

## Company

 15 June 2010  7 pages

# PG&E Corp (POG)

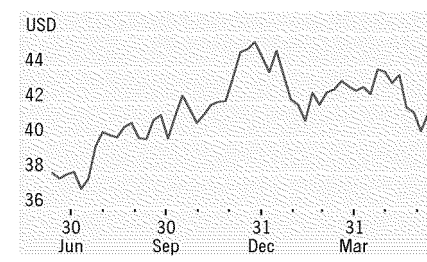
 Equity   
 Estimate change 

## Model & Valuation Update; Maintain Buy

- Next Events for PG&E Corp** — In the coming months, the major event/newsflow concerns the ongoing General Rate Case. The rate case schedule is as follows: 1) Hearings begin in late-June and expected to last until late-July, 2) Post-hearings briefs are scheduled to be filed in early-August, 3) Administrative Law Judge (ALJ) Recommendation is currently scheduled for mid-November, and 4) Finally, a omission decision is expected in mid-December.
- Prop. 16's defeat is not a material event in our view** — PG&E's Corp's stock had recently under-performed following the defeat of Prop. 16 in California. Prop. 16 was a ballot measure in California which could have potentially made it more difficult for municipals or other entities to aggregate power, and offer an alternative supply of power to customers. In theory, having more competition to supply power would be negative, at the margin, for all incumbent California utilities, such as PG&E Corp., Southern California Edison (a unit of Edison International). But importantly, customer choice aggregators would still need to pay and support costs to maintain and grow the electric grid, which is owned by the investor-owned utilities. Since choice aggregators (and by extension ratepayers) would still need to pay a rate to support maintenance of investor-owned utility assets, the defeat of the proposal does not result in any material & measureable reduction in earnings outlook in our view for the California utilities. Long term effects are unclear, but the defeat clearly does not impact our earnings estimates through 2012.
- We continue to rate PG&E Corp. Buy/Low Risk** — Our price target remains at \$50/share. However, we are moving the valuation year to 2012 from 2011. Our 2012 EPS is largely unchanged at \$3.79/share. Applying a 14x base multiple on \$3.79/share, equates to ~\$53/share. We then discount it by 11%, for half-year, to calculate a one-year forward value of ~\$50/share.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (14 Jun 10)	US\$41.66
Target price	US\$50.00
Expected share price return	20.0%
Expected dividend yield	4.4%
<b>Expected total return</b>	<b>24.4%</b>
Market Cap	US\$15,512M

### Price Performance (RIC: POGN, BB: POGUS)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
<b>2009A</b>	0.65A	0.83A	0.92A	0.80A	3.21A	3.21A
<b>2010E</b>	<b>0.79A</b>	<b>0.89E</b>	<b>0.88E</b>	<b>0.77E</b>	<b>3.33E</b>	<b>3.41E</b>
Previous	0.78E	0.89E	0.88E	0.77E	3.32E	na
<b>2011E</b>	na	na	na	na	<b>3.56E</b>	<b>3.72E</b>
Previous	na	na	na	na	3.56E	na
<b>2012E</b>	na	na	na	na	<b>3.79E</b>	<b>3.90E</b>
Previous	na	na	na	na	3.78E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	14.1	13.0	12.5	11.7	11.0
EV/EBITDA adjusted (x)	6.8	6.7	6.1	5.8	5.5
P/BV (x)	1.6	1.5	1.4	1.4	1.2
Dividend yield (%)	3.6	4.0	4.4	4.6	4.7
<b>Per Share Data (US\$)</b>					
EPS adjusted	2.95	3.21	3.33	3.56	3.79
EPS reported	2.95	3.21	3.33	3.56	3.79
BVPS	25.60	27.27	28.84	30.63	33.72
DPS	1.49	1.68	1.82	1.90	1.94
<b>Profit &amp; Loss (US\$M)</b>					
Net sales	14,628	13,417	14,666	15,154	15,584
Operating expenses	-12,368	-11,092	-11,960	-12,267	-12,494
<b>EBIT</b>	<b>2,260</b>	<b>2,325</b>	<b>2,706</b>	<b>2,887</b>	<b>3,090</b>
Net interest expense	-771	-632	-710	-770	-778
Non-operating/exceptionals	119	57	43	50	23
<b>Pre-tax profit</b>	<b>1,608</b>	<b>1,751</b>	<b>2,039</b>	<b>2,167</b>	<b>2,335</b>
Tax	-528	-535	-765	-797	-839
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>1,080</b>	<b>1,216</b>	<b>1,273</b>	<b>1,370</b>	<b>1,496</b>
Adjusted earnings	1,080	1,216	1,273	1,370	1,496
Adjusted EBITDA	3,911	4,077	4,570	4,886	5,208
<b>Growth Rates (%)</b>					
Sales	10.5	-8.3	9.3	3.3	2.8
EBIT adjusted	6.9	2.9	16.4	6.7	7.0
EBITDA adjusted	0.7	4.2	12.1	6.9	6.6
EPS adjusted	6.1	8.8	3.8	6.9	6.3
<b>Cash Flow (US\$M)</b>					
<b>Operating cash flow</b>	<b>2,537</b>	<b>3,511</b>	<b>2,738</b>	<b>3,369</b>	<b>3,614</b>
Depreciation/amortization	1,651	1,752	1,865	1,998	2,118
Net working capital	-801	-242	0	0	0
<b>Investing cash flow</b>	<b>-3,652</b>	<b>-3,269</b>	<b>-3,470</b>	<b>-3,050</b>	<b>-3,000</b>
Capital expenditure	-3,628	-3,955	-3,470	-3,050	-3,000
Acquisitions/disposals	5	2	0	0	0
<b>Financing cash flow</b>	<b>278</b>	<b>683</b>	<b>12</b>	<b>-296</b>	<b>249</b>
Borrowings	1,133	923	592	318	203
Dividends paid	-546	-591	-680	-714	-754
<b>Change in cash</b>	<b>-837</b>	<b>925</b>	<b>-720</b>	<b>22</b>	<b>863</b>
<b>Balance Sheet (US\$M)</b>					
<b>Total assets</b>	<b>40,860</b>	<b>42,661</b>	<b>43,541</b>	<b>44,615</b>	<b>46,360</b>
Cash & cash equivalent	219	720	0	22	886
Accounts receivable	2,436	2,416	2,416	2,416	2,416
Net fixed assets	26,261	28,634	30,619	32,075	33,380
<b>Total liabilities</b>	<b>31,231</b>	<b>32,029</b>	<b>32,221</b>	<b>32,539</b>	<b>32,743</b>
Accounts payable	3,019	2,679	2,679	2,679	2,679
Total Debt	11,791	12,072	12,664	12,982	13,186
<b>Shareholders' funds</b>	<b>9,629</b>	<b>10,584</b>	<b>11,277</b>	<b>12,033</b>	<b>13,575</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	26.7	30.4	31.2	32.2	33.4
RCE adjusted	12.0	12.3	11.9	12.0	11.9
ROIC adjusted	5.4	5.1	5.2	5.5	5.7
Net debt to equity	120.2	107.3	112.3	107.7	90.6
Total debt to capital	55.0	53.3	52.9	51.9	49.3

