

Equity Research

Americas

U.S./Energy/Natural Gas

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RESTRICTED

Enron Corp.

ENE

LARGE CAP

Once Again, Enron Is Experiencing Stock Price Volatility Owing Largely to Winter Weather Forecasts Affecting the Group

Steven A. Parla, CFA
1 212 325 3145
steven.parla@csfb.com

- Investors sent a strong signal to the market on November 22 that winter is already over. The group is being sold off en masse. The sell-off in Enron appears to be attributable to weather-related concerns and fears of declining gas prices. The false premise is that Enron is exposed to the vagaries of weather and the commodity cycle. In contrast, Enron has eliminated its E&P exposure by selling Enron Oil and Gas and has built unmatched Wholesale and Retail Marketing operations, which excel in a volatile commodity market environment.
- After recently visiting with EES President Lou Pai and speaking with COO Jeff Skilling, we remain very confident in the continued growth in the wholesale business, and we continue to expect the retail business to turn earnings positive in the fourth quarter of 1999 as Enron continues to sign total outsourcing contracts.
- Enron continues to transform itself from an asset integrated company into a "new economy" knowledge- and information-based entity. Increasing ROIC, through the pursuit and creation of entirely new unregulated businesses, should lead to accelerating earnings growth and sustainable P/E multiple expansion over the next several years.
- Credit Suisse First Boston is acting as financial advisor to Enron Corp. in its transaction with Sierra Pacific Resources.

Price 11/23/99 ¹	Target (12 Months)	Dividend	Yield	Mkt. Value (Millions)	52-Week Price Range	
USD 35.50	\$50	\$0.50	1.4%	\$27,506.5	\$44.72-25.50	
	Annual EPS	Prev. EPS	Abs. P/E	Rel. P/E	EV/ EBITDA	EBITDA/ Share
12/00E	\$1.35		26.2X	100%	12.54X	\$8.36
12/99E	1.20		29.4	92	14.66	6.97
12/98A	1.01		35.0	110	16.74	5.92
	March	June	September	December	FY End	
2000E	\$0.39	\$0.29	\$0.33	\$0.37	Dec. 31	
1999E	0.34A	0.27A	0.27A	0.33		
1998A	0.33	0.21	0.24	0.24		
Total Debt (6/99)			\$9.0 bil.	Book Value/Share (6/99)		\$11.82
Debt/Total Capital (6/99)			49%	Common Shares		779 mil.
Est. 5-Yr. EPS Growth			15%	Est. 5-Yr. Div. Growth		5%

¹On 11/23/99 DJIA closed at 10995.2 and S&P 500 at 1406.6.

²Economic profit trend.

Enron has operations in energy marketing and outsourcing, international infrastructure development, natural gas transmission, and telecommunications.

Investment Summary

The market collectively determined winter will be warmer than normal, gas prices have been decimated, and the group is being sold-off en masse

Once again Enron common stock has come under severe price weakness together with the broad energy group. Despite \$27 oil, the stock market on November 22, 1999, made the collective determination that winter was over. As a result, gas stock prices, which have been weak, were decimated November 22-23. With 60-degree weather expected in the Northeast for Thanksgiving, all the long-term weather forecasts pointing in the direction of warmer-than-normal winter and a recent history of warm winters, gas futures have collapsed in the past few weeks. As a result, near-term earnings concern grows industrywide and with regard to Enron specifically.

Conversation with ENE COO and President Jeffrey Skilling reaffirms key points:

We recently spoke with COO Jeff Skilling regarding the business condition. Mr. Skilling articulated that business across all lines is in excellent shape. Mr. Skilling also pointed out that Enron has absolutely no exposure to natural gas commodity prices, having sold Enron Oil and Gas. Within its wholesale energy businesses Mr. Skilling also pointed out that the balanced book that Enron runs with regard to all commodities results in little or no commodity exposure. He was quick to add that the recent volatility in natural gas commodity prices is actually a benefit to Enron's wholesale businesses—volatility is a trader's/marketer's best friend.

ENE has no E&P exposure

Our conversation with Mr. Skilling, as well as a very recent visit with Enron Energy Services "Retail Energy Services/EDSIng of Energy" President Lou Pai suggested that momentum in the retail business continues to accelerate. Backlogs as measured by Enron's TEE statistic continue to grow, the impressive roster of Enron clients continues to expand, and Enron expects a positive fourth quarter of 1999. We expect to see earnings for full year 2000 exceeding the \$50 million target that Enron has set.

A balanced commodity book

Mr. Skilling also added that he believes Enron's telecommunications business has substantial upside potential both on an earnings and valuation basis relative to market expectations and/or his view of what's in the stock.

