302	1,421	1,463	1,595	1,479	1,300	1,418	1,799	2591	2292
Total Liabilities	671	622	562	577	487	461	604	1,055	38810	39700
Accounts Payable	1,497	1,444	1,425	1,495	1,528	1,888	2,627	2,203	3173	2571
Long-Term Debt	30,299	30,424	28,267	26,917	28,419	29,883	28,396	33,859	26880	29020
Total Equity	1,571	1,238	1,371	1,329	1,311	1,156	1,153	1,730	1650	3644
LTD/E Ratio	6.38	6.96	8.10	6.01	6.73	7.55	6.68	9.64	10.80	7.96

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.8%	-3.1%	-3.4%	3.7%	0.9%	0.1%	-1.2%	-1.5%	0.6%	3.6%
Return on Equity	8.2%	-38%	-44.2%	42.4%	9.8%	1.6%	-17.8%	-30.7%	4.8%	24.5%
ROIC	1.1%	-4.4%	-4.6%	4.8%	1.2%	0.2%	-1.7%	-2.1%	0.8%	4.8%
Shares Out.	689	660	660	665	667	668	666	668	712	711
Revenue/Share	16.34	15.58	15.95	16.14	15.28	14.46	16.73	18.89	17.79	17.26
FCF/Share	-0.25	0.84	0.50	0.33	0.09	1.28	-0.32	-2.75	-6.59	-6.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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