

PG&E Corporation (PCG)

\$10.51 (As of 04/29/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 04/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

PG&E Corp boasts a solid portfolio of regulated utility assets that offer a stable earnings base and substantial long-term growth potential. It strives to optimize generation margins by improving its cost structure, performance and reliability of its nuclear and fossil fuel-fired units. It maintains a stable liquidity position along with a strong cash generating capacity through operating activities. Moreover, PG&E Corp has outperformed its industry on a year-to-date basis. PG&E Corp continues to make considerable investments in gas-related projects, and electric system safety and reliability. It aims to spend approximately \$7.6 billion in 2020 and up to \$8.1 billion by 2024. However, the operation and decommissioning of its nuclear power plants expose it to potentially significant liabilities.

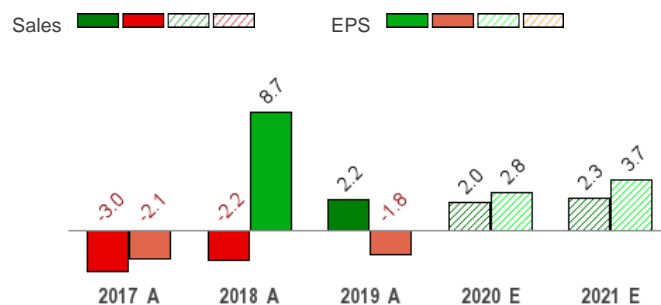
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$25.19 - \$3.55 |
| 20 Day Average Volume (sh) | 8,334,885 |
| Market Cap | \$5.6 B |
| YTD Price Change | -3.3% |
| Beta | 1.03 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Utility - Electric Power |
| Zacks Industry Rank | Top 26% (66 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | -11.7% |
| Last Sales Surprise | 15.7% |
| EPS F1 Est- 4 week change | -1.6% |
| Expected Report Date | 05/07/2020 |
| Earnings ESP | 0.0% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | | | | | 17,882 E |
| 2020 | | | | | 17,476 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 | \$1.03 E | \$1.29 E | \$1.07 E | \$0.59 E | \$4.19 E |
| 2020 | \$0.98 E | \$1.27 E | \$1.08 E | \$0.57 E | \$4.04 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.

| | |
|---------|------------|
| P/E TTM | 2.7 |
| P/E F1 | 2.6 |
| PEG F1 | 1.2 |
| P/S TTM | 0.3 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/29/2020. The reports text is as of 04/30/2020.

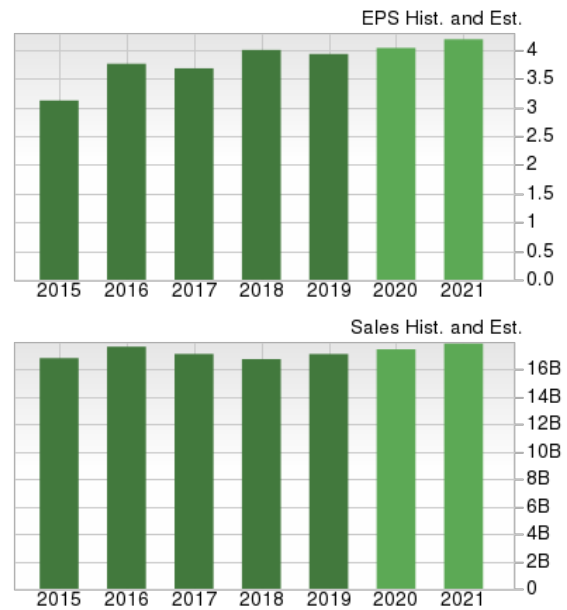
Overview

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 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. Such significant investment pattern must have encouraged the stock's investors. Evidently, PG&E Corp.'s shares declined 3.3% year to date, compared to its industry's loss of 10.9%.
- ▲ 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.

Risks

- 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.
 - 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 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.
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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 **Mar 23, 2020**, Pacific Gas and Electric Company announced it has resolved all state charges related to the 2018 Camp Fire through a plea agreement with the Butte County District Attorney. Under that agreement, PG&E will plead guilty to 84 counts of involuntary manslaughter and one count of unlawfully starting a fire stemming from the 2018 Camp Fire.

The company will pay the maximum of approximately \$4 million in fines including the expenses related to the District Attorney's investigation. In addition, PG&E has agreed to fund efforts to restore access to water for the next five years for residents impacted by the loss of the Miocene Canal, which was destroyed by the fire. This agreement is subject to approval by both the Butte County Superior Court and the Bankruptcy Court.

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 down 3.3% in the year-to-date period and down 51.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are down 10.9% and 13.4% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 1.9%, while the sector is down 17.6%.

The S&P 500 index is down 11.4% in the year to date period and 2.6% in the past year.

