

## Equity Research

WELLS  
FARGO

Price Target Change — November 28, 2023

## Regulated Electric Utilities

## PG&amp;E Corporation (PCG)

## PCG: Business Update Supports Our 10% EPS CAGR Outlook

## Our Call

PCG post-GRC update supportive of our EPS outlook. Initial nominal dividend rate pragmatic in light of robust capex opportunities. Reiterate Overweight. Nudge up our PT to \$20 (vs. \$19).

**GRC Comments.** The CPUC's final '23-26 GRC order represented a meaningful improvement from the Alternate PD, particularly from a cash flow standpoint. The amortization period for the '23 revenue true-up was shortened to 24 months (vs. 36 under the APD) and the escalation factor, which deals with '21 & '22 inflation, was increased to 50% (vs. 25%). Lastly, the CPUC approved 1,230 miles of undergrounding, which compares with the APD of 973 miles and is 60% of PCG's initial ask.

**EPS Outlook.** With the GRC in hand, PCG nudged up the lower end of the '23 EPS guidance range to \$1.20-1.23 (vs. \$1.19-1.23) and initiated a '24 EPS guidance range of \$1.31-1.35. Mgmt. affirmed annual EPS growth of 10% in '23 & '24 and 9% in '25 & '26. We maintain our 23-27E EPS of \$1.22, \$1.35, \$1.48, \$1.62 & \$1.75, which results in a nearly 10% CAGR off the 22A EPS of \$1.10.

**Still Some Wood to Chop.** Our EPS outlook is premised on the mid-point of PCG's '26 rate base guidance, or \$74B. The mid-point includes some capex from programs not yet approved (the GRC order shifted approval of several programs to other regulatory proceedings). The capital investment opportunities include cost recovery applications totaling \$4B through '26 (incl. the Oakland headquarters purchase), energization opportunities (up to \$4B), FERC transmission (\$2B) and more undergrounding.

**Dividend Comments.** The Board approved an annual dividend rate of \$0.04, which results in 3% payout ratio and a 0.2% yield (well below the utility averages of ~60% and 3.5%). Mgmt. targets annual growth *at least* consistent with EPS growth. The nominal dividend will qualify PCG for income funds that require a dividend while allowing the company to reinvest the high majority of internally generated cash into attractive regulated infrastructure investment (10%+ ROEs).

Equity Analyst(s)

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Rating	Overweight
Ticker	PCG
Price Target/Prior:	\$20.00/\$19.00
Upside/(Downside) to Target	11.7%
Price (11/27/2023)	\$17.90
52 Week Range	\$14.71 - 18.19
Shares Outstanding	2,611,251,771
Market Cap (MM)	\$46,741
Enterprise Value (MM)	\$88,567
Average Daily Volume	25,376,410
Average Daily Value (MM)	\$454
Dividend (NTM)	\$0.04
Dividend Yield	0.2%
Net Debt (MM) - last reported	\$41,826
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	10%

\$	2022A	2023E	2023E	2024E	2024E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	0.30 A	0.29 A	NC	-	NC
Q2 (Jun)	0.25 A	0.23 A	NC	-	NC
Q3 (Sep)	0.29 A	0.24 A	NC	-	NC
Q4 (Dec)	0.26 A	0.46 E	NC	-	NC
FY	1.10 A	1.22 E	NC	1.35 E	NC
P/E	16.3x	14.7x		13.2x	

ROIC - Current year est.; ROIC is actually ROE Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.  
NA = Not Available, Volatility = Historical trading volatility

## Wells Fargo Express Takeaways

**PG&E Corporation (PCG) | Rating: Overweight | Price Target: \$20.00**

**Analyst: Neil Kalton**

### Financials

FY (Dec)	2022A	2023E	2024E
<b>\$</b>			
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	0.30 A	0.29 A	-
Q2	0.25 A	0.23 A	-
Q3	0.29 A	0.24 A	-
Q4	0.26 A	0.46 E	-
AN	1.10 A	1.22 E	1.35 E
<b>Rev. (MM)</b>	21,680.0 A	23,624.6 E	24,509.6 E
<b>EBIT (MM)</b>	1,837.0 A	4,947.4 E	5,907.8 E
<b>EBITDA (MM)</b>	7,088 A	9,028 E	10,108 E
<b>DPS</b>	0.00 A	0.00 E	0.04 E

