

UBS Investment Research

First Read: PG&E Corp.

Potpourri of California regulatory activity

■ Pipeline safety enhancement (PSEP) plan approved, but issues linger

Today's CPUC's approval of the PSEP implements a prevailing ROE return rather than a debt-only return, suggesting a few pennies of incremental EPS. The decision largely preserves the October ALJ rec. meaning that PCG will take a \$141MM write-down for the capital already incurred and ongoing write-downs on future spend for the delta between capital incurred and authorized levels. We remain disappointed that the decision fails to recognize that the majority of the spend is driven by new system standards, and not towards financing the PCG's prior sins.

■ Cost of capital and energy efficiency

As expected, the CPUC approved PCG's allowed ROE at 10.4% on a 52% equity capital structure and denied the need for a new 586MW gas facility (Oakley). PCG will also collect one-time energy efficiency incentives from 2010 in 4Q-2012.

■ Still all about the settlement possibilities

The CPUC noted in today's meeting that "it is anticipating the parties to bring them a settlement agreement 'early' in the new year" that would put the long-running San Bruno pipeline investigations and issue behind them. Settlement discussions have been ongoing for the better part of six months

■ Valuation – Neutral and \$42 target

We maintain our 2012, 2013, and 2014 EPS estimates, which are subject to the final outcome of the San Bruno investigation. Our target is based on applying a 5% discount to the 2014E group P/E average based on ongoing execution and regulatory risk associated with San Bruno.

Highlights (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Revenues	13,841	14,956	15,116	15,715	16,353
EBIT (UBS)	2,578	2,592	2,591	2,621	3,104
Net Income (UBS)	1,338	1,438	1,351	1,202	1,487
EPS (UBS, US\$)	3.42	3.58	3.18	2.71	3.16
Net DPS (UBS, US\$)	1.79	1.82	1.82	1.82	1.82
Profitability & Valuation	5-yr hist av.	12/11	12/12E	12/13E	12/14E
EBIT margin %	17.4	17.3	17.1	16.7	19.0
ROIC (EBIT) %	7.3	6.5	6.1	5.8	6.6
EV/EBITDA (core) x	9.3	9.6	9.7	9.6	8.8
PE (UBS) x	13.5	12.0	13.2	15.5	13.2
Net dividend yield %	3.9	4.2	4.3	4.3	4.3

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\$41.92 on 20 Dec 2012 17:11 EST

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Global Equity Research

Americas

Electric Utilities

12-month rating **Neutral**
Unchanged

12m price target **US\$42.00**
Unchanged

Price **US\$41.92**

RIC: PCG.N BBG: PCG US

20 December 2012

Trading data

52-wk range US\$46.51-40.09
Market cap. US\$18.0bn
Shares o/s 430m (COM)
Free float 100%
Avg. daily volume ('000) 654
Avg. daily value (m) US\$27.2

Balance sheet data 12/12E

Shareholders' equity US\$13.0bn
P/BV (UBS) 1.4x
Net Cash (debt) (US\$14.7bn)

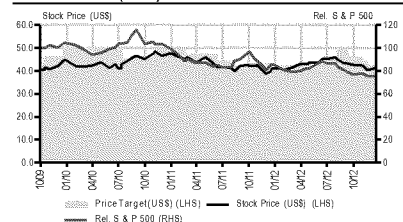
Forecast returns

Forecast price appreciation +0.2%
Forecast dividend yield 4.3%
Forecast stock return +4.5%
Market return assumption 5.3%
Forecast excess return -0.8%

EPS (UBS, US\$)

	12/12E		12/11
	UBS	Cons.	Actual
Q1	0.89	0.89	0.58
Q2	0.81	0.81	1.01
Q3	0.93	0.93	1.08
Q4E	0.55	0.58	0.93
12/12E	3.18	3.19	
12/13E	2.71	2.82	

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	50%	31%
Neutral	Hold/Neutral	41%	31%
Sell	Sell	9%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

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 30 September 2012.

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; Moseh Yang.

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\$41.47	19 Dec 2012

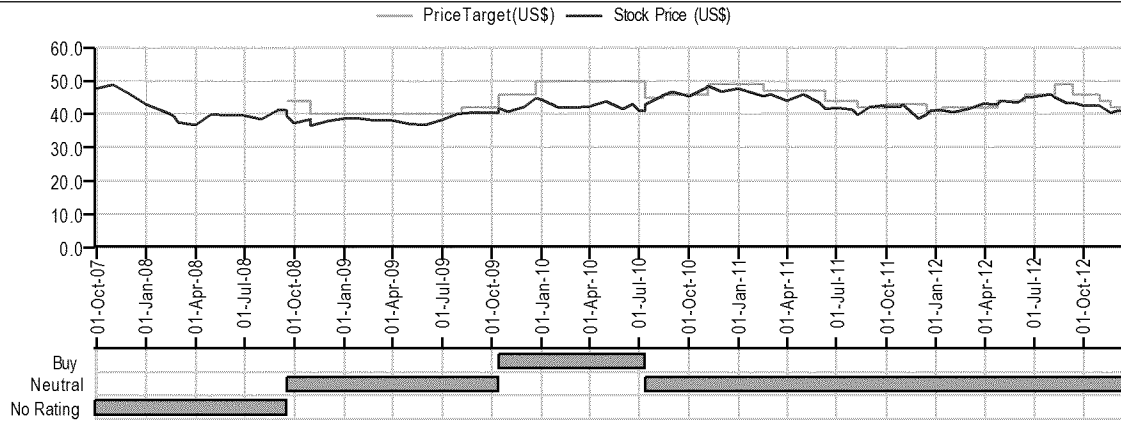
Source: UBS. All prices as of local market close.

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 19 Dec 2012

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