

PG&E Corporation (PCG)

\$17.92 (As of 02/21/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

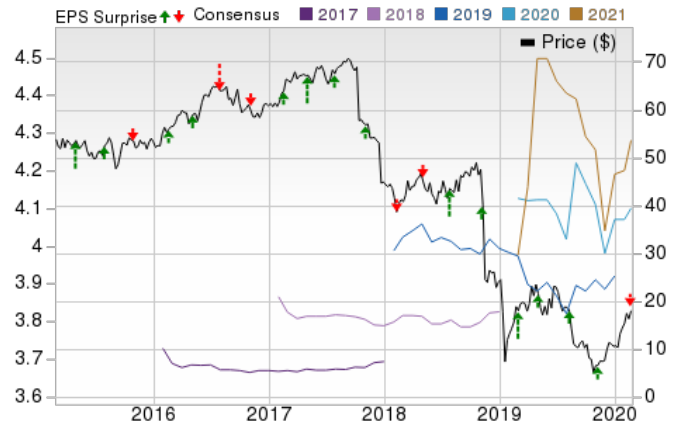
Growth: D

Momentum: D

Summary

PG&E Corp ended fourth-quarter 2019 on a mixed note. While its quarterly earnings missed the Zacks Consensus Estimate, revenues surpassed the same. It boasts a solid portfolio of regulated utility assets that offer a stable earnings base and substantial long-term growth potential. It maintains a stable liquidity position along with a strong cash generating capacity through operating activities. However, PG&E Corp has underperformed its industry in a year's time. Notably, the operation and decommissioning of its nuclear power plants expose it to potentially significant liabilities. Unforeseen natural calamities weigh on utilities like PG&E Corp., thereby flaring up its expenses. Notably, it incurred costs of \$772 million for clean-up and repair of its facilities through Dec 31, 2019, in connection with the 2018 Camp fire.

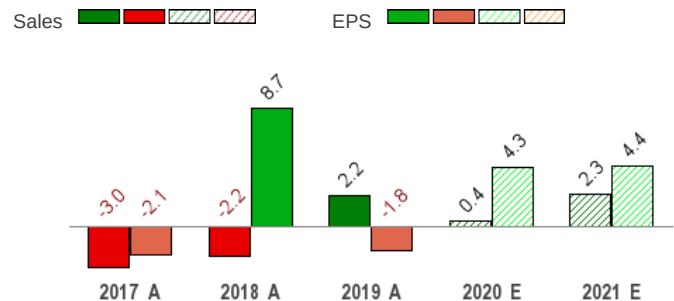
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.19 - \$3.55
20 Day Average Volume (sh)	11,738,946
Market Cap	\$9.5 B
YTD Price Change	64.9%
Beta	0.56
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 41% (150 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.7%
Last Sales Surprise	15.7%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	4.6
P/E F1	4.4
PEG F1	1.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					17,595 E
2020					17,206 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					\$4.28 E
2020	\$0.85 E	\$1.13 E	\$0.95 E	\$1.07 E	\$4.10 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 02/21/2020. The reports text is as of 02/24/2020.

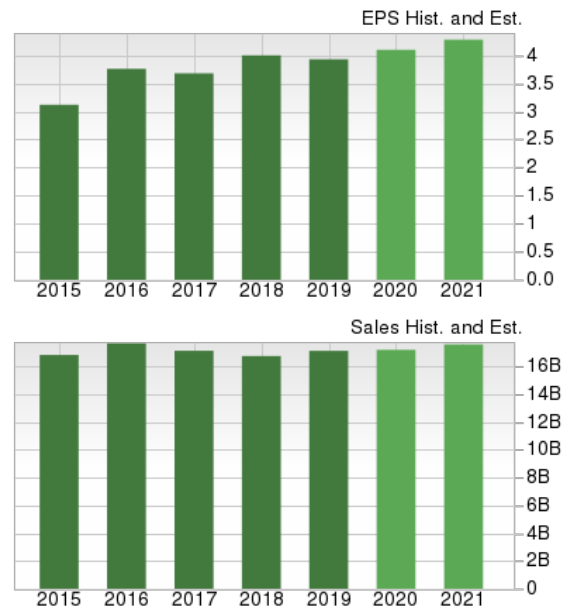
Overview

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 Buy:

