
Henderson State University

**PG&E Corporation
November 4, 2009**

Investment Thesis



PG&E Corporation
(PCG \$41.79)
One Year Target Price: \$44.88

PG&E Profile

General Information	
Ticker	PCG
Exchange	NYSE
Sector	Utilities
Industry	Diversified Utilities
Headquarters	San Francisco, CA
Purchase Date	Na
Purchase Price/Shares	Na
Current Price	\$41.79
Book Value per Share	\$25.97
52- Wk Low /High	\$29.27--42.55
52- Wk Change	37.24%
Market Cap.	15.67B
Shares Outstanding	370.69M
Inst. Ownership	69.40%
Float	
Average Volume (3m)	2.13M
Short Interest	8.57M
Beta	.32
EPS	3.88
PE Ratio	10.90
PEG Ratio	1.89
Dividend/Yield	0.42/3.98%
IPO	
Secondary	

Estimates
SMF (rev, EPS, DCF)
• 1Q10E:
• 2010E:
• 2011E:
Consensus
• 1Q10E:
• 2010E:
• 2011E:
Guidance
• 2010E
– Rev
– Adj. EBITDA
– Option
–

Coverage
• Buys
–
• Holds
–
–
• Sells
– NA
–

Sources: yahoo.com, marketwatch.com, reuters.com

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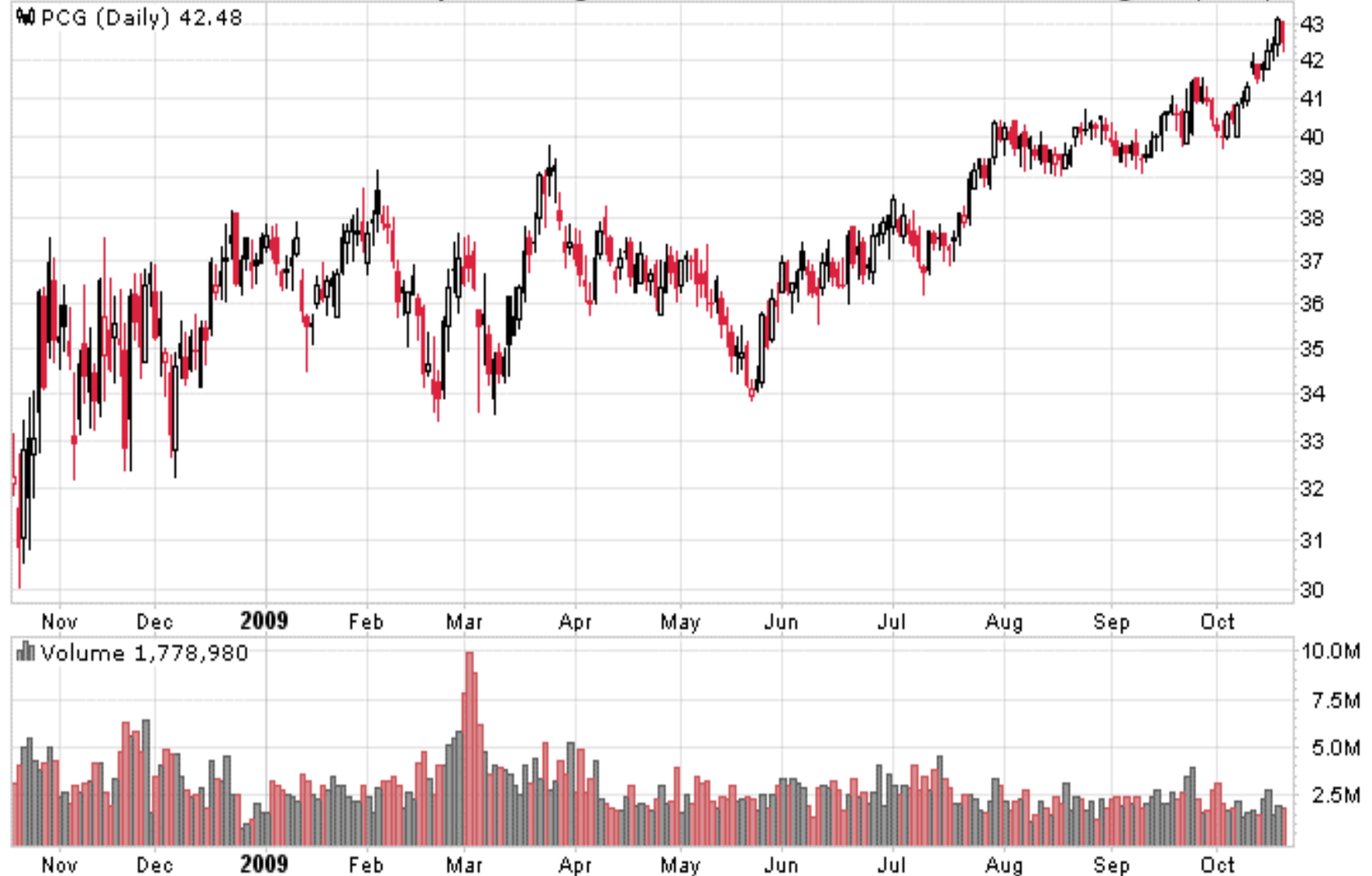
Stock Chart

