

PG&E Corporation (PCG)

\$9.10 (As of 08/06/20)

Price Target (6-12 Months): **\$7.75**

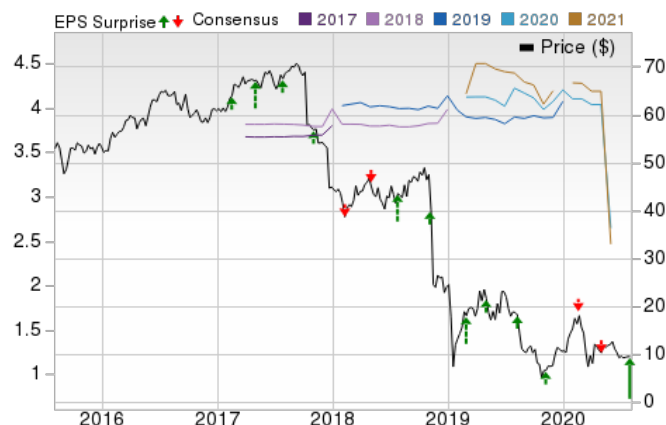
Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 07/20/20)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **5-Strong Sell**
Zacks Style Scores: VGM:B
Value: B | Growth: B | Momentum: C

Summary

PG&E Corporation ended the second quarter of 2020 with earnings exceeding the Zacks Consensus Estimate. Unforeseen natural calamities weigh on utilities like PG&E Corp., thereby pushing up its expenses. Notably, it incurred costs of \$826 million for clean-up and repair of its facilities through Jun 30, 2020, in connection with the 2018 Camp fire. The operation and decommissioning of its nuclear power plants expose it to potentially significant liabilities. Unfavorable rulings from CPUC may hurt the company's operational results. It has also underperformed the industry in the past year. However, PG&E Corp. boasts a solid portfolio of regulated utility assets that offer a stable earnings base and substantial long-term growth potential. It also strives to optimize generation margins by improving cost structure and performance.

Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$19.18 - \$3.55**
20 Day Average Volume (sh) **21,872,366**
Market Cap **\$17.7 B**
YTD Price Change **-16.3%**
Beta **1.10**
Dividend / Div Yld **\$0.00 / 0.0%**
Industry [Utility - Electric Power](#)
Zacks Industry Rank **Bottom 24% (192 out of 252)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **51.5%**
Last Sales Surprise **NA**
EPS F1 Est- 4 week change **-22.8%**
Expected Report Date **11/05/2020**
Earnings ESP **0.0%**

P/E TTM **2.5**
P/E F1 **6.4**
PEG F1 **2.8**
P/S TTM **1.0**

Sales Estimates (millions of \$)

	2017 A	2018 A	2019 A	2020 E	2021 E
Q1					
Q2					
Q3					
Q4					
Annual*					
2021					17,982 E
2020	4,306 A	4,533 A			17,493 E
2019	4,011 A	3,943 A	4,432 A	4,743 A	17,129 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.25 E	\$0.29 E	\$0.26 E	\$0.17 E	\$0.97 E
2020	\$0.89 A	\$1.03 A	\$0.35 E	\$0.18 E	\$1.42 E
2019	\$1.04 A	\$1.10 A	\$1.11 A	\$0.68 A	\$3.93 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/06/2020. The reports text is as of 08/07/2020.

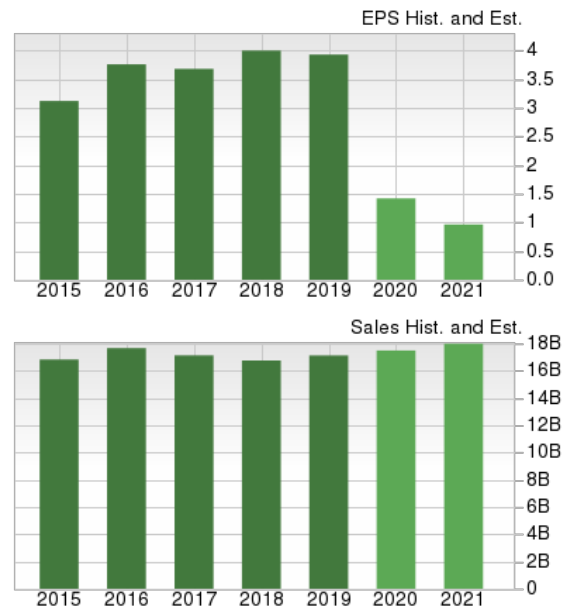
Overview

San Francisco, CA-based PG&E Corporation is the parent holding company of California's largest regulated electric and gas utility, Pacific Gas and Electric Company. The company was incorporated in 1905. The utility generates revenues mainly through the sale and delivery of electricity and natural gas to customers. It engages in the business of electricity and natural gas distribution; electricity generation, procurement, and transmission; and natural gas procurement, transportation and storage. The utility also operates hydro-electric, nuclear and fossil fuel power plants.