Volatile commodity markets benefit the marketing/trading operations

We believe the important point to be made is that selling Enron as a result of disappointing gas prices and/or an expectation of poor winter weather and further declines in gas prices clearly misses the essence of Enron's business. Enron has clearly begun a dramatic transition from an asset-intensive energy company to a high incremental return on invested capital knowledge- and information-based energy service business. (See Figure 2.) As a result, we believe the assets and the capability (i.e. the invested capital is now in place) will drive accelerating returns over the next few years as Enron continues to grow across key business lines. The dramatic growth in Wholesale Electric Power Marketing in North America, Wholesale and Retail Marketing in Europe and South America, and North America Retail Energy Services is a testament to Enron's ability to create entirely new businesses and remain at the forefront of sculpting the "new economy" energy industry—a distinct competitive advantage. Our longstanding "EDSIng of Energy" thesis is clearly now a reality.

ENE is transforming from an asset-intensive company into a knowledge- and information-based company focused on increasing ROIC

With regard to Enron's earnings outlook, we have full confidence in Enron's ability to meet our EPS estimates of \$1.20 and \$1.35 for 2000 and 2001. Both retail and wholesale earnings results in 2000 can be better than expected, in our view. Investors have sounded two concerns, the first being the recent decline in earnings expectations of its subsidiary Azurix which will cost Enron \$0.03-0.04 per share in equity-in-earnings next year. Second, the communications business, which we expect to be a substantial value creator/performer, will continue to be a modest drag on near-term results as it completes its build-out stage. The crux for investors is that the Azurix earnings slippage and the communications build-out will detract from the incremental positive earnings momentum in wholesale and retail businesses across the globe and possibly limit the potential for upside earnings surprises. While the Azurix and communications drag is disappointing, we once again

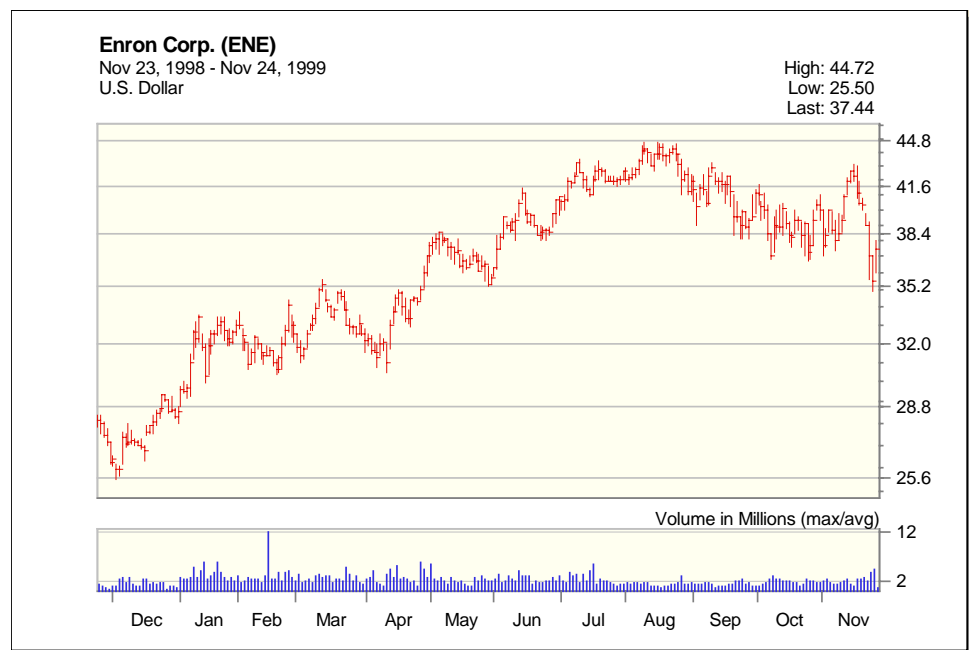
We continue to expect ENE to earn \$1.20 per share in 2000 and \$1.35 per share in 2001

ENE continues to be the pioneer in sculpting “new economy” energy markets worldwide, presenting tremendous competitive advantages

stress that we expect absolutely no earnings vulnerability from weather or commodity prices.

Although the investment business dictates a near-term focus, we stress the importance of keeping the big picture in mind with Enron. Enron is transitioning to a high-return knowledge- and information-based business. The company continues to be the pioneer in crafting “new economy” energy markets worldwide, which present a tremendous competitive advantage. This is a point we continue to stress and one that we believe Enron will articulate broadly and boldly in its January analyst conference. While Enron has long surpassed a P/E earnings growth valuation methodology, we clearly believe the market is focused on the dramatic potential for incremental return on invested capital in these knowledge- and information-based businesses. Given that focus, we expect this stock to be a superb performer over the intermediate and longer term.