PCG (PG&E Corp.) NYSE

20-Oct-2009

© StockCharts.com

Open 43.03 High 43.03 Low 42.24 Close 42.48 Volume 1.8M Chg -0.61 (-1.42%) ▼



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Business Synopsis

Description

- PG&E Corporation, through its subsidiaries, operates as a public utility company that engages in electricity and natural gas distribution primarily in northern and central California.
- The company owns and operates electricity generation facilities, transmission and distribution lines, and substations; and an integrated natural gas transportation, storage, and distribution system, as well as has underground natural gas storage fields in California
- As of December 31, 2008, the company served approximately 5.1 million electricity distribution customers and approximately 4.3 million natural gas distribution customers.
- It also operated 18,650 circuit miles of interconnected transmission lines and 141,036 circuit miles of distribution lines for electricity; and 42,017 miles of distribution pipelines, 6,418 miles of backbone and local transmission pipelines, and 3 storage facilities for natural gas.

Products/Services

HESU

Internal Analysis

Valueline.com Safety Ranking: 2 (Raised 5/12/06)

Management:

Peter Darbee – Chairman, Chief Executive Officer & President

Chris Johns – President of Pacific Gas & Electric Company

Kent Harvey – Chief Financial Officer

Jack Keenan – Chief Operating Officer

Gabe Togneri – Investor Relations

Channel Checking:

The Climate Prediction Center of the National Weather Service is predicting above average precipitation and temperature for the entire state of California in their Three-Month Outlook Official Forecast for Nov - Jan.

SWOT Analysis:

Strengths-

- Strong distribution network
- Diversified customer base
- Balanced generation mix
- Steady Financial performance

Weaknesses-

- Overdependence on California
- Obligations as holding company for Pacific Gas and Electric Company
- Adverse resolution of pending litigation

Opportunities-

- Growing use of renewable energy sources
- Increase in demand for electricity in the US
- Increase in demand for natural gas in the US

Threats-

- Consolidation in the North American electricity utility industry
- Increasing competition
- Regulated prices
- Environmental regulations and litigation

Headlines

-recent news that had a positive or negative effect on the stock and its subsidiaries

[The Coming Energy Revolution](#)

Business Week – Oct 8, 2009

[Making Meters Smarter, Home by Home](#)

Business Week – Oct 8, 2009

[2 Big Bills for Solar](#)

Motley Fool – Oct 14, 2009

[PG&E Signs Solar Power Deal in California](#)

TheStreet.com – Oct 16, 2009

[Utilities split on climate legislation](#)

MarketWatch – Oct 16, 2009

[PG&E upgraded to 'Buy,' stock hits new year high](#)

MSN Money – Oct 12, 2009

[PG&E station will generate clean energy](#)

TheReporter.com – Oct 17, 2009

[PG&E to buy solar power from NextLight](#)

StrategyEye – Oct 20, 2009

Industry Analysis

-recent earnings call transcript from www.seekingalpha.com

- Our SmartMeter Program is a great example of excellence in operations. We're installing this new technology at a pace of 12,000 meters per day and last month we installed our 3 millionth smart meter. The transition to the new upgraded technology has gone well. We've installed more advanced meters than any other utility in the nation. We continue to remain on track to hook up 10 million meters for all of our customers by the end of 2011.
- California currently has three times more foreclosures than the national average and unemployment rates remain high. We're supporting our customers during this difficult time through our customer assistance programs.
- The economy continues to affect our customers. Our electric sales declined by a little over 1% compared to the first six months of last year, when adjusted for weather and meter reading days. Our forecast indicated decline in sales of about 1% for the entire year compared to the previous year. As you know, decoupling protects our revenues from fluctuations in sales.
- Our last quarter's call, we also mentioned the efforts we had initiated to tighten our belts and we completed that reprioritization and expect most of those benefits to occur in the second half of the year. In addition, our electric transmission revenues tend to rise in the third quarter compared to the first two quarters, due to increased usage in the summer. That should be a positive in the second half of the year, because the FERC revenues are outside of the decoupling mechanism.