At 2019-end, the utility owned approximately 18,000 circuit miles of interconnected transmission lines, operated at voltages from 60 kilovolts (kV) to 500 kV, and 33 electric transmission substations, with a capacity of nearly 65,000 megavolt-amperes (MVA). The utility is interconnected with electric power systems in the Western Electricity Coordinating Council, which includes several western states, Alberta and British Columbia, Canada, and parts of Mexico.

The utility's electricity distribution network consists of roughly 107,000 circuit miles of distribution lines, 68 transmission switching substations and 760 distribution substations, with a capacity of nearly 32,00 MVA. In 2019, the electric segment reported revenues of \$12.74 billion, accounting 74.4% of total revenues.

At 2019 end, the utility's natural gas system consisted of around 43,300 miles of distribution pipelines, more than 6,300 miles of backbone and local transmission pipelines, and various storage facilities. It procures natural gas directly from producers and marketers, both in Canada and the United States. Natural gas segment revenues in 2019 were \$4.39 billion, comprising 25.6% of total revenues.



Reasons To Sell:

- ▼ Unforeseen natural calamities weigh on utilities like PG&E Corp., thereby pushing up its expenses. Notably, the company incurred costs of \$826 million for clean-up and repair of its facilities (including \$358 million in capital expenditures) through Jun 30, 2020, in connection with the 2018 Camp fire. PG&E Corp. also incurred costs of \$349 million for clean-up and repair of its facilities (including \$193 million in capital expenditures) through Jun 30, in connection with the 2017 Northern California wildfires. The company is authorized to track and seek recovery of clean-up and repair costs through CEMA. However, CPUC may not approve the request and in that case, PG&E Corp's operating results might suffer.
- ▼ The operation and decommissioning of the utility's nuclear power plants expose it to potentially significant liabilities. The utility may not be able to fully recover its costs if regulatory requirements change or the plant ceases operations before the licenses expire. This could have a material effect on PG&E Corporation's and the utility's financial results. Under the Price-Anderson Act, public liability claims that nuclear incidents occurring at Diablo Canyon, and during the transportation of material to and from Diablo Canyon can be \$14 billion.
- ▼ In January 2019, PG&E Corp filed for bankruptcy, which indicates that the company has been unable to pay off its financial obligations. The company ended up incurring Chapter 11-related costs of \$119 million at the end of Mar 31, 2020. Although PG&E Corp emerged from Chapter 11 on Jul 1, 2020, cash paid by the company for reorganization items escalated year over year. The net amount paid was \$33 million and \$90 million for PG&E Corporation and the Utility, respectively, during the three months ended Jun 30, 2020 as compared to \$2 million and \$13 million of cash received for PG&E Corporation and the Utility, respectively, during the same period in 2019. This might have caused some investors to lose confidence in this stock. Evidently, PG&E Corp.'s shares have lost 50.9% in the past year compared with the industry's decline of 7.1%.

Liabilities related to its nuclear power plants remains major concern for the stock.

Risks

- PG&E Corp has a solid portfolio of regulated utility assets that offer a stable earnings base and substantial long-term growth potential. The company strives to optimize generation margins by improving its cost structure, performance and reliability of its nuclear and fossil fuel-fired units. Going forward, its bottom line will be driven by favorable decisions from the CPUC as well as long-term supply agreements, diversification into alternative power sources and infrastructure improvement programs, resulting in rate base growth.
 - The company had filed a five-year financial forecast earlier on the anticipation of a reorganization, which includes capital and rate-base growth projections. As it has emerged from Chapter 11 on Jul 1, 2020, execution of this plan is back on track. For 2020, PG&E Corp anticipates base revenues of \$9.1 billion, suggesting an increase of 7% when compared with the authorized base revenues for 2019. The company also requested the CPUC to establish a ratemaking mechanism that would increase its authorized revenues in 2021 and 2022 by \$318 million and \$367 million, respectively. Over the 2020-2022 General Rate Case (GRC) period, the company plans to make average annual capital investments of \$4.5 billion to improve electric and natural gas distribution as well as electric generation infrastructure. On successful realization of these expectations we may expect the company to witness solid bottom-line growth over the long run.
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Last Earnings Report