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	1.10 A	1.21 E	1.35 E
Difference from Consensus		1.0%	0.3%

### VALUATION

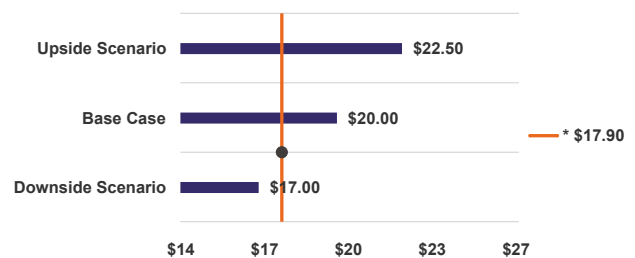
P/E	16.3x	14.7x	13.2x
EV/Revenue	4.1x	3.7x	3.6x
EV/EBIT	48.2x	17.9x	15.0x
EV/EBITDA	12.5x	9.8x	8.8x

Consensus Estimate: Consensus EPS Estimate; Source: FactSet  
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.  
NA = Not Available, NE = No Estimate

### Investment Thesis

Our Overweight rating reflects our belief that PCG shares are embedding overly pessimistic future wildfire liability risk. While wildfires remain a constant threat for PCG, we think the combination of the financial protections afforded under AB 1054, substantial mitigation efforts employed by the company (investments + customer shut-offs) and improved firefighting techniques meaningfully reduce the risk to investors.

### Risk vs. Reward – Upside/Downside Price Target Scenarios



\*As of 11/27/23

Source: Wells Fargo Securities, LLC estimates and Refinitiv.

### Base Case | \$20.00

Our \$20/sh price target is derived by applying a 5-10% discount to the '25 Mid/Large Cap Regulated Electric P/E median of 14.5-15.0x on our 25E EPS (~\$20/sh). We then factor in a probability-weighted present value wildfire liability estimate of ~\$1.60/sh to arrive at a total PV estimate of ~\$18.50/sh. Our forward price target of \$20/sh incorporates an 8% required return.

### Upside Scenario | \$22.50

Our upside scenario reflects lower future wildfire risk relative to our base PT. Our upside PT of \$22.50/sh is derived by applying an in-line multiple to the '25 Mid/Large Cap Regulated Electric P/E median of 14.5-15.0x on our 25E EPS (~\$22/sh). We then factor in a probability-weighted present value wildfire liability estimate of ~\$1/sh to arrive at a total PV estimate of ~\$21/sh. Our forward price target of \$22.50/sh incorporates an 8% required return.

### Downside Scenario | \$17.00

Our downside scenario of \$17/sh is premised on a 25% P/E multiple discount to the '25 Mid/Large Cap Regulated Electric P/E median of 14.5-15.0x on our 25E EPS (~\$16). We think PCG's relative valuation would suffer if the company's infrastructure is implicated as a cause of a catastrophic wildfire. The substantial P/E discount reflects this. Our forward PT incorporates an 8% required return.

### Upcoming Catalysts

- Regulatory outcomes on pending and future filings related to additional capex (10-yr undergrounding plan and SB410 energization spend).
- Successfully navigating the '24 wildfire season as well as future years.

### Company Description

Headquartered in Oakland, California, PG&E Corporation is primarily engaged in electricity and natural gas distribution, electricity generation and transmission, and natural gas transmission and storage. PG&E Corp. is the parent holding company for rate-regulated utility Pacific Gas and Electric Company, one of the largest combination electric and gas utilities in the nation. The utility serves more than 16M people across a 70,000 square-mile service area in northern and central California.

