

PG&E Corporation

# Moving Back to Normalcy: GRC Outcome Increases Visibility Through '26

Key takeaways 1) Raising TP to \$20 following biz update call & accretive financing; 2) Shares on track to close sector high discount into FY24 w/9-10% EPS growth intact; 3) Dividend light at 1c/sh but PCG still has financing flex; 4) Maintain Overweight

**Sector High Growth Intact Following Biz Update:** We provide an investment update on PCG shares following the business update on 11/28 and subsequent \$1.9bn convert pricing which we see as ~2% accretive to 2024+ EPS considerations. PCG has considerably de-risked operations with ~4 years of revenue visibility at CPUC rate base and several opportunities pending which more than backfill managements LT rate base guidance midpoint of \$74bn by 2026. PCG now trades at a 20% P/E discount to large cap peers on 2026E which we see as too cheap given 1) sector higher EPS growth of 9-10%; 2) management quality; 3) above average CapEx runway in CA & returns; and 4) self funding advantage given minimal dividend payout. Maintain Overweight.

**What's next? Looking to 4Q:** We expect in the 4<sup>th</sup> quarter the company will update investors on its rate base growth plan through 2027 along with CapEx. We are also expecting continued updates on the strategic financing updates, pending cost recovery items and Cost of Capital trigger Mechanism; if a decision is not reached at the CPUC it's likely we should see a memo account filed for Jan 1, 2023.

**EPS, Valuation & Risks:** We provide our latest dashboard below with EPS estimates +2c / +1c / +2c / +4c in 2023 / 2024 / 2025 / 2026 to account for recent guidance updates, strategic financing impacts (convert) and additional CapEx for cost recovery applications expected to be addressed outside of the formal GRC process. **Valuation:** We shift our PT to \$20 from \$18 with the \$2 increase largely attributed to higher EPS of \$1.59 from \$1.55 in 2026 and a roll forward of our valuation to a 2026 from 2025 view. **Risks:** Worse than expected regulatory outcomes, wildfires, technical pressure from FVT seller, natural disaster risks associate with operating nuclear plants, and electric / gas systems.

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Completed: 04-Dec-23, 02:18 GMT Released: 04-Dec-23, 10:30 GMT Restricted - External

| CORE

PCG	OVERWEIGHT
	Unchanged
U.S. Power & Utilities	NEUTRAL
	Unchanged
Price Target	USD 20.00
	raised 11% from USD 18.00
Price (01-Dec-23)	USD 17.45
Potential Upside/Downside	+14.6%

Market Cap (USD mn)	37229
Shares Outstanding (mn)	2133.51
Free Float (%)	96.68
52 Wk Avg Daily Volume (mn)	16.4
Dividend Yield (%)	0.23
Return on Equity TTM (%)	7.92
Current BVPS (USD)	12.14
Source: Bloomberg	

Price Performance	Exchange-NYSE
52 Week range	USD 18.19-14.71



Source: IDC  
[Link to Barclays Live for interactive charting](#)

## U.S. Power & Utilities

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**PCG: Quarterly and Annual EPS (USD)**

	2022	2023			2024			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	0.30A	0.29A	0.29A	0.29A	0.32E	0.32E	0.33E	-3%	10%
Q2	0.25A	0.23A	0.23A	0.23A	0.26E	0.26E	0.29E	-8%	13%
Q3	0.29A	0.24A	0.24A	0.24A	0.27E	0.27E	0.31E	-17%	13%
Q4	0.26A	0.45E	0.46E	0.43E	0.48E	0.49E	0.50E	77%	7%
Year	1.10A	1.20E	1.22E	1.21E	1.33E	1.34E	1.35E	11%	10%
P/E	15.9		14.3			13.0			

