

PG&E Corporation (PCG)

\$15.05 (As of 01/29/20)

Price Target (6-12 Months): **\$16.00**

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:B

Value: A

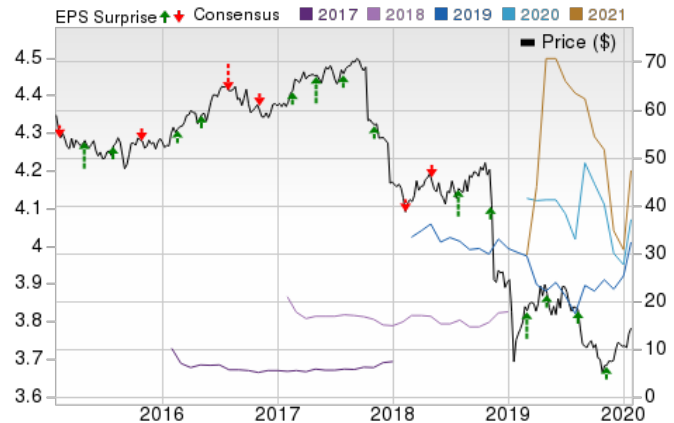
Growth: D

Momentum: D

Summary

PG&E Corp boasts a solid portfolio of regulated utility assets that offer a stable earnings base and substantial long-term growth potential. The company maintains a stable liquidity position along with a strong cash generating capacity through its operating activities. Such solid cash flow offers a stable financial position to the stock. The company projects more than \$1 billion in grid investments through 2020. However, the operation and decommissioning of the company's nuclear power plants expose it to potentially significant liabilities. PG&E Corp has filed for bankruptcy, which makes it subject to the risks and other uncertainties associated with it. PG&E Corp has been incurring increasing operating expenses which in turn may pose risk to its bottom line. It also underperformed its industry in the past year.

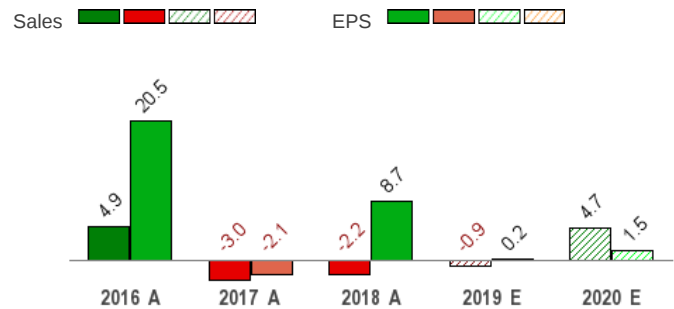
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.19 - \$3.55
20 Day Average Volume (sh)	11,445,690
Market Cap	\$8.0 B
YTD Price Change	38.5%
Beta	0.55
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 44% (113 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.1%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	3.0%
Expected Report Date	02/27/2020
Earnings ESP	-0.7%
P/E TTM	3.7
P/E F1	3.7
PEG F1	1.6
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					17,386 E
2019	4,011 A	3,943 A	4,432 A	4,098 E	16,608 E
2018	4,056 A	4,234 A	4,381 A	4,088 A	16,759 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.55 E	\$0.98 E	\$1.16 E	\$1.24 E	\$4.07 E
2019	\$1.04 A	\$1.10 A	\$1.11 A	\$0.77 E	\$4.01 E
2018	\$0.91 A	\$1.16 A	\$1.13 A	\$0.80 A	\$4.00 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 01/29/2020. The reports text is as of 01/30/2020.