- ▲ 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.
- ▲ In anticipation of its emergence from Chapter 11 reorganization, the company is filing a five-year financial forecast that includes capital and rate-base growth projections. 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.
- ▲ PG&E Corp continues to make considerable investments in gas-related projects, and electric system safety and reliability. The company's capital expenditure at the end of 2019 was \$6.31 billion. The company expects to spend approximately \$7.6 billion in 2020 and by 2024 the capital expenditures could reach up to \$8.1 billion. Moreover, the company projects more than \$1 billion in grid investments through 2020, in order to increase remote control and sensor technology of the grid. These projects will enable the company to provide reliable services to its customers.
- ▲ PG&E Corp maintains a stable liquidity position and a strong cash generating capacity through operating activities. As of Dec, 2019, the company had cash and cash equivalents of \$1,570 million. Moreover, the company's cash flow from operating activities at the end of 2019 was \$4,816 million compared with the \$4,752 million recorded at the end of 2018. Such solid cash flow offers a stable financial position to the stock, which will keep its operations afloat.

PG&E Corp.'s stable cash generating capacity, investments in infrastructure projects and steady growth in customer count will drive its future growth.

Reasons To Sell:

▼ Unforeseen natural calamities weigh on utilities like PG&E Corp., thereby pushing up its expenses. Notably, the company incurred costs of \$772 million for clean-up and repair of its facilities (including \$323 million in capital expenditures) through Dec 31, 2019, in connection with the 2018 Camp fire. PG&E Corp. also incurred costs of \$357 million for clean-up and repair of its facilities (including \$180 million in capital expenditures) through Dec 31, 2019, 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.

Unfavorable decisions from the CPUC and liabilities related to its nuclear power plants remain major concerns for the stock. Moreover, it has filed for bankruptcy

▼ To avoid huge losses, like the ones incurred from Northern California Wildfires and the 2018 Camp Fire, PG&E Corp recently adopted a few precautionary measures. In 2019, the company recorded charges of about \$55 million related to vegetation management and catastrophic event expense costs, and expects to record an additional \$29 million in compliance expenses in 2020.

While such measures are expected to benefit the company over the long run, in the near term these will push up PG&E Corp.'s operating expenditure, which in turn may weigh on its bottom-line result. Evidently, its total operating expenses flared up 2.9% year over year to \$27.2 billion in 2019. Such dismal operating expense figures are expected to erode the company's profitability.

▼ 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.

PG&E Corp. purchased the maximum available public liability insurance of \$450 million for Diablo Canyon. The balance of the \$14 billion of liability protection is provided under a loss-sharing program among utilities owning nuclear reactors. The company may be assessed up to \$275 million per nuclear incident under this program, with payments in each year limited to a maximum of \$41 million per incident. Such liabilities may hurt this stock's growth, considering which investors might have lost confidence in this company. Evidently, shares PG&E Corp have lost 3.9% in a year's time, as against the industry's 21.4% growth.

▼ In January 2019, PG&E Corp filed for bankruptcy, which made it subject to the risks and uncertainties associated with the bankruptcy. Although PG&E has filed for the reorganization Under Chapter 11, the company ended up incurring Chapter 11-related costs of \$199 million at the end of Dec 31, 2019. These costs include pipeline related expenses associated with the multi-year effort to identify and remove encroachments from transmission pipeline rights-of-way.

Last Earnings Report

PG&E Corporation Q4 Earnings Miss, Revenues Down Y/Y

PG&E Corporation reported adjusted operating earnings per share of 68 cents in fourth-quarter 2019, which missed the Zacks Consensus Estimate of 77 cents by 11.7%. The bottom line, moreover, declined 15% from the year-ago quarter's figure.

