

PG&E Corporation (PCG)

Rating	NEUTRAL*
Price (19 Dec 12, US\$)	41.47
Target price (US\$)	45.00 [†]
52-week price range	46.51 - 40.09
Market cap. (US\$ m)	17,831
Enterprise value (US\$ m)	31,456

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

[†]Target price is for 12 months.

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COMMENT

A Sign of Light? PSEP Returns Back to ROE

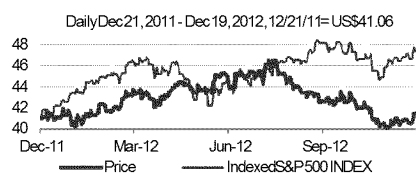
The CPUC posted a revised decision for vote later today with limited changes to the ALJ's original PD (preliminary decision) **other than importantly to allow PCG to earn its allowed ROE on PSEP related capex rather than the debt return proposed by the ALJ.** (see page 100 of red-lined version <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M040/K502/40502090.PDF>)

Our take: We think the CPUC's pivot to allow PG&E to earn its allowed ROE on approved PSEP capex is an encouraging sign for the Utility and ultimately PCG shares, **demonstrating at least on the margin a more constructive stance from the Commission that the costs and penalties of the San Bruno accident will be kept in the present rather than being a substantial drag into the future.** To be fair the CPUC did not reverse the expense and capital denials from the ALJ's PD so there is still some residual pain, but we do think this is a step in the right direction.

The PSEP capex is admittedly not huge dollars relative to the overall size of PG&E – the shift in returns if approved will only add \$0.01-0.04 of EPS depending on year – but we think the messaging is the most important issue if looking for good news in what has been a slow to develop recovery story.

We are tweaking our 2012-14 EPS estimates to \$3.21, \$2.85, and \$3.19.

Share price performance



On 12/19/12 the S&P 500 INDEX closed at 1435.81

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.58	1.02	1.08	0.89
2012E	0.89	0.81	0.93	0.58
2013E	—	—	—	—

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US\$)	3.58	3.21	2.85	3.19
Prev. EPS (US\$)	—	3.20	2.83	3.16
P/E (x)	11.6	12.9	14.6	13.0
P/E rel. (%)	82.2	97.6	120.2	119.9
EBITDA (US\$ m)	5,120	5,100	4,845	5,332
EV/EBITDA (current)	6.0	6.0	6.3	5.7
Net debt (US\$ m)	12,993	13,625	14,933	16,538
FFO/Interest	5.3	5.4	4.4	4.4
FFO/Total Debt	0.26	0.26	0.21	0.21
Number of shares (m)	430			
Net debt (12/11A, US\$ m)	12,993			
Net debt/tot cap (current, %)	—			
BV/share (12/11A, US\$)				30
Dividend (12/11A, US\$)				1.82
Dividend yield (%)				4.4

Source: Company data, Credit Suisse estimates.

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Exhibit 1: PCG Income Statement

Income Statement	2011A	Q112A	Q212A	Q312A	Q412E	2012E	2013E	2014E	2015E
Gross Margin	9,623	2,439	2,499	2,575	2,382	9,895	9,766	10,098	10,580
Operation & Maintenance Expense	4,552 [¶]	1,116 [¶]	1,201 [¶]	1,220 [¶]	1,092 [¶]	4,629 [¶]	4,721 [¶]	4,816 [¶]	4,912 [¶]
Additional San Bruno Related O&M		38 [¶]	59 [¶]	66 [¶]	87 [¶]	250 [¶]	250 [¶]	0	0
Public Purposed Programs	0	0	0	0	0	0	0	0	0
O&M Related to Pension Funding	0	0	0	0	0	0	0	0	0
Taxes Other Than Income Taxes	0	0	0	0	0	0	0	0	0
Other Income	49	26	32	26	0	84	50	50	50
Energy Efficiency Incentives	0	0	0	0	0	0	0	0	0
EBITDA	5,120	1,311	1,271	1,315	1,203	5,100	4,845	5,332	5,718
Depreciation & Amortization	1,803	480	506	502	504	1,992	2,061	2,128	2,190
Securitization Amortization	404	102	98	113	107	420	0	0	0
Pension Funding Amortization	8	2	2	2	2	8	8	8	8
Operating Income	2,905	727	665	698	590	2,681	2,776	3,197	3,520
Net Interest Expense	680 [¶]	171	172	175	176	694	756	824	888
Incremental cost of debt					5.5%	1.4%	5.5%	5.5%	5.5%
Weighted Avg. Cost of Debt	5.5%	5.4%	5.3%	5.3%	5.3%	5.2%	5.2%	5.1%	5.1%
Securitization Interest Expense	13	2	1	1	0	4	-	-	-
Earnings Before Taxes	2,212	554	492	522	413	1,982	2,021	2,373	2,632
Income Tax Expense/(Benefit)	760	179	145	120	157	602	717	842	934
Effective Tax Rate	34.4%	32.3%	29.5%	23.1%	38.0%	30.4%	35.5%	35.5%	35.5%
Net Income	1,452	375	347	402	256	1,380	1,303	1,530	1,698
Preferred Securities	14	3	4	3	5	15	15	15	15
Recurring Net Income	1,438	372	343	399	251	1,365	1,288	1,515	1,683
Extraordinary Items	(519)	(139)	(108)	(38)	(97)	(382)	(974) [¶]	(169) [¶]	
Reported Net Income	919	233	235	361	154	983	314	1,347	1,683
Recurring Earnings per Share	3.58[¶]	0.89	0.81	0.93	0.58	3.21	2.85	3.19	3.46
Growth	5.0%					-10.3%	-11.2%	11.9%	8.4%
Reported EPS	2.29	0.56	0.55	0.84	0.36	2.31	0.70	2.83	3.46
Fully Diluted Shares Outstanding	402	416	425	429	432	426	452	475	487
9.5% Convertible	0	0	0	0	0	0	0	0	0
Stated Diluted Shares Outstanding	402 [¶]	416	425	429	432	426	452	475	487
Share Price	40.45	41.88	43.88	44.41	43.00	43.29	45.58	48.31	51.21
Common Shares	402 [¶]	416	425	429	432	425	452	475	487
Dividends Per Share	1.82	0.46	0.46	0.46	0.46	1.84	1.84	1.93	2.09