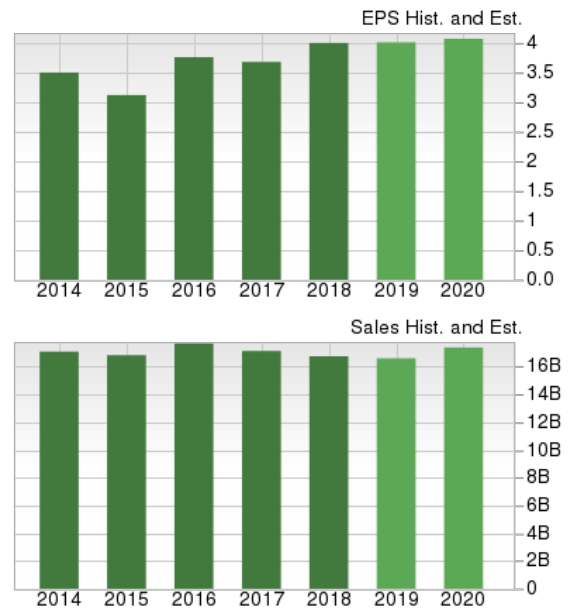
Overview

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 2018-end, the utility owned approximately 18,000 circuit miles of interconnected transmission lines, operated at voltages from 60 kilovolts (kV) to 500 kV, and 84 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 approximately 107,000 circuit miles of distribution lines, 50 transmission switching substations and 769 distribution substations, with a capacity of nearly 32,00 MVA. In 2018, the electric segment reported revenues of \$12.71 billion, reflecting 76% of total revenues.

At 2018 end, the utility's natural gas system consisted of approximately 43,100 miles of distribution pipelines, more than 6,400 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 2018 were \$4.05 billion, comprising 24% 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.
- ▲ Following the 2018 U.S. tax reform, through 2019, the company expects rate base growth of approximately 7.5-8% annually compared to the prior guidance of 6.5-7%. For 2020, PG&E Corp has anticipated base revenues of \$9.6 billion, an increase of 12.4% when compared to authorized base revenues for 2019. The requested weighted average rate base for 2020 is approximately \$30 billion, which corresponds to an increase of \$2.7 billion over the 2019 authorized rate base of \$27.3 billion. The company also requested the CPUC to establish a ratemaking mechanism that would increase its authorized revenues in 2021 and 2022 by \$454 million and \$486 million, respectively. Over the 2020-2022 General Rate Case (GRC) period, the company plans to make average annual capital investments of approximately \$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 2018 was \$6.5 billion. The company expects to spend approximately \$7.2 billion in 2019 and \$5.7-\$7 billion annually from 2020 through 2023. Moreover, the company projects more than \$1 billion in grid investments through 2020, 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 Sep 30, 2019, the company had cash and cash equivalents of \$2,970 million compared with \$2,964 million as of Mar 31, 2019. Moreover, the company's cash flow from operating activities at the end of third-quarter 2019 was \$4,067 million. Such solid cash flow offers a stable financial position to the stock, which should 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:

- ▼ On Mar 30, 2018, PG&E Corp. submitted to the California Public Utility Commission (CPUC) its 2018 Catastrophic Event Memorandum Account (CEMA) application requesting cost recovery of \$183 million in connection with nine catastrophic events that included fire and storm declared emergencies from the middle of 2016 through early 2017. The application included another \$405 million for work to cut back or remove dead or dying trees in 2016 and 2017 resulting from years of drought conditions and associated bark beetle infestation.

Also, the 2018 CEMA application originally expected cost recovery of \$555 million. However, on Apr 25, 2019, the CPUC adopted a decision denying cost recovery on a forecast basis for the 2018 and 2019 costs requested. This is expected to hurt PG&E Corp's profit margin.

- ▼ To avoid huge losses, like the one incurred from Northern California Wildfires, PG&E Corp has recently adopted a few precautionary measures. In this regard, the company more than doubled its annual expenditure to manage vegetation from roughly \$190 million in 2013 to \$440 million in 2017 and increased the frequency of patrols, particularly in high fire threat areas. Whereas in 2018, the company incurred costs of \$262 million for vegetation management work, performed to comply with CPUC December 2017 fire safety regulations.

