From: Simon, Timothy A.
Sent: 11/4/2011 4:58:41 AM
To: Cherry, Brian K (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=BKC7)
Cc:
Bcc:
Subject: Fw: PCG US: PG&E Corporation : Project New PCG - BUY - United States - 12pp

From: BofAML-Steve Fleishman [mailto:feedback@mlresearch.ml.com]
Sent: Thursday, November 03, 2011 11:03 PM
To: Simon, Timothy A.
Subject: PCG US: PG&E Corporation : Project New PCG - BUY - United States - 12pp

PG&E Corporation

Price Objective Change

BU

Project New PCG

Click here for full report including important disclosures*
(intended for Timothy Simon)

New CEO lays out costs, earnings and long-term value

PCG held its first earnings call since Tony Earley took over as CEO. PCG initiated 2012 guidance of $3.10-$3.30/sh, well below us at $3.61 and consensus of $3.66/sh. This is primarily due to $200M of unrecoverable costs on operational spend. PCG expects a comparable amount in 2013. PCG plans to forego a dividend increase in 2012 as well. Most importantly to us though, Earley indicated the company intends to earn its allowed ROE in 2014, Thus, PCG should eventually return to a more normal operating status. We look for more clarity at EEI.

Large capex and opex spend, high equity issuances

PCG targets to spend $200M in 2012 and a comparable amount in 2013 on additional resources to accelerate gas and electric operations and customer service improvements. These costs are incremental to the spend in 2011, and to the spend in the OIR. PCG has a healthy $4.8B capex budget in 2012 including ~$380M of pipeline safety spend. PCG estimates $600M of equity in 2012, in addition to the $400M in 2011. In addition PCG will take charges for Hinkley, some OIR expense and near-term unrecovered third party liability costs.

Lowering estimates to a reasonable downside case

We are lowering our 2012-2014 estimates to $3.17, $3.01 and $3.42/sh. Our major assumptions include $150M of unrecoverable OIR costs, $200M of other costs, and a $500M fine. In 2013 we cut the CPUC ROE to 10.5%, the FERC ROE to 11.5% and a 50% equity ratio. We issue $1.1B of equity in 2012 and $400M in 2013. Our prior 2012-2014 estimates were $3.61, $3.60 and $3.78.

Moving to 2014 valuation, lowering PO to $44

We value PCG on 13x 2014 estimates, an average multiple to the group on our downside case estimate. Risks are liability related to the explosion, regulatory changes, unrecoverable costs.

To reply to Steve Fleishman directly, click here or call +1 646 855 2906