Industry Analysis

- Finally, we're also expecting decisions on some of our ongoing regulatory items before year end, such as the core procurement incentive mechanism or CPIM and our energy efficiency incentive revenues. These should have a favorable impact as well in the second half of the year.

Industry Analysis

- In terms of the financing activities on the debt side, we issued 500 million of floating rate short-term notes in June to support the collateral requirements of our electric procurement and hedging program. Then on the equity side, we issued \$193 million of common stock through our 401k and DRIP programs during the first two quarters of the year.

This level of issuance was higher than we would normally expect, roughly double and it resulted in a bit more dilution than we would have expected. We'll continue to monitor the programs and we do plan to shut off new issuance in these programs during some periods in order to manage our equity going-forward.

However, because of the success of the programs to date and in conjunction with our other positive cash items, we can now say that we do not expect to need to issue new blocks of equity outside of the 401k, and drip programs through 2010.

- Our guidance is consistent with the GRC filing. We plan to request a \$1.069 billion revenue increase for our business in 2011, which on a standalone basis would represent a 6.5% increase over our 2010 revenue forecast.

However, when we combine our GRC with all other anticipated rate changes, we estimate that the overall electric rate impact on January 1, 2011 will be less than 1%. This assumes among other things the current forward curve for natural gas prices and its impact on power prices.

- As mentioned in my opening comments, policy makers have substantially increased their focus on improving our country's future energy plans. PG&E is frequently called on to provide input on these matters and we look forward to continuing to work with policy makers both regionally and nationally. One element of this focus is the Waxman-Markey Bill.

Industry Analysis

- I learned a long time ago not to handicap political decisions, so I won't offer a prediction on the passage this Bill. We're actively involved in providing constructive feedback as the Bill moves through the Senate. We've been a proponent of controls over emissions and the fair allocation of credits for quite some time.

- **Greg Gordon - Morgan Stanley**

The second question is; can you review where things stand in terms of resolving the controversy surrounding the energy efficiency incentive payment mechanism?

Chris Johns

We continue to move forward on that issue. We've actually done a joint filing with Sempra to try to put in place an agreement, a settlement agreement, on how they would resolve that. We still anticipate that we will get an order by the end of this year that would allow us to resolve the 2008 award and then, we would have in 2010, something in place that would allow us to address the hold back that that it's been done for last year, and then the holdback that will be in place for this year.

We still believe that that's moving along. We won't hear about it until probably the fourth quarter of this year.

Greg Gordon - Morgan Stanley

So there is an assumption built into your guidance range for the outcome of that proceeding?

