American Electric Power (AEP)

Updated July 31st, 2025 by Samuel Smith

Key Metrics

Current Price:	$113	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$61 B
Fair Value Price:	$89	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	8/8/25
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	9/10/25
Dividend Yield:	3.3%	**5 Year Price Target**	$119	**Years Of Dividend Growth:**	20
Dividend Risk Score:	D	**Sector:**	Utilities	**Rating:**	Hold

Overview & Current Events

American Electric Power was founded in 1906 and has evolved its business model along with changing technologies to offer customers safe, reliable, and affordable energy. It is one of the largest regulated utilities in the United States and offers electricity generation, transmission, and distribution services in 11 states. Its energy sources are coal, natural gas, renewables, nuclear, and demand response.

On July 30, 2025, American Electric Power Company, Inc. reported its financial results for the second quarter of 2025. American Electric Power (AEP) reported second-quarter 2025 GAAP earnings of $1,226 million or $2.29 per share, compared to $340 million or $0.64 per share in 2024, with operating earnings at $766 million or $1.43 per share, up from $662 million or $1.25 per share. Revenue increased to $5,086.9 million from $4,579.2 million. Year-to-date, GAAP earnings were $2,026 million or $3.80 per share, and operating earnings were $1,589 million or $2.98 per share, compared to $1,343.4 million or $2.55 per share and $1,332.4 million or $2.52 per share in 2024. AEP reaffirmed its 2025 operating earnings guidance of $5.75 to $5.95 per share, now targeting the upper half, and maintained a long-term growth rate of 6% to 8%.

The company plans to announce a new five-year capital plan of approximately $70 billion, following its current $54 billion plan, to meet growing energy needs. Customer agreements secured 24 gigawatts of new load by 2030, up from 21 gigawatts, with peak load expected to exceed 60 gigawatts. CEO Bill Fehrman highlighted the customer-focused strategy, supported by legislative and regulatory advancements, such as the Green Country natural gas plant acquisition and large load tariff approvals. Financial stability was enhanced by a $2.82 billion equity investment and a $2.3 billion forward equity issuance. AEP is advancing transmission projects, including a 765-kilovolt line in Texas and lines in Virginia and West Virginia, to support demand growth and moderate rate increases for existing customers.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.17	$1.24	$3.88	$3.97	$4.19	$4.44	$4.74	$5.09	$5.25	$5.62	***$5.90***	***$7.90***
DPS	$2.15	$2.27	$2.39	$2.48	$2.74	$2.84	$3.00	$3.17	$3.37	$3.57	***$3.72***	***$4.60***
Shares[1]	491.1	491.7	492.0	493.2	494.2	496.6	504.2	513.9	526.2	532.9	***534.6***	***520.0***

One of AEP's major growth drivers moving forward will be its ambitious plans for its renewable power business, as it plans to install 3.9 GW of solar and 4.4 GW of wind power by 2030. A significant sign of its intent to become a major player in the renewable space was its acquisition of Sempra Energy's renewable business, which includes joint ownership of 7 wind farms and 1 battery installation. This deal, combined with the Santa Rita wind project in Texas, will nearly quadruple AEP's renewable portfolio from its current size, with plans to grow it by another four times of its pro-rata size by 2030. The other major growth driver for the company will be its transmission business.

Given its large footprint and execution experience, AEP should be well positioned to capitalize on the aging infrastructure in this space and grow considerably. Management is guiding for a long-term growth rate target of 5%-7%, projecting its confidence in executing on its growth initiatives. While its renewables and transmission programs do seem

[1] In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

ambitious, the company's low ROIC has led to a 10-year earnings-per-share compound annual growth rate in the low single digits. Since the current dividend payout ratio is in the company's long-term payout ratio target range, we assume the dividend will continue to grow. For the next half-decade, we expect 6% annualized growth.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.8	50	17.9	18.6	20.5	19.6	18.1	17.5	14.2	16.5	***19.2***	***15.0***
Avg. Yld.	3.5%	3.7%	3.4%	3.4%	3.2%	3.3%	3.5%	3.6%	4.5%	3.8%	***3.3%***	***3.9%***

Given the choppiness of AEP's earnings, and in particular, the abnormal results in 2016, the ten-year average price-to-earnings ratio is not necessarily a good indicator of fair value for this company. However, other than the 2016 outlier, we can see that its current multiple is on the low end of its historical valuation range. Given that interest rates are elevated right now, we view it as trading above fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