Source: Company data, Credit Suisse estimates

Exhibit 2: PCG Cash Flow Statement

Cash Flow Statement	2011A	Q112A	Q212A	Q312A	Q412E	2012E	2013E	2014E	2015E
Net Income	858	236	239	364	154	993	314 [¶]	1,347	1,683
D&A	2,207	582	604	615	611	2,412	2,061	2,128	2,190
Other D&A	8	2	2	2	0	6	0	0	0
Extraordinary Items / San Bruno	(563)	(163) [¶]	(183) [¶]	(40) [¶]	0	(386)	0	0	0
Deferred Income Taxes	582	146	88	390	(258)	366	300	0	0
Changes in Working Capital	(81)	17	(12)	26	0	31	0	0	0
Energy Efficiency cash levelization	0	0	0	0	0	0	0	0	0
Other	728	111	505 [¶]	(79) [¶]	(18) [¶]	520	(70) [¶]	(70) [¶]	(20) [¶]
Cash Flow From Operations	3,739	931	1,243	1,278	489	3,941	2,605	3,404	3,853
Capital Expenditures	(4,038)	(1,094)	(1,125)	(1,142)	(1,298)	(4,659)	(4,663)	(4,761)	(4,400)
Acquisition of Assets & Sec.	0	0	0	0	0	0	0	0	0
Divestiture of Assets & Sec.	0	0	0	0	0	0	0	0	0
Other Investments	52	1	12	(11)	0	2	0	0	0
Cash Flow From Investing	(3,986)	(1,093)	(1,113)	(1,153)	(1,298)	(4,657)	(4,663)	(4,761)	(4,400)
Issuance/(Redemption) of Debt	874	(245)	23	65	917	760	1,415	1,605	1,066
Securitization Issuance / (Redempti	(404)	(102)	(98)	(113)	(107)	(420)	0	0	0
Issuance/(Rep.) of Pref. Equity	0	0	0	0	0	0	0	0	0
Issuance/(Rep.) of Common Equity	662	387 [¶]	174	141 [¶]	198	900	1,474	669	500
Common Stock Dividends	(704)	(182)	(186)	(188)	(199)	(755)	(831)	(918)	(1,019)
Convert pass thru dividends	0	0	0	0	0	0	0	0	0
Other Financing	41	48	(8)	(26)	0	14	0	0	0
Cash Flow From Financing	469	(94)	(95)	(121)	809	499	2,058	1,356	547
Increase/(Decrease) in Cash	222	(256)	35	4	0	(217)	0	0	0
Cash at Beginning of Period	291	513	257	292	296	513	296	296	296
Cash at End of Period	513	257	292	296	296	296	296	296	296