Consensus numbers are from Bloomberg received on 01-Dec-2023; 13:50 GMT

Source: Barclays Research

## U.S. Power &amp; Utilities

NEUTRAL

## PG&amp;E Corporation (PCG)

OVERWEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR
Revenue	21,680	24,977	25,480	26,030	6.3%
EBITDA (adj)	5,693	9,109	9,727	10,390	22.2%
EBIT (adj)	1,837	5,066	5,476	5,930	47.8%
Pre-tax income (adj)	476	3,387	3,737	4,131	105.5%
Net income (adj)	2,343	2,603	2,873	3,177	10.7%
EPS (adj) (\$)	1.10	1.22	1.34	1.48	10.5%
Diluted shares (mn)	2,132	2,138	2,140	2,140	0.1%
DPS (\$)	0.00	0.01	0.04	0.05	N/A
Margin and return data	2022A	2023E	2024E	2025E	Average
EBITDA (adj) margin (%)	26.3	36.5	38.2	39.9	35.2
EBIT (adj) margin (%)	8.5	20.3	21.5	22.8	18.3
Pre-tax (adj) margin (%)	2.2	13.6	14.7	15.9	11.6
Net (adj) margin (%)	10.8	10.4	11.3	12.2	11.2
ROE (%)	10.6	10.7	10.6	10.6	10.6
Balance sheet and cash flow (\$mn)	2022A	2023E	2024E	2025E	CAGR
Cash and equivalents	947	2,844	3,118	3,264	51.1%
Total assets	118,644	124,032	128,388	133,059	3.9%
Short and long-term debt	52,065	54,815	56,315	57,815	3.6%
Total liabilities	95,569	98,361	99,919	101,496	2.0%
Shareholders' equity	23,075	25,671	28,469	31,563	11.0%
Net debt/(funds)	N/A	N/A	N/A	N/A	N/A
Change in working capital	N/A	N/A	N/A	N/A	N/A
Cash flow from operations	3,721	7,068	7,563	7,544	26.6%
Capital expenditure	-9,584	-7,900	-8,700	-8,800	N/A
Free cash flow	13,935	14,968	16,263	16,344	5.5%
Valuation and leverage metrics	2022A	2023E	2024E	2025E	Average
P/E (adj) (x)	15.9	14.3	13.0	11.8	13.8
EV/EBITDA (adj) (x)	15.5	9.8	9.3	8.8	10.9
EV/EBIT (adj) (x)	48.1	17.6	16.5	15.5	24.4
FCF yield (%)	15.8	16.8	18.0	17.8	17.1
Dividend yield (%)	0.0	0.1	0.2	0.3	0.1
Net debt/EBITDA (adj) (x)	9.0	5.7	5.5	5.3	6.4
Selected operating metrics	2022A	2023E	2024E	2025E	Average
Payout ratio (%)	0.0	0.8	3.1	3.1	1.8
Regulated (%)	100.0	100.0	100.0	100.0	100.0
Rate base (RAB) (\$mn)	54,000	57,682	61,939	66,069	59,923
EV/Rate base (x)	1.6	1.5	1.5	1.4	1.5
FFO/Debt (%)	10.9	13.6	14.2	13.8	13.1
Equity Issuance (\$mn)	0	0	0	0	0

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Price (01-Dec-2023) **USD 17.45**  
 Price Target **USD 20.00**

**Why OVERWEIGHT?**

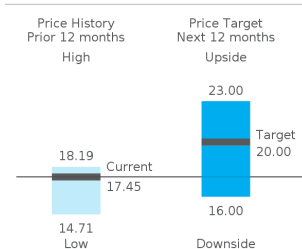
We believe PCG trades at an unreasonable dislocation to the average utility P/E. We expect regulatory outcomes to continue to trend positively and execution of the companies sector high EPS growth rate (9-10%) should warrant multiple expansion over time.

**Upside case USD 23.00**

Our upside case assumes PCG trends closer to the group average multiple (~3% premium) after the market begins to perceive PCG more positively after demonstrating wildfire mitigation efforts, and addressing GRC risk for 2024-2026.

**Downside case USD 16.00**

Our downside case applying a ~28% discount P/E to 2026 EPS assumes further erosion of investor confidence in PCG's operating profile if additional wildfire liabilities materialize in 2023 or past liabilities are borne unto shareholders.