**Figure 1
Enron Corp. 52-Week Price/Volume Graph**

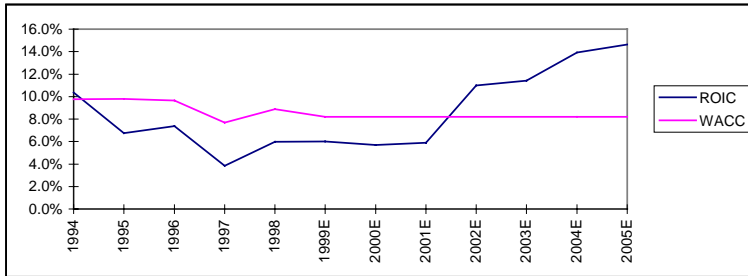


Source: FactSet.

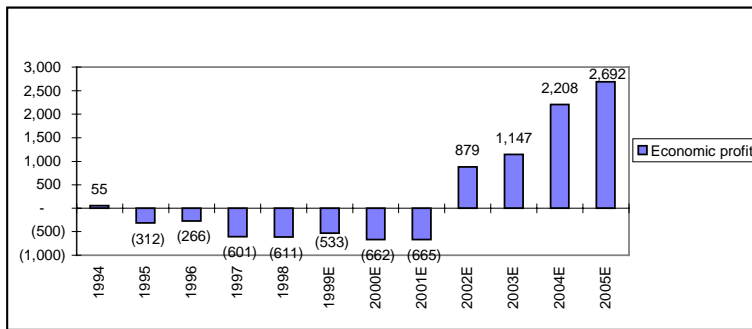
Figure 2
Value Dynamics Framework

CREDIT SUISSE FIRST BOSTON CORPORATION Value Dynamics Framework

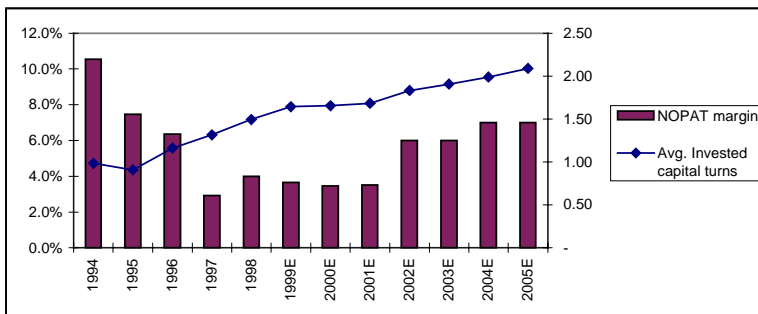
Enron Corp.



	1994	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E	2005E
ROIC	10.4%	6.8%	7.4%	3.9%	6.0%	6.0%	5.7%	5.9%	11.0%	11.4%	13.9%	14.6%
WACC	9.8%	9.8%	9.7%	7.7%	8.9%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%



	1994	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E	2005E
Economic profit	55	(312)	(266)	(601)	(611)	(533)	(662)	(665)	879	1,147	2,208	2,692
NOPAT	959	692	858	599	1,254	1,458	1,529	1,726	3,448	4,034	5,365	6,115
WACC	9.8%	9.8%	9.7%	7.7%	8.9%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Average Invested capital	9,249	10,238	11,618	15,563	20,970	24,312	26,759	29,201	31,384	35,263	38,554	41,819



	1994	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E	2005E
NOPAT margin	10.5%	7.5%	6.4%	2.9%	4.0%	3.6%	3.5%	3.5%	6.0%	6.0%	7.0%	7.0%
Avg. Invested capital turns	0.98	0.91	1.16	1.32	1.50	1.64	1.66	1.68	1.83	1.91	1.99	2.09