Source: Company data, Credit Suisse estimates

Exhibit 3: PCG Balance Sheet

Balance Sheet	2011A	Q112A	Q212A	Q312A	Q412E	2012E	2013E	2014E	2015E
Cash & Cash Equivalents	513	257	292	296	296	296	296	296	296
Restricted Cash	380	385	381	418	418	418	418	418	418
Accounts Receivable	1,755	1,540	1,684	1,964	1,964	1,964	1,964	1,964	1,964
Regulatory Balancing Accts.	1,082	1,425	1,351	1,475	1,475	1,475	1,475	1,475	1,475
Inventories	420	370	415	454	454	454	454	454	454
Prepaid Expenses and Other	2,330	2,189	1,417	986	986	986	986	986	986
Total Current Assets	6,480	6,166	5,540	5,593	5,593	5,593	5,593	5,593	5,593
Gross PP&E	49,567	50,356	51,348	52,011	53,309	53,309	57,972	62,733	67,133
Less Accum. Depreciation	(15,912)	(16,107)	(16,446)	(16,361)	(16,972)	(16,972)	(19,032)	(21,160)	(23,350)
Total PP&E	33,655	34,249	34,902	35,650	36,337	36,337	38,939	41,572	43,782
Other Noncurrent Assets									
Regulatory Assets	6,506	6,565	6,534	6,527	6,545	6,545	6,615	6,685	6,705
Nuclear Decommissioning Funds	2,041	2,134	2,106	2,155	2,155	2,155	2,155	2,155	2,155
Other/Restricted Cash	1,068	1,074	1,033	943	943	943	943	943	943
Total Other Assets	9,615	9,773	9,673	9,625	9,643	9,643	9,713	9,783	9,803
Total Assets	49,750	50,188	50,115	50,868	51,573	51,573	54,245	56,948	59,178
Short Term Debt	1,697	1,401	1,079	397	397	397	397	397	397
Short Term Securitized Debt	423	321	223	110	110	110	3	3	3
Accounts Payable	2,644	2,666	2,194	2,100	2,100	2,100	2,100	2,100	2,100
Accrued Taxes	110	110	112	15	15	15	15	15	15
Other	2,875	2,777	2,749	2,814	2,814	2,814	2,814	2,814	2,814
Total Current Liabilities	7,749	7,275	6,357	5,436	5,436	5,436	5,329	5,329	5,329
Long Term Debt	11,766	11,767	12,166	12,915	13,832	13,832	15,247	16,852	17,918
Convertible	0 ^a	0	0	0	0	0	0	0	0
Long Term Securitized Debt	0	0	0	0	(107)	(107)	0	0	0
Deferred income taxes	6,008	6,190	6,272	6,724	6,466	6,466	6,766	6,766	6,766
Regulatory Liabilities	4,733	4,927	5,008	5,107	5,107	5,107	5,107	5,107	5,107
Other	7,141	7,217	7,258	7,301	7,301	7,301	7,301	7,301	7,301
Total Long Term Liabilities	29,648	30,101	30,704	32,047	32,599	32,599	34,421	36,026	37,092
Pref. Stock of Subsidiaries	252	252	252	252	252	252	252	252	252
Stockholders' Equity									
Common Stock	7,602 ^a	8,011	8,204	8,362	8,560	8,560	10,034	10,703	11,203
Retained Earnings	4,712	4,752	4,793	4,957	4,912	4,912	4,395	4,824	5,488
Other Comprehensive Income	(213)	(203)	(195)	(186)	(186)	(186)	(186)	(186)	(186)
Total Stockholders' Equity	12,101	12,560	12,802	13,133	13,286	13,286	14,243	15,341	16,505
Total Liab. & Share. Equity	49,750	50,188	50,115	50,868	51,573	51,573	54,245	56,948	59,178

Source: Company data, Credit Suisse estimates

Companies Mentioned (Prices as of 19-Dec-2012)

PG&E Corporation (PCG.N, \$41.47, NEUTRAL, TP \$45.0)

Disclosure Appendix

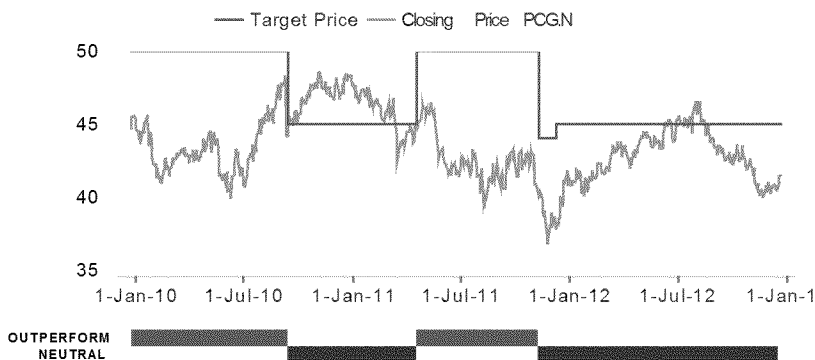
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Price and Rating History for PG&E Corporation (PCG.N)

PCG.N	Closing Price (US\$)	Target Price (US\$)	Rating
23-Dec-09	44.75	50.00	O
13-Sep-10	44.26	45.00	N
18-Apr-11	44.65	50.00	O
10-Nov-11	40.09	44.00	N
09-Dec-11	38.24	45.00	

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for PG&E Corporation (PCG.N)

Method: We reach our \$45 target price on PG&E Corp. using a zero premium to group traditional multiples - currently we are using discounted 2013 group multiples of 15x Price to Earnings (P/E).

Risk: Risks to our \$45 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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