25 April 2011
Americas/United States
Equity Research
Electric Utilities

CREDIT SUISSE

PG&E Corporation (PCG)

Rating	**OUTPERFORM***
Price (21 Apr 11, US$)	45.18
Target price (US$)	50.00[1]
52-week price range	48.58 - 40.00
Market cap. (US$ m)	17,927
Enterprise value (US$ m)	31,554

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

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COMMENT

Changes at Top Clear Way to Move Forward

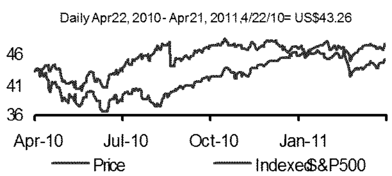
Our take: Senior management departures – CEO, COO, SVP of Engineering – **over past 3 weeks reflects the Board's seriousness about improving operations** in the wake of the San Bruno accident and smart meter deployment issues; we think the changes will help to address concerns of the CPUC and interveners, leading ideally to a fair resolution of the San Bruno accident. **We would look for PCG shares to respond favorably to these steps forward.**

Chairman and CEO Peter Darbee is retiring quickly on 4/30 after exit plans in early April by COO Jack Keenan and SVP of Engineering Edward Salas.

PCG's board has already started the CEO search process and apparently has a front runner candidate (from outside); we would expect someone with a strong operational background to reinforce PCG's commitment to execution. Lead Director Lee Cox will fill Darbee's role on an interim basis. As already stated, PG&E's management structure will change somewhat with Chris Johns remaining as President, Geisha Williams in a new role running the electric business, and a new seasoned executive hire planned to run the gas business.

As we highlighted at length on April 18 (Headwinds Overdone; Upgrade to Outperform) **we think PCG shares offer value at current levels as the risk of costs from the San Bruno accident is over-priced even at extreme scenarios. With action by the Board to demonstrate changes at the top, we think CA stakeholders will appreciate PCG's commitment to learning and changing which should ultimately help to resolve the San Bruno issues in a way that makes the system run better and more safely while lessening the need to excessively 'punish' PCG** (remember shareholders are already planning to absorb $300 MM of costs from the accident).

Share price performance



On 04/21/11 the S&P 500 index closed at 1337.38

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.79	0.91	1.02	0.71
2011E	0.82	1.04	1.10	0.76
2012E	—	—	—	—

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	3.41	3.73	3.92	3.74
Prev. EPS (US$)	—	—	—	—
P/E (x)	13.3	12.1	11.5	12.1
P/E rel. (%)	86.2	90.2	97.1	—
Revenue (US$ m)	14,420.0	15,090.4	15,872.0	15,393.3
EBITDA (US$ m)	4,598	5,035	5,318	4,945
EV/EBITDA (current)	6.5	6.3	5.8	6.4
Net debt (US$ m)	12,118	13,627	13,139	13,634
FFO/Interest	3.9	4.3	4.3	3.7
FFO/Total Debt	0.22	0.25	0.26	0.23

Number of shares (m)	397	BV/share (current, US$)	29
Net debt (current, US$ m)	12,518	Dividend (current, US$)	1.82
Net debt/tot. cap. (current, %)	70.3	Dividend yield (%)	4.0

Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 22 Apr 11)
PG&E Corporation (PCG, $45.18, OUTPERFORM, TP $50.00)

Disclosure Appendix

Important Global Disclosures

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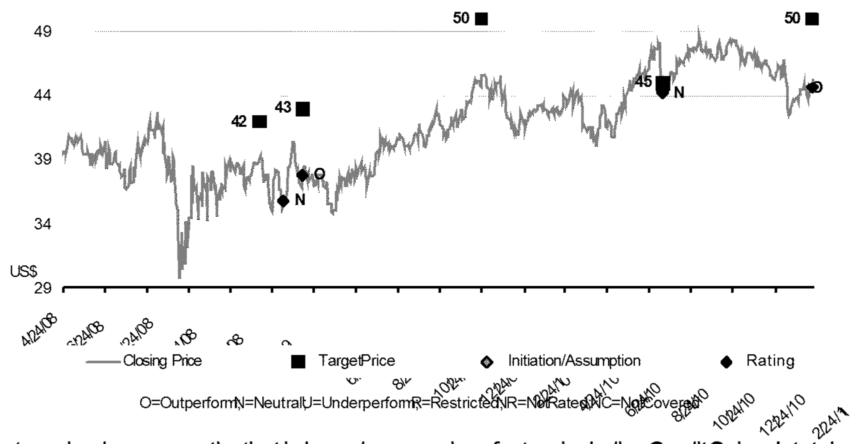
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for PCG

PCG Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
2/3/09	39.13	42		
3/10/09	35.84		N	
4/7/09	37.83	43	O	
12/23/09	44.75	50		
9/13/10	44.26	45	N	
4/18/11	44.65	50	O	



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Underperform/Sell*	11%	(51% banking clients)
Restricted	2%	

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Price Target: (12 months) for (PCG)
Method: We reach our $50 target price on PG&E Corp. using a zero premium to group traditional mulitples - currently we are using discounted 2013 group multiples of 14x Price to Earnings (P/E).
Risks: Risks to our $50 target price on PG&E Corp include: (1) negative regulatory decisions that disallow PCG's planned capital spending, ROE degradation, or non-recoverable O&M (2) unknown liability of San Bruno gas pipe explosion (3) a significant increase in natural gas prices that raises the cost of electricity that is passed through to end use customers in PCG's northern California service territory, (4) Nuclear risk

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