

UBS Investment Research

PG&E Corporation

New Beginnings

■ Peter Darbee steps down

In a surprise move, Peter Darbee announced his retirement as Chairman, CEO and President of PCG at the end of April. Lee Cox will serve in the same capacity on an interim basis. We believe the catalyst was the March 16 S&P report, which lowered PCG's business profile and revised its stable outlook to negative, due in part to "management credibility" following a series of miscues that began with the smart meter disputes and ended with the September 2010 San Bruno pipeline explosion.

■ Likely successors – the list is already short

We believe the Board will conduct an internal and external search. In our view, the likely external successors are those with a history of strong regulatory relationships. We put Gale Klappa (WEC), Ben Fowke (XEL), and Paul Evanson (AYE and FPL) in that category of candidates with a solid regulatory track record. Further, SO and NEE also have several strong candidates.

■ The bull and bear case for PCG stock

In our view, the shares are already discounting a 10.5% allowed ROE and ~\$300MM in incremental equity to fund any San Bruno repair costs, equating to a \$3.65-3.75 EPS run rate, which make the shares attractive. Conversely, the bear case has yet to price in potential lower growth expectations (~4% vs. 7% currently), the subtle signals from CPUC regarding future regulation, and the possibility for a significant change in business strategy (and management turnover) if an outsider is named as the successor.

■ Valuation

We maintain our Neutral rating on PCG shares and our \$47 price target. Our price target is derived from a combination of P/E, DDM, and DCF methodologies.

Highlights (US\$m)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	13,399	13,841	14,410	14,924	15,393
EBIT (UBS)	2,385	2,578	2,998	3,229	3,364
Net Income (UBS)	1,220	1,338	1,467	1,553	1,608
EPS (UBS, US\$)	3.16	3.42	3.71	3.88	3.97
Net DPS (UBS, US\$)	1.65	1.79	1.93	2.04	2.15
Profitability & Valuation	5-yr hist av.	12/10	12/11E	12/12E	12/13E
EBIT margin %	17.4	18.6	20.8	21.6	21.9
ROIC (EBIT) %	8.0	7.0	7.6	7.8	7.8
EV/EBITDA (core) x	-	9.6	8.7	8.1	7.8
PE (UBS) x	14.6	13.0	12.2	11.6	11.4
Net dividend yield %	3.6	4.0	4.3	4.5	4.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$45.18 on 21 Apr 2011 19:40 EDT

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Global Equity Research

Americas

Electric Utilities

12-month rating	Neutral
	Unchanged
12m price target	US\$47.00
	Unchanged

Price US\$45.18

RIC: PCG.N BBG: PCG US

25 April 2011

Trading data

52-wk range	US\$48.58-40.00
Market cap.	US\$16.8bn
Shares o/s	371m (COM)
Free float	100%
Avg. daily volume ('000)	885
Avg. daily value (m)	US\$39.8

Balance sheet data 12/11E

Shareholders' equity	US\$12.2bn
P/BV (UBS)	1.5x
Net Cash (debt)	(US\$14.7bn)

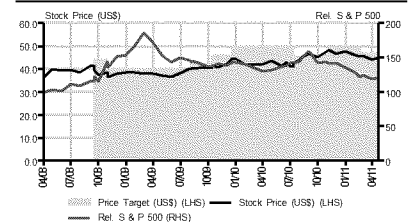
Forecast returns

Forecast price appreciation	+4.0%
Forecast dividend yield	4.3%
Forecast stock return	+8.3%
Market return assumption	5.7%
Forecast excess return	+2.6%

EPS (UBS, US\$)

	12/11E		12/10
	UBS	Cons.	Actual
Q1E	0.81	0.83	0.79
Q2E	1.01	1.03	0.91
Q3E	1.09	1.10	1.02
Q4E	0.80	0.72	0.70
12/11E	3.71	3.71	
12/12E	3.88	3.90	

Performance (US\$)



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■ **PG&E Corporation**

PG&E Corporation operates its business principally through its regulated utility, Pacific Gas & Electric, which provides both electric and gas transmission and distribution services, electricity generation, procurement, and transmission; and natural gas procurement, transportation, and storage. The T&D business serves 5.1 million electric and 4.3 million gas customers in central and northern California, covering an area of approximately 70,000 square miles. The company also operates a generation fleet of 6,300 MW, consisting mostly of hydroelectric and nuclear power.

■ **Statement of Risk**

Factors that could prevent PG&E Corp from achieving our earnings, cash flow and price target objectives include: adverse regulatory decisions by the California Public Utilities Commission (CPUC), including rate case decisions and cost of capital proceedings (CoC), or restrictions placed on the utility by the CPUC regarding the movement of funds between the utility and parent to meet its debt service and other financial obligations and to pay dividends on its common stock, as well as from the federal regulators, FERC. Additional risks include interest rate and capital markets risk; slowdown in the regional economy; various risks associated with operating nuclear units; more stringent environment regulation; adverse market performance requiring unplanned contributions to the pension plans and other post retirement benefit plans, and nuclear decommissioning trust are other significant risks, among other things.

Separately, the ultimate amount of loss, if any, the utility bears in conjunction with the San Bruno accident could have a material adverse impact on the company's financial condition. The utility believes it will incur additional, unbudgeted costs for inspection and maintenance of its natural gas transmission system. If it is determined that the utility didn't comply with applicable statutes, regulation, rules, tariffs, or orders in connection with the San Bruno accident or if it is ordered to pay a material amount of refunds, penalties, or other amounts, the financial condition of the company could be materially and adversely affected.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	52%	41%
Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Jim von Riesemann; Julien Dumoulin-Smith; Aileen Long.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
PG&E Corporation ^{2, 4, 5, 6, 16}	PCG.N	Neutral	N/A	US\$45.18	21 Apr 2011

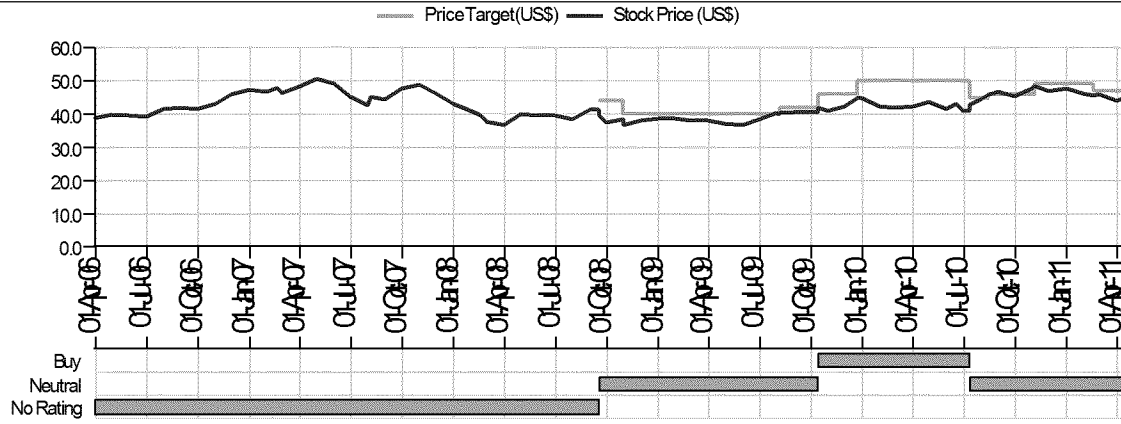
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

PG&E Corporation (US\$)



Source: UBS; as of 21 Apr 2011

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