Chris Johns

Yes. We've said all along, it's zero to \$30 million

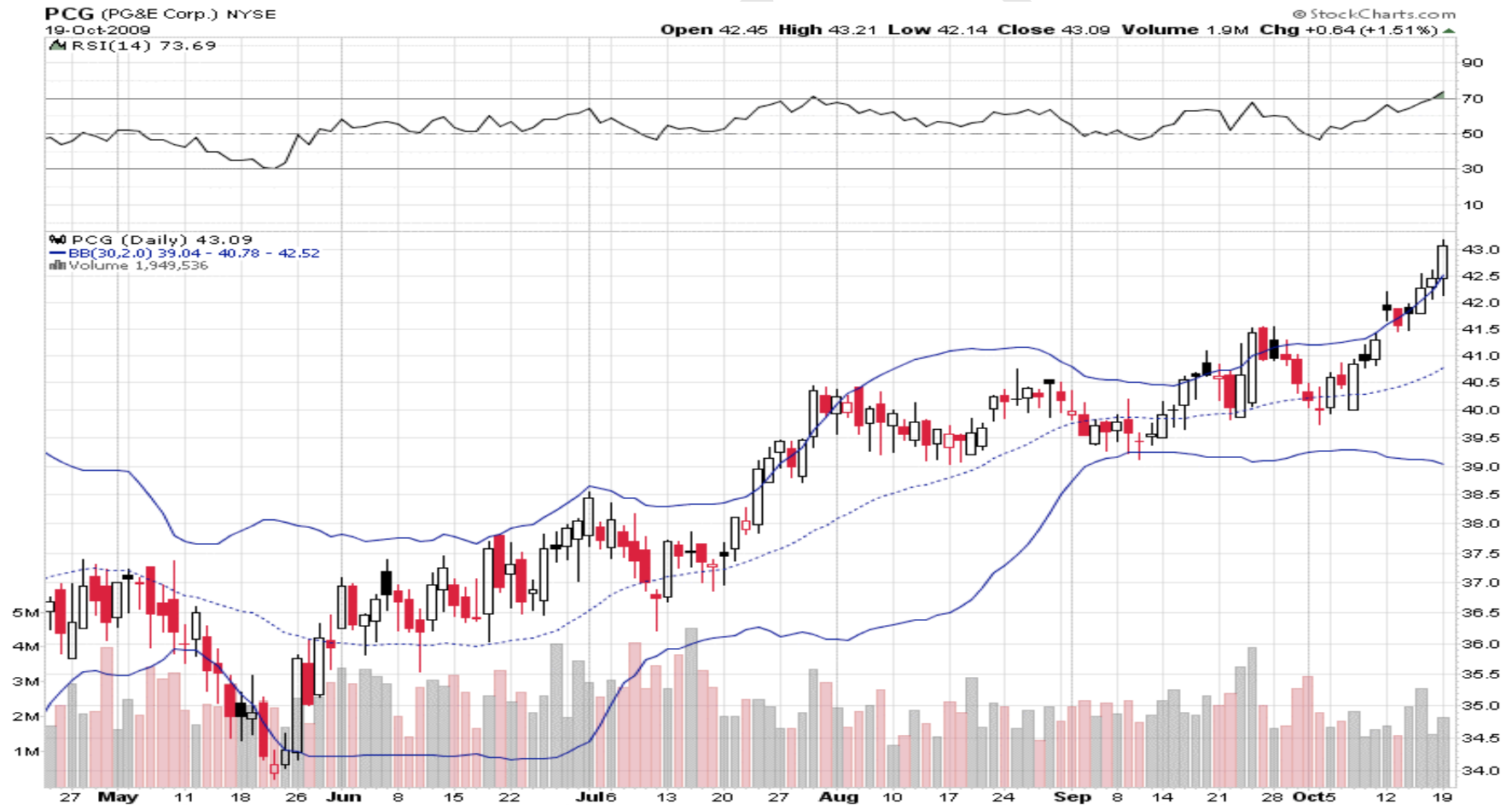
Industry Analysis

Industry Analysis

Monetary Policy Indicator: 10

Momentum Indicator: +2

Sector Rotation: 78 of 98



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Industry Analysis

Financial Ratios

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	12.09	11.73	7.34	146.93
P/E High - Last 5 Yrs.	NA	0.63	0.12	24.54
P/E Low - Last 5 Yrs.	NA	0.08	0.04	6.16
Beta	0.33	0.67	0.58	1.40
Price to Sales (TTM)	1.13	1.00	1.17	1.93
Price to Book (MRQ)	1.57	1.82	2.01	2.98
Price to Tangible Book (MRQ)	1.58	2.98	2.48	5.74
Price to Cash Flow (TTM)	5.30	6.90	3.75	7.62
Price to Free Cash Flow (TTM)	--	2.96	16.54	15.65
% Owned Institutions	--	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	3.97	1.47	-4.58	-14.94
Dividend Yield - 5 Year Avg.	2.78	2.85	3.37	2.77
Dividend 5 Year Growth Rate	--	7.77	23.20	9.41
Payout Ratio(TTM)	46.65	39.25	16.63	34.09

Industry Analysis

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	-10.73	17.31	-4.58	-14.94
Sales (TTM) vs TTM 1 Yr. Ago	-0.45	38.21	9.39	-4.54
Sales - 5 Yr. Growth Rate	6.99	15.39	13.65	16.04
EPS (MRQ) vs Qtr. 1 Yr. Ago	27.87	-6.85	134.47	57.34
EPS (TTM) vs TTM 1 Yr. Ago	31.42	--	--	--
EPS - 5 Yr. Growth Rate	11.28	14.39	35.22	0.99
Capital Spending - 5 Yr. Growth Rate	16.40	18.24	15.13	20.33

Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	0.82	1.04	0.83	0.76
Current Ratio (MRQ)	0.86	1.15	0.93	0.91
LT Debt to Equity (MRQ)	112.77	121.69	132.93	104.42
Total Debt to Equity (MRQ)	126.57	148.22	159.60	151.00
Interest Coverage (TTM)	3.37	1.42	0.09	26.79

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	28.91	36.37	22.88	25.28
Gross Margin - 5 Yr. Avg.	--	9.53	8.24	25.21
EBITD Margin (TTM)	28.91	--	--	--

