From: Michael Lapides
Sent: 10/15/2012 1:13:13 AM
To: Investor Relations (mailbox) (InvestorRelations2@pge-corp.com)
Cc:
Bcc:
Subject: GS Utilities: PG&E Corporation (PCG): Situation still foggy, consensus still too high – still Neutral on PCG

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PG&E Corporation (PCG): Situation still foggy, consensus still too high – still Neutral on PCG [PDF, 8pgs, 198 KB]

Goldman Sachs Global Investment Research

EQUITY RESEARCH

Published October 15, 2012

PG&E Corporation (PCG): Situation still foggy, consensus still too high – still Neutral on PCG

INVESTMENT LIST MEMBERSHIP: Neutral

COVERAGE VIEW: NEUTRAL

What's changed

On Friday, October 12, a draft/proposed decision on PCG's Pipeline Safety Enhancement Plan (PSEP) was issued, where an administrative judge for the state utility regulator recommended that PCG earn a 6% authorized RoE on proposed pipeline spending.

While we do not embed a 6% RoE for $1bn of pipeline spending, we revise estimates slightly to reflect continued under-earning dragging into 2014 – we lower our EPS forecasts for 2013/2014 from $2.81/$3.30 to $2.81/$3.22, which reduces our 12-month price target (based on 2014 P/E) to $43 from $45.

Implications

The CPUC essentially 'carved out' two sets of issues this week – the

PSEP and the various investigations into record-keeping and maintenance practices for PCG's pipeline system. We view potential for a global settlement on all San Bruno items as limited and instead expect multiple dockets to resolve separately over the coming months.

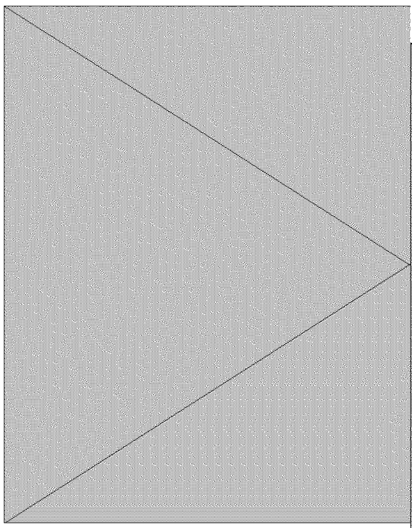
Consensus estimates for PCG remain above our forecasts for 2013/2014 on: (1) assumed results in the 'Cost Of Capital' docket in California, (2) regulatory lag on gas pipeline spending and gas storage and (3) financing needs.

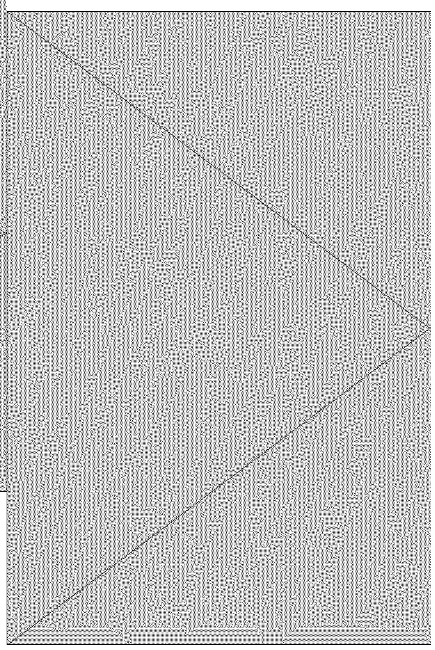
Valuation

PCG trades at 15.1x/13.2x on 2013/2014 estimates vs. other large cap Regulated Utilities at 15.0x/14.0x on average – a discount on 2014, but a premium on 2013. We apply a 13.5x multiple on our 2014 EPS estimate to derive our target price, which implies 6% total return, and among regulated names, prefer NU or DUK over PCG, especially given PCG's 2013 financing needs.

Key risks

Primary risks include rate case and regulatory risks, higher-than-expected costs related to the San Bruno incident, higher-than-expected financing needs and increased O&M costs.
Click here to read more





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