The stock is currently trading at 2.6X of forward 12-month earnings, which compares to 13.1X for the Zacks sub-industry, 12.3X for the Zacks sector and 20.2X 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 13.9X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$12 price target reflects 2.9X 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 | 2.57 | 13.09 | 12.3 | 20.16 |
| | 5-Year High | 18.98 | 15.53 | 15.32 | 20.16 |
| | 5-Year Low | 0.93 | 11.12 | 11.35 | 15.19 |
| | 5-Year Median | 13.88 | 13.23 | 13.79 | 17.44 |
| P/S F12M | Current | 0.32 | 2.11 | 2.61 | 3.3 |
| | 5-Year High | 1.99 | 2.45 | 3.29 | 3.44 |
| | 5-Year Low | 0.12 | 1.54 | 1.75 | 2.54 |
| | 5-Year Median | 1.39 | 1.88 | 2.04 | 3.01 |
| EV/EBITDA TTM | Current | 2.14 | 11.94 | 16.62 | 10.45 |
| | 5-Year High | 14.65 | 13.43 | 19.48 | 12.87 |
| | 5-Year Low | 1.52 | 7.8 | 10.59 | 8.27 |
| | 5-Year Median | 8.06 | 10.26 | 13.32 | 10.78 |

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 253)



Top Peers

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

| Industry Comparison Industry: Utility - Electric Power | | | | Industry Peers | | |
|--|------------|------------|-----------|----------------|-----------|-----------|
| | PCG | X Industry | S&P 500 | AES | CMS | CNP |
| Zacks Recommendation (Long Term) | Outperform | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | B | - | - | B | B | B |
| Market Cap | 5.57 B | 7.58 B | 20.82 B | 9.51 B | 16.39 B | 8.89 B |
| # of Analysts | 2 | 3 | 14 | 3 | 4 | 4 |
| Dividend Yield | 0.00% | 3.29% | 2.07% | 4.00% | 2.85% | 6.56% |
| Value Score | B | - | - | B | C | A |
| Cash/Price | 0.28 | 0.05 | 0.06 | 0.21 | 0.01 | 0.13 |
| EV/EBITDA | -0.83 | 9.98 | 12.12 | 12.73 | 12.06 | 8.40 |
| PEG Ratio | 1.15 | 3.66 | 2.51 | 1.31 | 3.18 | 2.68 |
| Price/Book (P/B) | 1.03 | 1.48 | 2.74 | 1.82 | 3.22 | 1.34 |
| Price/Cash Flow (P/CF) | 1.05 | 8.24 | 11.23 | 4.16 | 9.56 | 3.98 |
| P/E (F1) | 2.61 | 17.85 | 19.26 | 10.11 | 22.09 | 13.40 |
| Price/Sales (P/S) | 0.33 | 1.91 | 2.16 | 0.93 | 2.46 | 0.72 |
| Earnings Yield | 38.34% | 5.50% | 5.03% | 9.92% | 4.52% | 7.46% |
| Debt/Equity | 0.32 | 1.06 | 0.72 | 3.50 | 2.38 | 2.15 |
| Cash Flow (\$/share) | 10.06 | 4.27 | 7.01 | 3.44 | 5.99 | 4.45 |
| Growth Score | C | - | - | C | C | C |
| Hist. EPS Growth (3-5 yrs) | 4.64% | 4.77% | 10.88% | 2.38% | 6.76% | 10.43% |
| Proj. EPS Growth (F1/F0) | 2.67% | 1.84% | -6.94% | 4.17% | 4.12% | -26.26% |
| Curr. Cash Flow Growth | 3.97% | 3.66% | 5.92% | 4.43% | 6.78% | 10.42% |
| Hist. Cash Flow Growth (3-5 yrs) | 5.38% | 5.53% | 8.55% | 0.82% | 7.74% | 6.62% |
| Current Ratio | 1.33 | 0.83 | 1.23 | 1.03 | 0.86 | 0.99 |
| Debt/Capital | 24.31% | 50.95% | 43.90% | 77.78% | 70.41% | 63.02% |
| Net Margin | -44.64% | 10.79% | 11.15% | 2.97% | 10.68% | 6.43% |
| Return on Equity | 21.88% | 9.86% | 16.47% | 22.82% | 14.86% | 14.97% |
| Sales/Assets | 0.20 | 0.23 | 0.54 | 0.30 | 0.26 | 0.36 |
| Proj. Sales Growth (F1/F0) | 2.02% | 0.00% | -1.52% | 3.54% | 1.45% | -34.61% |
| Momentum Score | B | - | - | C | A | D |
| Daily Price Chg | -3.75% | 0.67% | 2.91% | 5.06% | -3.29% | 1.61% |
| 1 Week Price Chg | -7.01% | -3.65% | -1.74% | -1.98% | -5.97% | 0.91% |
| 4 Week Price Chg | 24.82% | 11.68% | 21.33% | 11.88% | 2.78% | 25.28% |
| 12 Week Price Chg | -37.77% | -15.89% | -16.28% | -31.02% | -15.68% | -33.87% |
| 52 Week Price Chg | -51.57% | -7.38% | -7.57% | -15.27% | 4.15% | -42.53% |
| 20 Day Average Volume | 8,334,885 | 492,176 | 2,658,107 | 5,557,227 | 2,151,647 | 7,736,935 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 1.67% | 0.00% |
| (F1) EPS Est 4 week change | -1.59% | -0.81% | -6.32% | -0.93% | -0.81% | -0.75% |
| (F1) EPS Est 12 week change | -0.86% | -1.76% | -12.93% | -2.47% | -0.92% | -19.84% |
| (Q1) EPS Est Mthly Chg | 12.39% | -1.72% | -11.84% | -1.72% | -4.92% | -1.33% |

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 | C |
| Momentum Score | B |
| 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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