Industry Analysis

EBITD - 5 Yr. Avg	37.88	21.71	32.43	14.70
Operating Margin (TTM)	16.88	15.05	18.67	--
Operating Margin - 5 Yr. Avg.	24.64	15.27	19.24	20.04
Pre-Tax Margin (TTM)	12.27	11.09	16.43	7.07
Pre-Tax Margin - 5 Yr. Avg.	19.68	12.47	14.03	19.76
Net Profit Margin (TTM)	9.30	8.00	12.67	5.57
Net Profit Margin - 5 Yr. Avg.	12.51	8.74	9.70	13.97
Effective Tax Rate (TTM)	24.25	27.06	12.49	-1.02
Effective Tax Rate - 5 Yr. Avg.	36.42	29.35	32.96	28.47

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	3.21	4.32	5.93	3.27
Return on Assets - 5 Yr. Avg.	4.50	3.99	3.53	5.07
Return on Investment (TTM)	3.97	6.09	9.08	4.50
Return on Investment - 5 Yr. Avg.	5.59	5.48	5.04	6.44
Return on Equity (TTM)	13.61	17.17	13.39	8.02
Return on Equity - 5 Yr. Avg.	20.16	15.63	8.13	14.85

Efficiency

	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	643,378	1,475,281	4,466,366	491,900
Net Income/Employee (TTM)	59,806	101,661	325,052	34,571
Receivable Turnover (TTM)	7.15	6.62	3.22	7.12
Inventory Turnover (TTM)	26.82	16.29	19.35	5.42
Asset Turnover (TTM)	0.35	0.56	0.27	0.44

Industry Analysis

DIRECT COMPETITOR COMPARISON

	<u>PCG</u>	<u>AEP</u>	<u>EIX</u>	<u>SRE</u>	<u>Industry</u>
Market Cap:	15.93B	14.96B	10.91B	13.13B	2.74B
Employees:	21,667	21,912	18,291	13,673	3.70K
Qtrly Rev Growth (yoy):	-10.70%	-9.70%	-18.50%	-32.50%	5.90%
Revenue (ttm):	13.94B	14.09B	13.17B	8.78B	3.55B
Gross Margin (ttm):	28.98%	34.49%	29.56%	27.28%	30.78%
EBITDA (ttm):	4.27B	4.17B	4.01B	1.99B	725.60M
Oper Margins (ttm):	16.95%	18.25%	19.26%	14.51%	11.24%
Net Income (ttm):	1.25B	1.20B	876.00M	1.14B	N/A
EPS (ttm):	3.876	2.846	2.708	4.636	1.94
P/E (ttm):	11.09	11.03	12.37	11.54	12.13
PEG (5 yr expected):	1.99	2.93	3.66	1.85	2.02
P/S (ttm):	1.13	1.06	0.82	1.49	0.78

AEP = American Electric Power Co., Inc.

Henderson State

Industry Analysis

EIX = Edison International

SRE = Sempra Energy

Industry = Diversified Utilities

DCF Model	
Beta	.32
Valueline Safety Rating	2
Expected Growth (EPS)	4.7%
Projected Growth & Dividend Yield	11.5%
Required Rate Return	5.70%
Projected Future P/E	11.5
Annualized HPR	8.75%
PV of Future Price	40.40
Recommendation	Undervalued

Industry Analysis

Summation

P/E Sensitivity					
Present Value	Price 2014	P/E 2014	EPS 2014	HPR 2014	Annual Return
19.32	25.85	5.5	4.70	0.89	-2.22%
26.35	35.25	7.5	4.70	1.11	2.01%
33.38	44.65	9.5	4.70	1.33	5.61%
40.40	54.05	11.5	4.70	1.55	8.75%
47.43	63.45	13.5	4.70	1.77	11.55%
54.45	72.85	15.5	4.70	2.00	14.07%
61.48	82.25	17.5	4.70	2.22	16.38%

Earnings Sensitivity					
Present Value	Price 2014	P/E 2014	EPS 2014	HPR 2014	Annual Return
35.24	47.15	11.5	4.10	1.39	6.48%
36.96	49.45	11.5	4.30	1.44	7.26%
38.68	51.75	11.5	4.50	1.50	8.02%
40.40	54.05	11.5	4.70	1.55	8.75%
42.12	56.35	11.5	4.90	1.61	9.46%
43.84	58.65	11.5	5.10	1.66	10.16%
45.56	60.95	11.5	5.30	1.72	10.83%