**Upside/Downside scenarios**

## Investment Considerations

- Convert Pricing Is Accretive to Base EPS Plan:** PCG priced a 4.25% convertible senior secured note due in 2027 with \$1.9bn of proceeds. PCG is using the note to pay down borrowings from its TL (\$250mn) with total borrowings from the TL totaling \$2.66bn at an 8.44% interest rate (as of 11/24/23). We emphasize as of the 11/28 update, the \$430-510mn of unrecoverable net interest expense embedded in 2024 EPS guidance does not contemplate the strategic financing rate of 4.25% with the arbitrage opportunity representing ~\$0.03/sh of EPS accretion (2% of '24E EPS). See our previous note on this topic [here \(Quick Comment on Convert Note Issuance\)](#).
- Watching Fire Victims Trust:** The fire victims trust owns ~3.4% of total PCG shares outstanding with our understanding that the trust is unlikely to sell small amounts of shares over time as the Trustee has guided to wanting a premium to compensate victims. We see it as possible that the Trustee sells all remaining shares by the end of the year, but we're less concerned with this being a major overhang or negative for the stock as it will signal the FVT's eventual exit.
- Dividend:** Management introduced a \$0.01/sh quarterly dividend, and intends to grow the dividend by at least the EPS growth CAGR (at least 10% in '23, 9% in '24, 9% in '25). The Board is still deliberating on the future cadence in growth guidance, however we see the company reinstating the dividend as a positive for a return to relative normalcy for PCG. Expect the dividend to remain low from a payout ratio perspective until the company's stock price materially improves its relative discount to the group, in our view.
- B/S and Credit Considerations:** PCG guides to a mid-teens FFO/Debt metric in FY24 with management emphasizing that they are committed to getting to investment grade next year. The GRC is a lever to potentially improve the FFO/Debt metric with management noting that Moody's now has the company on positive outlook. Additionally, on December 1 S&P upgraded their outlook on PCG to positive from stable, reflecting the potential for an upgrade within the next 12 months as the company continues to implement wildfire risk mitigation tactics. S&P reaffirmed the current BB- rating recently.
- Future Growth Prospects / Catalysts:** The company currently guides to ~10% EPS growth through '24 which we see as attainable given the modest dividend reinstatement potentially creating financial flexibility in funding ~9% RAB growth guidance to achieve EPS guidance. We look to an update on the 4Q call for the company to extend the current high single-digit rate base growth guidance through '27, but remain unsure how the company will position the LT EPS growth rate in '27. We note the company has robust incremental capital opportunities including up to ~\$4bn via SB410, ~\$2bn of transmission opportunities via FERC, \$4bn of pending cost recovery applications and the 10YR undergrounding filing (TBD) which will be additive. Management guided that they are looking more at timing/affordability concerns for projects beyond the base plan rather than ability to execute in our discussions. We see no shortage of opportunities keep PCG on track to hit 10%+ rate base growth or better through 2026.

## Fundamental Dashboard

We provide our latest dashboard below with EPS estimates +2c / +1c / +2c / +4c in 2023 / 2024 / 2025 / 2026 to account for recent guidance updates, strategic financing impacts (convert) and additional CapEx for cost recovery applications expected to be addressed outside of the formal GRC process.

FIGURE 1. PCG Fundamental Dashboard

PCG Dashboard (\$Mn except for per share data)	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E
Consolidated EPS (Non-GAAP)	\$1.61	\$1.08	\$1.10	\$1.22	\$1.34	\$1.48	\$1.59	\$1.69	\$1.79
Prior EPS		\$1.08	\$1.10	\$1.20	\$1.33	\$1.46	\$1.55	\$1.66	
Consensus EPS	\$1.61	\$1.00	\$1.10	\$1.21	\$1.35	\$1.46	\$1.55	\$1.70	\$1.70
Delta (%)	0.06%	7.39%	0.09%	0.47%	-0.61%	1.55%	2.20%	-0.56%	5.32%
Shares Outstanding	1,257	1,985	2,132	2,138	2,140	2,140	2,140	2,140	2,140
DPS	\$0.00	\$0.00	\$0.00	\$0.01	\$0.04	\$0.05	\$0.05	\$0.05	\$0.06
DPS Growth (%)					318.0%	9.0%	9.0%	9.0%	9.0%
DPS Payout (%)	0%	0%	0%	1%	3%	3%	3%	3%	3%
<b>Valuation Metrics</b>									
P/E	10.9x	16.2x	15.9x	14.3x	13.0x	11.8x	11.0x	10.3x	9.7x
EV/RAB	1.4x	1.7x	1.6x	1.5x	1.5x	1.4x	1.3x	1.3x	1.2x
EBITDA	5,223	5,286	5,693	9,109	9,727	10,390	10,989	11,596	12,184
FFO	479	5,039	5,568	7,068	7,563	7,544	8,007	8,477	8,931
Net Debt	40,236	44,583	51,118	51,971	53,197	54,551	56,250	57,488	58,284
FFO/Debt	1.2%	11.3%	10.9%	13.6%	14.2%	13.8%	14.2%	14.7%	15.3%
Net Debt/EBITDA	7.7x	8.4x	9.0x	5.7x	5.5x	5.3x	5.1x	5.0x	4.8x
Holdco Debt/Total Debt (%)	11.4%	10.3%	8.9%	4.8%	4.6%	4.5%	5.1%	5.7%	6.2%
Consolidated Equity Layer (%)	34.2%	32.1%	30.7%	31.9%	33.6%	35.3%	36.8%	38.3%	39.8%
Target FFO/Debt: Mid-teens by 2024									
<b>EPS Estimates by Sub</b>									
G&E	\$0.32	\$0.10	\$0.91	\$1.37	\$1.50	\$1.64	\$1.76	\$1.87	\$1.98
Parent	\$1.29	\$0.97	\$0.18	(\$0.15)	(\$0.16)	(\$0.16)	(\$0.17)	(\$0.18)	(\$0.19)
Consolidated	\$1.61	\$1.08	\$1.10	\$1.22	\$1.34	\$1.48	\$1.59	\$1.69	\$1.79
Guidance Range: 9-10%				1.20-1.23	1.31-1.35				
High									
Midpoint				1.10	1.21	1.33	1.45	1.58	
Low									