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 surged a massive 82.8% year over year in the third quarter of 2019. Such dismal operating expense figures are expected to weigh on the company's profitability. With the company planning to procure two more helicopters this year and more than 200 new PG&E-owned weather monitoring stations, we may expect the company's expenditure to increase further in the near term.

- ▼ 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 \$13.5 billion.

PG&E Corp. purchased the maximum available public liability insurance of \$450 million for Diablo Canyon. The balance of the \$13.5 billion of liability protection is provided under a loss-sharing program among utilities owning nuclear reactors. The company is liable to pay up to \$255 million per nuclear incident under this program, with payments in each year limited to a maximum of \$38 million per incident. Such liabilities may hurt this stock's growth, considering which investors might have lost confidence in this company.

- ▼ In January 2019, PG&E Corp filed for bankruptcy, which makes it subject to the risks and uncertainties associated with the bankruptcy. The company seeks court's approval to access \$5.5 billion in Debtor-in-Possession financing to support operations and ongoing safety initiatives. Moreover, the company's capital structure will likely be significantly altered under any plan of reorganization confirmed by the Bankruptcy Court. The filing will also lead to the unavailability of its existing DIP Revolving Facility, including the remainder of the \$1.5-billion letter of credit sub facility, the DIP Initial Term Loan Facility and the DIP Delayed Draw Term Loan Facility.

The company incurred Chapter 11-related costs of \$13 million (before the tax impact of \$4 million) and \$35 million during the three and nine months ended Sep 30, 2018, respectively. These costs include pipeline related expenses associated with the multi-year effort to identify and remove encroachments from transmission pipeline rights-of-way. Such bankruptcy filing may have caused investors to lose their confidence in this stock. Evidently, shares PG&E Corp have only gained 15.7% compared to the industry's 27.5% growth in the past year.

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

Last Earnings Report

PG&E Corporation Q3 Earnings Beat, Revenues Up Y/Y

PG&E Corporation reported adjusted operating earnings per share of \$1.11 in third-quarter 2019, which surpassed the Zacks Consensus Estimate of 99 cents by 12.1%. The bottom line, however, declined 1.8% from the year-ago quarter's figure.

Including one-time items, the company incurred a GAAP loss of \$3.06 per share against the earnings of \$1.09 in the prior-year quarter.

Quarter Ending 09/2019

Report Date	Nov 07, 2019
Sales Surprise	0.91%
EPS Surprise	12.12%
Quarterly EPS	1.11
Annual EPS (TTM)	4.05

Revenue Update

PG&E Corp's total revenues of \$4,432 million surpassed the Zacks Consensus Estimate of \$4,392 million by 0.9%. The top line also improved 1.2% from the year-ago quarter.

While electric revenues improved 2.5% from the prior-year quarter's figure, natural gas revenues declined 4% year over year.

Operational Highlights

Operating expenses in the reported quarter totaled \$6,732 million, which surged 82.7% from \$3,685 million in third-quarter 2018. The increase was due to elevated operating and maintenance expenses, higher wildfire-related claims, and escalated depreciation, amortization and decommissioning expenses.

The company incurred operating losses of \$2,300 million against the operating income of \$696 million in the previous year's third quarter.

Interest expenses in third-quarter 2019 summed \$52 million compared with \$232 million in the year-ago period.

Guidance

PG&E Corp has not provided guidance for 2019 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.

Valuation

PG&E Corporation's shares are down 16.9% in the past six months period and up 15.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 17.1% and 12.6% in the past six months, respectively. Over the past year, the Zacks sub-industry is up 27.5% whereas the sector is up 7%.

The S&P 500 index is up 11.5% in the past six months period and is up 22.7% in the past year.