Including one-time items, the company incurred a GAAP loss of \$6.84 per share compared with a loss of \$13.24 in the prior-year quarter.

For 2019, PG&E Corp.'s adjusted operating EPS came in at \$3.93 per share, down 1.75% from the prior-year quarter's \$4. The figure also missed the Zacks Consensus Estimate of \$4.01 by 2%.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	15.74%
EPS Surprise	-11.69%
Quarterly EPS	0.68
Annual EPS (TTM)	3.93

Revenue Update

PG&E Corp.'s total revenues of \$4,743 million surpassed the Zacks Consensus Estimate of \$4,098 million by 15.7%. The top line also rose 18.6% from the year-ago quarter.

For 2019, PG&E Corp.'s revenues were \$17,129 million, up 2.2% from the prior-year quarter's \$16,759 million. The figure also exceeded the Zacks Consensus Estimate of \$16,610 million by 3.1%.

Operational Highlights

Total operating expenses at the end of December 31, 2019, totaled \$27,223 million, which increased 2.9% from \$26,459 million at the end of December 31, 2018. The increase was due to higher cost of natural gas, elevated operating and maintenance expenses and escalated depreciation, amortization and decommissioning expenses.

The company incurred operating losses of \$11,042 million at the end of December 31, 2019, compared with operating losses of \$10,129 million, registered at the end of December 31, 2018.

Interest expenses at the end of December 31, 2019, summed \$934 million compared with \$929 million in the year-ago period.

Five-year Financial Forecast

As a milestone in the process of emerging from Chapter 11 reorganization, PG&E is also releasing a five-year financial forecast highlighting capital and rate base growth along with other material drivers of the business, as well as filing three-statement financials with the Bankruptcy Court. The company remains on track to have its Chapter 11 Plan confirmed by June 30, 2020.

Guidance

PG&E Corp has not provided guidance for 2020 GAAP earnings and adjusted earnings from operations, due to the continuing uncertainty related to the 2018 Camp Fire, the 2017 Northern California wildfires, the Chapter 11 proceedings, and legislative and regulatory reforms.

PG&E Corporation is providing 2020 non-core items guidance of approximately \$1.4 billion after-tax for Chapter 11-related costs, wildfire fund-related costs, investigation remedies and delayed cost recoveries, and GT&S capital audit.

Recent News

On **Feb 1, 2020**, PG&E Corporation submitted regulatory and court filings outlining the key elements of the company's updated Chapter 11 Plan of Reorganization. PG&E submitted testimony in the California Public Utilities Commission (CPUC) Plan of Reorganization proceeding and filed its updated Plan with the Bankruptcy Court.

Valuation

PG&E Corporation's shares are up 51.9% in the past six months period, however, fell 3.9 % over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 13.6% and 11.3% in the past six months, respectively. Over the past year, the Zacks sub-industry is up 21.4% whereas the sector is up 2.1%.

The S&P 500 index is up 16.5% in the past six months period and is up 18.6% in the past year.

The stock is currently trading at 4.34X of forward 12-month earnings, which compares to 15.69X for the Zacks sub-industry, 14.51X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.98X and as low as 0.93X, with a 5-year median of 14.17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 4.61X 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	4.34	15.69	14.51	19.09
	5-Year High	18.98	15.69	15.36	19.34
	5-Year Low	0.93	11.14	12.58	15.18
	5-Year Median	14.17	13.26	13.84	17.47
P/S F12M	Current	0.55	2.5	3.09	3.51
	5-Year High	1.99	2.5	3.31	3.51
	5-Year Low	0.12	1.54	1.71	2.54
	5-Year Median	1.41	1.87	1.98	3
P/B TTM	Current	1.76	2	4.32	4.83
	5-Year High	1.94	2.01	4.35	4.9
	5-Year Low	0.22	1.32	2.02	2.85
	5-Year Median	1.52	1.55	2.58	3.62

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (150 out of 255)