## Financials

<b>PCG Earnings Model</b>						
(\$ millions except per share data)	2022	2023E	2024E	2025E	2026E	2027E
<b>Revenues</b>	<b>\$21,680</b>	<b>\$23,625</b>	<b>\$24,510</b>	<b>\$25,185</b>	<b>\$25,910</b>	<b>\$26,685</b>
<b>Expenses</b>						
Fuel, Purchased Power & Gas	4,856	4,856	4,856	4,856	4,856	4,856
Other O&M	9,809	9,456	9,088	8,906	8,728	8,553
Depreciation	3,856	3,895	4,188	4,498	4,817	5,154
Other	1,322	470	470	470	470	470
<b>Total Expenses</b>	<b>\$19,843</b>	<b>\$18,677</b>	<b>\$18,602</b>	<b>\$18,730</b>	<b>\$18,871</b>	<b>\$19,034</b>
<b>EBIT</b>	<b>\$1,837</b>	<b>\$4,947</b>	<b>\$5,908</b>	<b>\$6,455</b>	<b>\$7,039</b>	<b>\$7,651</b>
<b>EBITDA</b>	<b>\$5,693</b>	<b>\$8,842</b>	<b>\$10,095</b>	<b>\$10,952</b>	<b>\$11,855</b>	<b>\$12,805</b>
Other Income	394	199	199	199	199	199
Interest Expense	1,755	2,202	2,421	2,586	2,732	2,932
Income Taxes	(1,338)	824	1,031	1,138	1,261	1,376
<i>Tax Rate</i>	<i>-1632%</i>	<i>30%</i>	<i>30%</i>	<i>29%</i>	<i>29%</i>	<i>29%</i>
<b>Earnings</b>						
Income from Continuing Operations	\$1,814	\$2,121	\$2,655	\$2,930	\$3,245	\$3,542
Preferred Stock Dividend of Sub	14	14	14	14	14	14
Minority Interest - Pacific Generation	0	0	93	93	93	93
<b>Net Income</b>	<b>\$1,800</b>	<b>\$2,107</b>	<b>\$2,547</b>	<b>\$2,823</b>	<b>\$3,138</b>	<b>\$3,435</b>
Avg. Diluted Shares Outstanding	2,132	2,133	2,133	2,139	2,152	2,158
EPS	\$0.84	\$0.99	\$1.19	\$1.32	\$1.46	\$1.59
Non-Recurring Adjustments	(0.25)	(0.23)	(0.16)	(0.16)	(0.16)	(0.16)
<b>Ongoing Diluted EPS</b>	<b>\$1.10</b>	<b>\$1.22</b>	<b>\$1.35</b>	<b>\$1.48</b>	<b>\$1.62</b>	<b>\$1.75</b>
Q1 EPS	0.30	0.29A				
Q2 EPS	0.25	0.23A				
Q3 EPS	0.29	0.24A				
Q4 EPS	0.26	0.46				

<b>PCG Supplemental Information</b>	2022	2023E	2024E	2025E	2026E	2027E
<b>Dividend Information</b>						
Dividends Per Share - YE Rate	\$0.00	\$0.00	\$0.04	\$0.04	\$0.05	\$0.05
Dividends Paid Per Share	0.00	0.00	0.04	0.04	0.05	0.05
Payout Ratio	0%	0%	3%	3%	3%	3%
<b>Cash Flow &amp; Balance Sheet Items</b>						
Capital Expenditures (millions)	\$9,584	\$9,550	\$10,500	\$10,500	\$11,000	\$11,500
Book ROE	10.0%	10.2%	10.3%	10.2%	10.1%	10.0%
FFO/Debt	11%	16%	17%	18%	18%	19%
Debt/Adjusted EBITDA	6.0x	5.0x	4.7x	4.4x	4.2x	4.0x
Common Equity Ratio	35%	36%	37%	39%	40%	42%

Source: Wells Fargo Securities, LLC estimates and company filings

## Investment Thesis, Valuation and Risks

### PG&E Corporation (PCG)

#### Investment Thesis

Our Overweight rating reflects our belief that PCG shares are embedding overly pessimistic future wildfire liability risk. While wildfires remain a constant threat for PCG, we think the combination of the financial protections afforded under AB 1054, substantial mitigation efforts employed by the company (investments + customer shut-offs) and improved firefighting techniques meaningfully reduce the risk to investors.