PG&E Corporation Q2 Earnings Beat, Revenues Up Y/Y

PG&E Corporation reported adjusted operating earnings per share of \$1.03 in second-quarter 2020, which surpassed the Zacks Consensus Estimate of 68 cents by 51.5%. The bottom line, however, declined 6.4% from the year-ago quarter's reported figure.

Including one-time items, the company incurred a GAAP loss of \$3.73 per share compared with a loss of \$4.83 in the prior-year quarter.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	NA
EPS Surprise	51.47%
Quarterly EPS	1.03
Annual EPS (TTM)	3.71

Revenue Update

PG&E Corp's total revenues of \$4,533 million rose 15% from the year-ago quarter's \$3,943 million.

While electric revenues increased 16.6% from the prior-year quarter's reported figure, natural gas revenues improved 10.1% year over year.

Operational Highlights

Operating expenses in the reported quarter totaled \$4,251 million, which declined 43.9% from \$7,583 million in second-quarter 2019. The decline was due to lower cost of electricity and wildfire-related claims.

The company reported an operating income of \$282 million against the operating losses of \$3,640 million incurred during the previous year's second quarter.

Interest expenses in second-quarter 2020 summed \$199 million compared with \$60 million in the year-ago period.

2020 Guidance

PG&E Corporation issued 2020 guidance for consolidated GAAP losses of 99 cents to \$1.05 per share, which includes non-core items.

On a non-GAAP basis, the guidance range for 2020 core earnings is \$1.60-\$1.63 per share. The Zacks Consensus Estimate for the company's 2020 earnings, pegged at \$1.32 per share, lies below the company's guided range.

Recent News

On **Aug 4, 2020**, Pacific Gas and Electric Company (PG&E) announced a new financial assistance pilot for residential customers installing home battery storage systems through the statewide Self-Generation Incentive Program (SGIP). Approved by the California Public Utilities Commission (CPUC) on July 16, 2020, the new pilot for the existing SGIP program allows eligible customers to install the technology at no cost to them.

On **Jun 21, 2020**, PG&E Corp announced that it has completed the initial stage of its bankruptcy exit financing contemplated in its Plan of Reorganization. As a result of its Chapter 11 proceedings, PG&E has been able to retire expensive high-coupon debt and replace it with lower cost debt, yielding significant annual savings for customers. These savings are estimated to be approximately \$250 million annually. PG&E will reflect these savings in future customer bills later this year.

On **June 9, 2020**, PG&E Corp. announced its plans to sell its iconic downtown San Francisco headquarters and relocate to Oakland, a move aimed at lowering costs after the California power giant exits bankruptcy.

PG&E, which has called San Francisco its home since the utility's founding in 1905, will move in phases starting in 2022. It plans to lease its new building at 300 Lakeside in Oakland, with the option to purchase the property from developer TMG Partners. PG&E said any net gains realized from a sale would be passed on to customers, and a transaction wouldn't occur until it exits bankruptcy.

Valuation

PG&E Corporation's shares are down 16.3% in the year-to-date period and 50.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 12% and 12.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 7.1% whereas the sector is down 7.7%.

The S&P 500 index is up 3.3% in the year-to-date period and up 15.7% in the past year.

The stock is currently trading at 7.9X of forward 12-month earnings, which compares to 14X for the Zacks sub-industry, 13X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19X and as low as 0.9X, with a 5-year median of 11.9X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$7.75 price target reflects 6.75X forward 12-month earnings.