Top Peers

The AES Corporation (AES)	Neutral
Brookfield Infrastructure Partners LP (BIP)	Neutral
CMS Energy Corporation (CMS)	Neutral
CenterPoint Energy, Inc. (CNP)	Neutral
Alliant Energy Corporation (LNT)	Neutral
NiSource, Inc (NI)	Neutral
NRG Energy, Inc. (NRG)	Neutral
OGE Energy Corporation (OGE)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PCG Neutral	X Industry	S&P 500	AES Neutral	CMS Neutral	CNP Neutral
VGM Score	C	-	-	A	C	A
Market Cap	9.48 B	9.64 B	24.03 B	13.78 B	19.43 B	12.69 B
# of Analysts	2	2	13	4	5	6
Dividend Yield	0.00%	2.71%	1.76%	2.76%	2.38%	4.59%
Value Score	B	-	-	A	D	B
Cash/Price	0.35	0.04	0.04	0.14	0.01	0.07
EV/EBITDA	-1.34	11.79	14.08	9.84	13.35	12.33
PEG Ratio	1.93	4.22	2.08	1.64	4.25	3.16
Price/Book (P/B)	1.76	1.99	3.29	2.56	3.84	1.92
Price/Cash Flow (P/CF)	1.78	9.90	13.42	6.28	11.43	6.26
P/E (F1)	4.37	20.77	19.00	14.29	25.66	15.60
Price/Sales (P/S)	0.55	2.39	2.64	1.33	2.84	1.05
Earnings Yield	22.88%	4.68%	5.26%	6.99%	3.90%	6.41%
Debt/Equity	0.32	1.08	0.70	3.32	2.38	2.12
Cash Flow (\$/share)	10.06	4.03	7.03	3.30	5.99	4.04
Growth Score	D	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	4.54%	4.44%	10.84%	0.77%	6.76%	8.50%
Proj. EPS Growth (F1/F0)	4.33%	5.01%	7.09%	7.79%	7.15%	-4.14%
Curr. Cash Flow Growth	3.97%	3.72%	6.72%	16.44%	6.78%	22.44%
Hist. Cash Flow Growth (3-5 yrs)	9.17%	4.91%	8.25%	-0.61%	7.74%	5.78%
Current Ratio	1.33	0.82	1.22	1.10	0.86	0.99
Debt/Capital	24.31%	51.52%	42.37%	76.85%	70.41%	62.67%
Net Margin	-44.64%	10.08%	11.56%	4.90%	9.93%	6.23%
Return on Equity	21.88%	9.50%	16.80%	22.67%	14.28%	14.51%
Sales/Assets	0.20	0.24	0.55	0.31	0.27	0.37
Proj. Sales Growth (F1/F0)	0.45%	3.08%	3.90%	2.72%	3.56%	-3.91%
Momentum Score	D	-	-	B	C	A
Daily Price Chg	0.39%	0.00%	-0.83%	-0.24%	-0.20%	-1.75%
1 Week Price Chg	-6.63%	1.95%	1.65%	2.10%	2.04%	1.72%
4 Week Price Chg	30.52%	2.04%	-0.37%	0.92%	2.00%	-6.16%
12 Week Price Chg	137.35%	11.00%	3.74%	9.85%	11.26%	2.43%
52 Week Price Chg	-7.63%	13.85%	14.14%	19.80%	28.16%	-19.06%
20 Day Average Volume	11,738,946	302,123	1,992,841	2,920,137	1,650,325	4,306,300
(F1) EPS Est 1 week change	0.74%	0.00%	0.00%	0.00%	0.00%	-0.21%
(F1) EPS Est 4 week change	0.74%	0.00%	-0.02%	-0.34%	-0.07%	-0.82%
(F1) EPS Est 12 week change	3.02%	0.00%	-0.17%	0.87%	-0.26%	-5.44%
(Q1) EPS Est Mthly Chg	54.54%	0.00%	-0.48%	0.00%	0.00%	4.55%

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	D
Momentum Score	D
VGM Score	C

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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