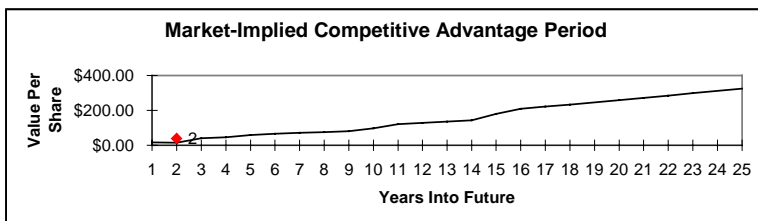


Figure 3
Valuation Parameters for Selected Natural Gas Companies

Company	Lines of Business	Price as of 11/23/99	Shares Outstanding (000's)	Market Cap (000's)	Earnings Per Share			P/E Ratio			Book Value		Cash Flow Data			Dividend		
					1998A	1999E	2000E	1998A	1999E	2000E	Latest Per Share	Market to Book	2000E Per Share	Price/Cash Fl.	Ent. Val. /EBITDA	Annual Rate	Current Yield	Symbol
Independent Marketers																		
Dynegy (H) / Illinova (NR)	M D	30.978	148,000	4,584,783	NM	NM	2.15	NM	NM	14.4	13.50	2.29	8.78	3.53	6.99	0.60	1.9	DYN
Enron (BUY)	E P M T	35.500	772,000	27,406,000	1.00	1.20	1.33	35.5	29.6	26.7	5.44	6.53	2.79	12.72	11.56	0.50	1.4	ENE
Pipelines																		
Coastal Corp. (H)	E P R	35.688	216,770	7,735,979	2.03	2.30	2.75	17.6	15.5	13.0	17.73	2.01	5.65	6.32	7.78	0.25	0.7	CGP
Columbia Energy Group (R)	E P D M T	62.563	82,690	5,173,293	3.21	3.60	4.15	19.5	17.4	15.1	24.41	2.56	8.40	7.45	8.05	0.90	1.4	CG
El Paso (NR)	E P M T	36.438	231,554	8,437,249	1.85	2.10	2.36	19.7	17.4	15.4	15.08	2.42	4.89	7.45	6.91	0.80	2.2	EPG
Equitable Resources (H)	E P D M	34.750	34,107	1,185,218	1.22	2.00	2.40	28.5	17.4	14.5	19.78	1.76	3.20	10.86	7.21	1.18	3.4	EQT
Kinder Morgan Inc. (NR)	P D M	19.563	67,059	1,311,842	1.27	0.10	1.11	15.4	NM	17.6	17.26	1.13	4.14	4.73	8.42	0.80	4.1	KMI
Questar (H)	E P D M T	16.688	82,772	1,381,258	1.16	1.30	1.40	14.4	12.8	11.9	11.45	1.46	3.57	4.67	7.00	0.68	4.1	STR
Williams (BUY)	E P M T	32.625	437,000	14,257,125	0.74	0.60	1.15	44.1	54.4	28.4	9.57	3.41	3.68	8.87	11.36	0.60	1.8	WMB
Canadian Pipelines (in \$C)																		
Enbridge (B)	P D M	30.100	155,711	4,686,901	1.65	1.90	2.20	18.2	15.8	13.7	13.47	2.23	8.47	3.55	9.28	1.21	4.0	ENB
TransCanada Pl. (H)	P M	16.500	460,000	7,590,000	1.48	1.35	1.45	11.1	12.2	11.4	11.83	1.39	3.09	5.34	6.98	1.12	6.8	TRP
Westcoast Energy (H)	P D M	24.400	112,671	2,749,172	1.64	1.95	2.30	14.9	12.5	10.6	21.30	1.15	5.07	4.81	7.00	1.53	6.3	W
Gas Distributors																		
AGL Resources (H)	D M	18.563	57,600	\$1,069,200	\$1.41	\$0.85	\$1.05	13.2	21.8	17.7	11.38	1.63	1.80	10.31	6.56	1.08	5.8	ATG
KeySpan Energy (H)	D M	25.188	157,400	3,964,513	NM	1.55	1.80	NM	16.3	14.0	20.13	1.25	2.50	10.09	7.68	1.78	7.1	KSE
MCN (H)	D M	24.750	85,064	2,105,334	1.40	1.10	1.55	17.7	22.5	16.0	9.89	2.50	2.15	11.51	11.45	1.02	4.1	MCN
NICOR (H)	D	35.438	47,600	1,686,825	2.42	2.65	2.90	14.6	13.4	12.2	16.46	2.15	5.75	6.16	5.78	1.56	4.4	GAS
Washington Gas Light (H)	D M	28.000	46,400	1,299,200	1.49	1.47	1.90	18.8	19.0	14.7	14.72	1.90	3.05	9.18	6.88	1.22	4.4	WGL
Indexes																		
Dow Jones Utility		281.560			17.31	18.83	20.93	16.3	15.0	13.5								UTIL
S&P 500		1,404.640			44.07	49.40	53.95	31.9	28.4	26.0	203.85	6.89				16.68	1.2	SPX
E - Exploration and Production M - Energy Marketing P - Pipelines T - Telecommunications D - Distribution R - Refining E - Credit Suisse First Boston Estimate; A - Actual; R - Restricted NM - Not meaningful; data are excluded from calculations BUY - buy rated stock H - hold rated stock																		

Americas

Eleven Madison Avenue
New York, NY 10010, U.S.A.
1 212 325 2000

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Europe

One Cabot Square
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44 171 888 8888

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Asia Pacific

Three Exchange Square
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