The table below shows summary valuation data for PCG

Valuation Multiples - PCG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.93	14	12.98	22.69
	5-Year High	18.98	15.52	15.31	22.69
	5-Year Low	0.93	11.11	11.38	15.25
	5-Year Median	11.94	13.25	13.78	17.55
P/S F12M	Current	0.99	2.34	2.72	3.63
	5-Year High	1.99	2.45	3.29	3.63
	5-Year Low	0.12	1.54	1.75	2.53
	5-Year Median	1.35	1.9	2.06	3.04
EV/EBITDA TTM	Current	6.05	12.88	18.06	12.89
	5-Year High	14.65	13.59	20.38	12.89
	5-Year Low	1.37	7.81	10.6	8.24
	5-Year Median	8.06	10.43	13.86	10.89

As of 08/06/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Brookfield Infrastructure Partners LP (BIP)	Neutral	3
CMS Energy Corporation (CMS)	Neutral	2
CenterPoint Energy, Inc. (CNP)	Neutral	3
Alliant Energy Corporation (LNT)	Neutral	2
OGE Energy Corporation (OGE)	Neutral	3
The AES Corporation (AES)	Underperform	4
NiSource, Inc (NI)	Underperform	4
NRG Energy, Inc. (NRG)	Underperform	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PCG	X Industry	S&P 500	AES	CMS	CNP
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	2	3
VGM Score	B	-	-	B	D	B
Market Cap	17.67 B	9.09 B	23.20 B	11.00 B	17.68 B	11.04 B
# of Analysts	2	3	14	4	5	4
Dividend Yield	0.00%	3.37%	1.78%	3.46%	2.64%	2.96%
Value Score	B	-	-	B	C	B
Cash/Price	0.85	0.06	0.07	0.23	0.05	0.09
EV/EBITDA	-5.64	9.76	13.21	13.70	12.93	8.05
PEG Ratio	2.84	3.58	2.94	1.68	3.33	3.17
Price/Book (P/B)	4.65	1.59	3.12	2.37	3.37	1.32
Price/Cash Flow (P/CF)	0.90	7.96	12.27	4.81	10.31	4.55
P/E (F1)	6.42	17.45	21.69	12.10	23.32	15.87
Price/Sales (P/S)	0.98	1.90	2.48	1.14	2.66	1.14
Earnings Yield	15.60%	5.72%	4.39%	8.28%	4.29%	6.31%
Debt/Equity	9.60	1.05	0.77	4.16	2.57	1.30
Cash Flow (\$/share)	10.06	4.27	6.94	3.44	5.99	4.45
Growth Score	B	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	5.70%	4.83%	10.46%	4.07%	6.95%	11.63%
Proj. EPS Growth (F1/F0)	-63.87%	0.83%	-6.80%	0.55%	6.35%	-28.63%
Curr. Cash Flow Growth	3.97%	6.78%	5.39%	4.43%	6.78%	10.42%
Hist. Cash Flow Growth (3-5 yrs)	5.38%	6.02%	8.55%	0.82%	7.74%	6.62%
Current Ratio	0.55	0.90	1.33	1.10	1.13	0.58
Debt/Capital	90.57%	50.91%	44.50%	80.64%	71.97%	56.58%
Net Margin	-37.92%	10.97%	10.13%	2.01%	11.33%	-6.87%
Return on Equity	34.60%	9.34%	14.39%	24.35%	15.32%	13.92%
Sales/Assets	0.20	0.22	0.51	0.28	0.24	0.29
Proj. Sales Growth (F1/F0)	2.12%	0.00%	-1.51%	-0.43%	-1.05%	-36.55%
Momentum Score	C	-	-	C	A	F
Daily Price Chg	2.48%	0.32%	-0.04%	7.47%	-0.96%	6.57%
1 Week Price Chg	-0.11%	0.00%	0.14%	-1.10%	1.02%	-3.70%
4 Week Price Chg	5.94%	5.54%	7.78%	18.89%	4.68%	6.97%
12 Week Price Chg	-18.02%	9.88%	17.48%	40.02%	13.57%	17.30%
52 Week Price Chg	-50.84%	-11.42%	0.68%	4.42%	2.80%	-27.17%
20 Day Average Volume	21,872,366	330,842	2,057,775	5,293,298	1,623,437	7,138,135
(F1) EPS Est 1 week change	-0.31%	0.00%	0.00%	0.00%	0.45%	0.00%
(F1) EPS Est 4 week change	-22.84%	0.00%	1.36%	-0.91%	1.06%	0.00%
(F1) EPS Est 12 week change	-60.22%	0.00%	1.57%	-2.32%	0.63%	-1.73%
(Q1) EPS Est Mthly Chg	-67.59%	-0.32%	0.54%	0.37%	13.20%	-10.38%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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