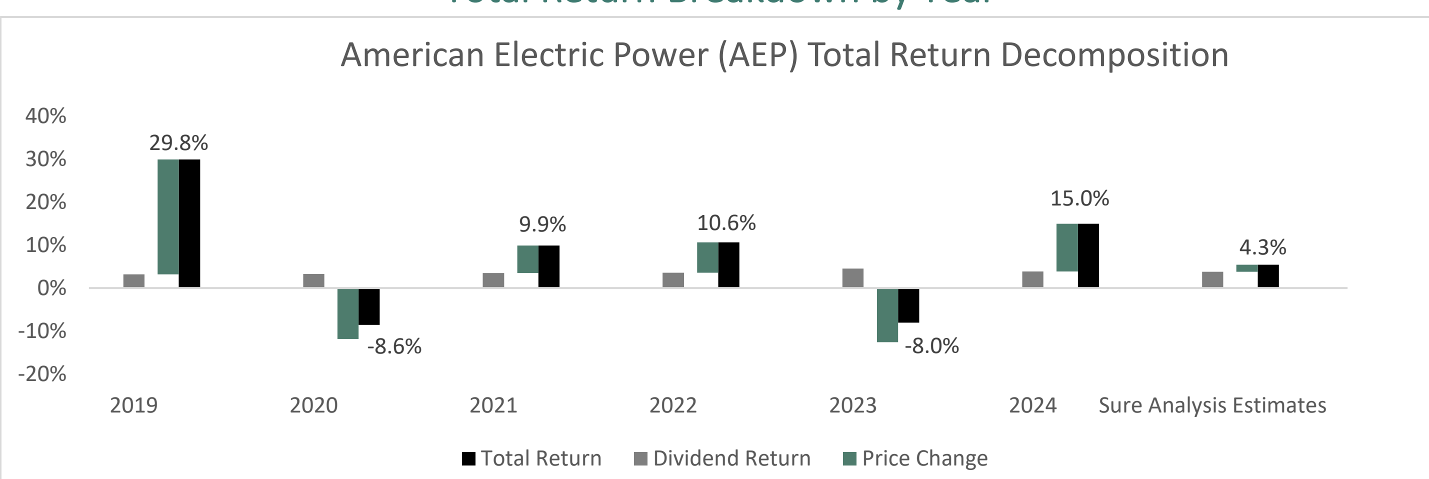
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	52%	183%	62%	62%	65%	64%	63%	62%	64%	64%	***63%***	***58%***

AEP benefits from government-granted exclusive rights and rates that give them service-territory monopolies. AEP also benefits from large scale, which increases its efficiency as its network grows larger. The main risks and catalysts for AEP involve weather, the timeliness and outcomes of regulatory rate decisions, and development execution uncertainty. The good news is that AEP has diversification across numerous states, somewhat mitigating its weather and regulatory risks. Additionally, its aggressive expansion into green energy projects helps offset some of the potential regulatory risks to its traditional energy businesses, such as coal. Another positive is that the business is quite recession resistant. While revenues and profits dipped from 2008-2009, the dividend was maintained comfortably, and the company's results rebounded strongly in 2010. The balance sheet may not look pretty based on traditional metrics, but the steady cash flow of the business is such that it is actually quite resilient.

Final Thoughts & Recommendation

AEP is a solid dividend growth stock with a recession-resistant business model. It can serve as a nice portfolio diversifier, especially for those trying to be more defensive. Given its 3.3% dividend yield and 6% expected annualized earnings-per-share growth rate that is partially offset by valuation multiple contraction, the stock should produce 4.3% annualized total returns over the next half-decade. As a result, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	16,453	16,380	15,425	16,196	15,561	14,919	16,792	19,640	18,982	19,721
Gross Profit	9,020	9,408	8,968	9,162	9,241	9,538	10,204	11,292	11,128	12,460
Gross Margin	54.8%	57.4%	58.1%	56.6%	59.4%	63.9%	60.8%	57.5%	58.6%	63.2%
D&A Exp.	2,155	2,091	2,126	2,400	2,740	2,907	3,046	3,286	3,187	3,393
Operating Profit	3,334	3,432	3,386	2,753	2,749	2,988	3,423	3,779	3,735	4,446
Operating Margin	20.3%	21.0%	21.9%	17.0%	17.7%	20.0%	20.4%	19.2%	19.7%	22.5%
Net Profit	2,047	611	1,913	1,924	1,921	2,200	2,488	2,307	2,208	2,967
Net Margin	12.4%	3.7%	12.4%	11.9%	12.3%	14.7%	14.8%	11.7%	11.6%	15.0%
Free Cash Flow	219	(390)	(1,529)	(1,134)	(1,874)	(2,483)	(1,924)	(1,484)	(2,494)	(966)
Income Tax	920	(74)	970	115	(13)	41	116	5	55	(39)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	61,683	63,468	64,729	68,803	75,892	80,757	87,669	93,403	96,684	103,078
Cash & Equivalents	176	211	215	234	247	393	403	509	330	203
Accounts Receivable	616	705	644	699	625	614	721	1,145	1,030	1,100
Inventories	1,339	967	953	921	1,169	1,310	989	1,350	1,880	1,715
Goodwill & Int. Ass.	53	53	53	53	53	53	53	53	53	53
Total Liabilities	43,778	46,048	46,416	49,743	55,979	59,983	64,989	69,281	71,398	76,092
Accounts Payable	1,418	1,689	2,065	1,874	2,086	1,710	2,055	2,671	2,033	2,638
Long-Term Debt	20,373	21,969	22,812	25,257	29,564	33,552	36,069	40,913	42,973	45,167
Shareholder's Equity	17,892	17,397	18,287	19,028	19,632	20,551	22,433	23,893	25,247	26,944
LTD/E Ratio	1.14	1.26	1.25	1.33	1.51	1.63	1.61	1.71	1.70	1.68

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.4%	1.0%	3.0%	2.9%	2.7%	2.8%	3.0%	2.5%	2.3%	3.0%
Return on Equity	11.8%	3.5%	10.7%	10.3%	9.9%	10.8%	11.5%	9.9%	8.9%	11.4%
ROIC	5.5%	1.6%	4.8%	4.5%	4.1%	4.2%	4.4%	3.7%	3.3%	4.2%
Shares Out.	491.1	491.7	492.0	493.2	494.2	496.6	504.2	513.9	526.2	532.9
Revenue/Share	33.54	33.32	31.31	32.80	31.42	30.00	33.46	38.25	36.49	37.12
FCF/Share	0.45	(0.79)	(3.10)	(2.30)	(3.78)	(4.99)	(3.83)	(2.89)	(4.79)	(1.82)

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