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## PG&E Corp

### Company description

PG&E Corporation (PCG) is the owner of the Pacific Gas & Electric Company, a regulated utility servicing 13 million people in a 70,000 square mile service area in Northern and Central California. The utility has businesses in electric and natural gas distribution, electricity generation, procurement and transmission, as well as natural gas procurement, transportation, and storage. Pacific Gas & Electric manages 5.1 million customer accounts and 4.2 million gas customer accounts. The company operates in a highly regulated, cost of service ratemaking environment with a \$18.2 billion rate base at year-end 08 growing to over \$24 billion by year-end 2011.

### Investment strategy

We rate the shares of PG&E Corporation Buy/Low Risk (1L). Pacific Gas & Electric has recently made investors feel more comfortable relative to EPS growth expectations. With a high single digit annual EPS growth aspiration — supported by a constructive regulatory backdrop — and a ~4% yield, this is a solid low risk total return story.

### Valuation

Our target price is ~\$50/share and represents a one year forward horizon. Our target is based on our 2012 EPS of \$3.79, multiplied against a 14x multiple.

Applying a 14x base multiple on \$3.79/share, equates to \$53/share. We then discount it by 11%, for half-year, to calculate a one-year forward value of \$50/share.

### Risks

We rate PG&E Corporation Low Risk based on its utility, which we believe is a defensive utility with highly predictable earnings. In our view, California's favorable regulatory outlook, combined with the company's earnings growth prospects, lead us to conclude that the company's stock price volatility should be less than implied by its historical beta of 0.78x. Risks we see to the stock achieving our valuation target include the following.

Growth in capital spending --- Capital spending growth is contingent on approval of new infrastructure investment by the CPUC. If the company fails to receive regulatory approval for increases in capital expenditures or fails to receive them in a timely manner, earnings trajectory may differ from our projection. On the flip side higher capital spending could be additive to our forecast.

Cost pressure could impact growth in EPS ---We have modified our earnings growth forecast and target to reflect some cost cutting. If they are able to manage these costs better than forecasted, our EPS estimates and target could be conservative. On the flip side, if we have over-estimated their ability to reduce costs they could cause downside to our forecast.

# Appendix A-1

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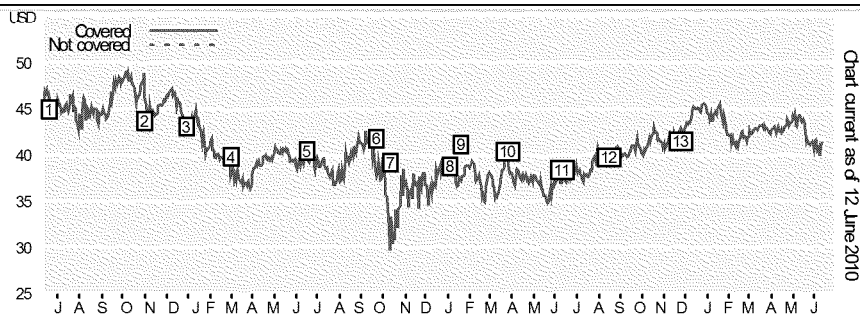


Chart current as of 12 June 2010

Date	Rating	Target Price	Closing Price
1 20-Jun-07	1L	*53.00	45.21
2 1-Nov-07	*2L	*50.00	46.25
3 31-Dec-07	*1L	*47.00	43.09
4 2-Mar-08	1L	*46.00	37.66
5 17-Jun-08	1L	*44.75	39.64
6 23-Sep-08	1L	*43.75	37.78
7 13-Oct-08	1L	*37.25	33.38
8 4-Jan-09	1L	*41.00	38.81
9 20-Jan-09	1L	*42.50	37.26
10 26-Mar-09	*2L	42.50	40.41
11 11-Jun-09	*1L	*43.20	37.76
12 17-Aug-09	1L	*48.00	39.98
13 25-Nov-09	1L	*50.00	42.94

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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