#### Target Price Valuation for PCG: \$20.00 from \$19.00

Our \$20/sh price target is derived by applying a 5-10% discount to the '25 Mid/Large Cap Regulated Electric P/E median of 14.5-15.0x on our 25E EPS (~\$20/sh). We then factor in a probability-weighted present value wildfire liability estimate of ~\$1.60/sh to arrive at a total PV estimate of ~\$18.50/sh. Our forward price target of \$20/sh incorporates an 8% required return.

#### Risks to Our Price Target and Rating for PCG

We view the primary risk to our analysis as the potential for additional utility-equipment caused catastrophic wildfires that exhaust the \$21.5B Wildfire Fund. In such an event, the financial protections (liability cap) afforded the state's electric utilities under AB 1054 are eliminated and shareholders are far more exposed to future wildfire liability risk.

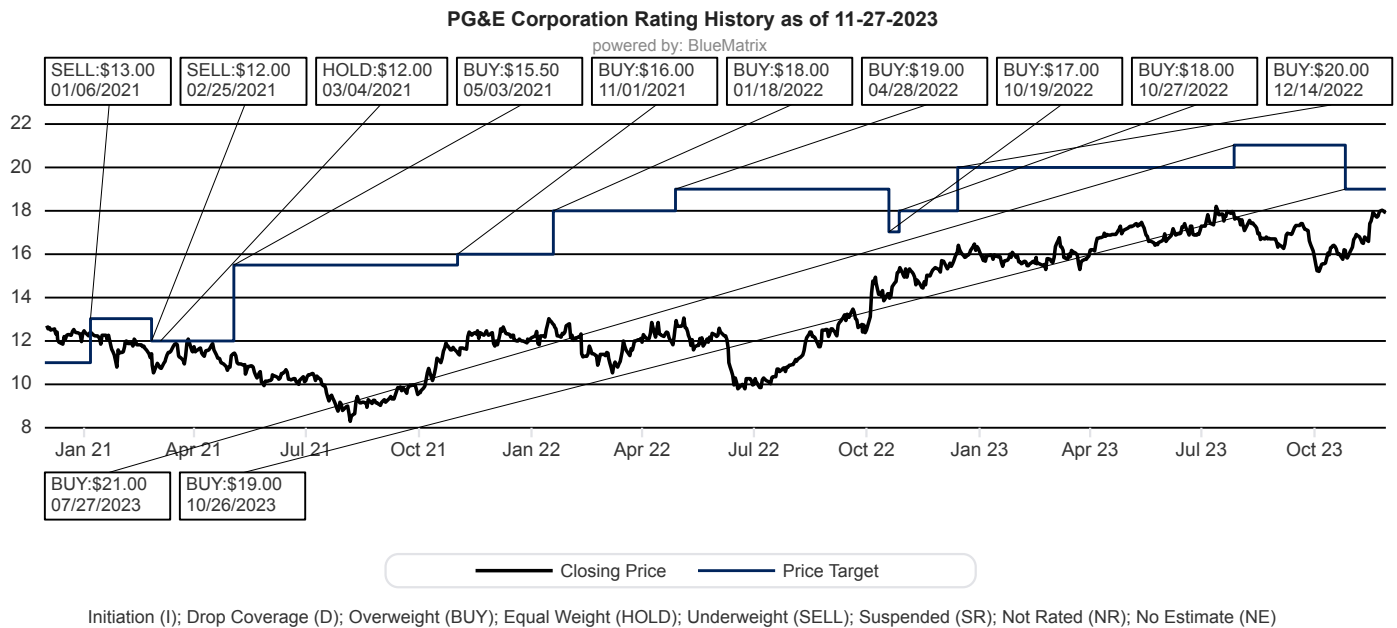
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