All figures in \$mns except per share data  
Source: Barclays Research, Bloomberg

## Valuation: Sum of the Parts Update

We shift our PT to \$20 from \$18 with the \$2 increase largely attributed to higher EPS of \$1.59 from \$1.55 in 2026 and a roll forward of our valuation to a 2026 from 2025 view. We maintain our Overweight rating on shares.

FIGURE 2. PCG SOTP Valuation

PG&E SOTP Valuation				Low	Base	High
Electric Group Multiple				12.0x	14.1x	16.2x
				Base Case Implied Multiple		
Business Segments	EPS ('26E)	Prem/Disc.				
PG&E	\$1.76	-10%	12.7x	\$19	\$22	\$26
Parent	(\$0.17)	-10%	12.7x	(\$2)	(\$2)	(\$2)
Consolidated EPS ('25E)	\$1.59		Total Equity Value	\$17	\$20	\$23
				Tax Rate (%)		
Additional Wildfire Liability \$Mn	1,000	28%		(\$2,160)	(\$720)	\$0
\$/sh				(\$1)	(\$0)	\$0
Implied Multiple				10.1x	12.6x	14.5x
Valuation				\$16	\$20	\$23
Market Price					\$17.5	
Upside / Downside				-8%	15%	32%
Yield ('23)					0.1%	
Potential Total Return				-8%	14.7%	32%

Per share data  
Source: Barclays Research, Bloomberg

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OGE Energy Corp. (OGE)	PG&E Corporation (PCG)	Pinnacle West Capital Corporation (PNW)
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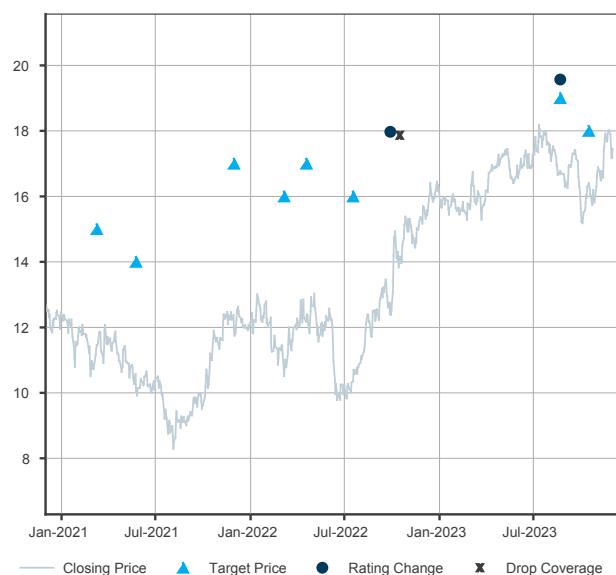
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**PG&E Corporation (PCG / PCG)**Stock Rating: **OVERWEIGHT**Industry View: **NEUTRAL**Closing Price: **USD 17.45** (01-Dec-2023)**Rating and Price Target Chart - USD (as of 01-Dec-2023)**

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
16-Oct-2023	16.41		18.00
22-Aug-2023	16.78	Overweight	19.00
10-Oct-2022	14.93	Coverage Dropped	
28-Sep-2022	12.72	Rating Suspended	
18-Jul-2022	10.01		16.00
19-Apr-2022	12.18		17.00
07-Mar-2022	11.20		16.00
30-Nov-2021	12.24		17.00
25-May-2021	10.06		14.00
10-Mar-2021	11.46		15.00

On 03-Dec-2020, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 14.00.

Source: Bloomberg, Barclays Research

\*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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**Valuation Methodology:** Our PT is \$20, which is based on an SOTP using PE multiples to value the parts. We value PCG and Parent EPS based on a 10% discount to the 2026E peer large-cap electric multiple. We see this as properly reflecting the California discount due to inverse condemnation policy, offset by limited legacy wildfire liabilities due to the CH11 restructuring event. We further impute an additional wildfire liability to shares of \$1bn against equity value.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Risks: Failure to achieve constructive rate outcomes in the 2023 GRC, efficient financing strategies, or cost containment efforts. Lower ROEs through the next CoC cycle in CA, Wildfire event risk which can add volatility to shares or outside liabilities not contemplated in our base case scenario.

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