The stock is currently trading at 3.69X of forward 12-month earnings, which compares to 15.5X for the Zacks sub-industry, 14.26X for the Zacks sector and 18.81X 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 14.25X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 3.92X 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	3.69	15.5	14.26	18.81
	5-Year High	18.98	15.5	15.33	19.34
	5-Year Low	0.93	11.19	12.61	15.18
	5-Year Median	14.25	13.09	13.7	17.45
P/S F12M	Current	0.46	2.43	3	3.49
	5-Year High	1.99	2.43	3.26	3.52
	5-Year Low	0.12	1.5	1.7	2.54
	5-Year Median	1.42	1.83	1.95	3
P/B TTM	Current	0.89	1.98	4.26	4.48
	5-Year High	1.94	1.98	4.26	4.55
	5-Year Low	0.22	1.32	2.01	2.85
	5-Year Median	1.52	1.55	2.56	3.62

As of 01/29/2020

Industry Analysis Zacks Industry Rank: Top 44% (113 out of 255)



Top Peers

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	PCG Neutral	X Industry	S&P 500	AES Neutral	CMS Neutral	CNP Underperform
VGM Score	B	-	-	A	C	C
Market Cap	7.96 B	9.17 B	23.91 B	13.49 B	19.11 B	13.35 B
# of Analysts	1	2	13	4	5	6
Dividend Yield	0.00%	2.66%	1.77%	2.69%	2.27%	4.33%
Value Score	A	-	-	A	D	B
Cash/Price	0.39	0.04	0.04	0.14	0.02	0.08
EV/EBITDA	-1.12	11.68	14.07	9.74	14.20	12.63
PEG Ratio	1.64	4.12	2.00	1.60	4.11	3.27
Price/Book (P/B)	0.89	1.78	3.27	2.50	3.83	2.02
Price/Cash Flow (P/CF)	1.52	9.60	13.48	6.15	11.98	6.58
P/E (F1)	3.70	20.77	18.76	13.99	25.21	16.14
Price/Sales (P/S)	0.48	2.44	2.61	1.30	2.78	1.10
Earnings Yield	27.04%	4.72%	5.32%	7.14%	3.97%	6.21%
Debt/Equity	0.21	1.07	0.72	3.32	2.43	2.12
Cash Flow (\$/share)	9.87	4.04	6.88	3.30	5.62	4.04
Growth Score	D	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	4.54%	4.40%	10.68%	0.77%	6.54%	8.50%
Proj. EPS Growth (F1/F0)	1.50%	5.33%	7.73%	7.79%	7.06%	-2.56%
Curr. Cash Flow Growth	7.61%	7.11%	12.29%	16.44%	6.77%	22.44%
Hist. Cash Flow Growth (3-5 yrs)	9.17%	4.94%	8.78%	-0.61%	8.07%	5.78%
Current Ratio	1.79	0.80	1.23	1.10	1.06	0.99
Debt/Capital	17.31%	51.51%	43.16%	76.85%	70.82%	62.67%
Net Margin	-66.15%	9.76%	11.59%	4.90%	9.03%	6.23%
Return on Equity	18.81%	9.28%	17.38%	22.67%	12.80%	14.51%
Sales/Assets	0.20	0.24	0.54	0.31	0.27	0.37
Proj. Sales Growth (F1/F0)	4.68%	3.08%	4.05%	2.72%	2.52%	2.92%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	0.67%	0.26%	-0.21%	0.69%	0.36%	1.03%
1 Week Price Chg	9.10%	1.12%	-1.09%	-0.59%	2.80%	-2.18%
4 Week Price Chg	38.45%	4.80%	-0.01%	2.11%	7.11%	-2.53%
12 Week Price Chg	117.49%	7.97%	4.14%	14.93%	9.70%	-7.61%
52 Week Price Chg	10.10%	18.32%	17.24%	24.74%	30.85%	-12.02%
20 Day Average Volume	11,445,690	301,217	1,824,613	3,529,265	1,760,152	4,823,512
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.10%
(F1) EPS Est 4 week change	3.04%	0.00%	0.00%	-0.97%	-0.19%	-0.60%
(F1) EPS Est 12 week change	-0.97%	-0.19%	-0.11%	1.04%	-0.19%	-7.40%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.20%	5.43%

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	A
Growth Score	D
Momentum Score	D
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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