

Equity Research

Americas

U.S./Energy/Natural Gas & Power

April 18, 2001

STRONG BUY
USD 59.44
LARGE CAP

Enron Corp.

ENE

ENE 1Q EPS: Wholesale Up 76%, Above Our Estimate; Quality EBIT and Outlook; '01 Estimate \$1.80, Raising '02 to \$2.25

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- ENE reported 1Q'01 EPS of \$0.47 versus \$0.40. Our estimate was \$0.45. Expenses estimated at \$0.06 were included for EBS, AZX, and NPW, making the "operating comparison" \$0.53 versus \$0.44. A tax rate of 24% versus 18% in 1Q'01 suggests higher-quality operational growth.
- Wholesale EBIT rose 76% to \$755 million. Volume growth was 65% worldwide in natural gas and power. All of the increase was in the Commodity Sales & Services unit, indicating improved quality in the growth. We estimate \$2.8 billion in '01 Wholesale EBIT versus \$2.26 billion in '00.
- Enron Energy Services (EES) showed \$40 million in 1Q'01 EBIT versus \$6 in 1Q'00. New contract signings of \$5.9 billion keep EES on target for our EBIT estimate of \$225 million in '01 versus \$103 million in '00.
- Our '01 estimate is \$1.80 per share. (ENE raised "guidance" to a range of \$1.75-\$1.80 with its EPS release.) Based on the trends shown in the 1Q'01 data, we are increasing our '02 EPS estimate from \$2.20 to \$2.25. ENE is rated Strong Buy, with a target price of \$110 per share.

Price 4/16/01 ¹	Target (12 Months)	Dividend	Yield	Mkt. Value (Millions)	52-Week Price Range	
USD 59.44	\$110	\$0.50	0.8%	\$48,820	\$90.75-51.51	
	Annual EPS	Prev. EPS	Abs. P/E			
12/02E	\$2.25	\$2.20	26.4X			
12/01A	1.80		33.0			
12/00A	1.47		40.4			
	March	June	September	December	FY End	
2001E	\$0.47	\$0.40	\$0.45	\$0.50	Dec. 31	
2000A	0.45	0.34	0.34	0.41		
1999A	0.34	0.27	0.27	0.31		
	Total Debt (12/00)		\$10.2 bil.	Book Value/Share (12/00)		\$15.38
	Debt/Total Capital (12/00)		47%	Common Shares		852.2 mil.
	Est. 5-Yr EPS Growth		15%	Est. 5-Yr. Div. Growth		5%

¹On 4/16/01 DJIA closed at 10159 and S&P 500 at 1183.5.

²Economic profit trend.

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

Investment Summary

Based on the trends shown in the 1Q'01 data, we are increasing our '02 EPS estimate from \$2.20 to \$2.25. Our '01 estimate is \$1.80 per share. (ENE raised "guidance" to a range of \$1.75-1.80 with its EPS release.) ENE is rated Strong Buy with a target price of \$110 per share.

First Quarter Review

ENE reported 1Q'01 earnings of \$0.47 per share versus \$0.40 a year ago. The results include about \$0.06 of expenses for Enron Broadband Services, Azurix, and NewPower, making the operating EPS comparison \$0.53 versus \$0.44.

The upside from our estimate was produced by ENE's Wholesale business, which showed an increase of 76% in 1Q'01, and from the Enron Energy Services (EES) unit, which showed \$40 million in 1Q'01 EBIT compared with \$6 million a year ago. The Wholesale increase related to better-than-expected volume growth (worldwide gas and power up 65%) and pricing volatility. EES showed a 120% increase in revenues.

Wholesales Services

ENE's Wholesale businesses delivered an increase of 76% in EBIT, \$755 million versus \$429 million in 1Q'00, ahead of expectations based on volumes for natural gas, which were up by 55%, and for power, which rose by 109%.

The Commodity Sales & Services portion of Wholesale showed EBIT of \$785 million versus \$246 million in 1Q'00 (up 207%) driven by EnronOnline, physical volumes, and the impact of Wholesale business in Europe all ahead of our projections. The Assets & Investments portion EBIT was \$59 million versus \$220 million, with the decline related to an absence of asset sales this quarter.

In 1Q'01, total natural gas volumes increased 55% to 36.5 billion cubic feet per day, power volumes increased 109% to 231.6 million megawatt hours, and financial settlements increased 113% to 302.7 billion cubic feet equivalent per day.

Retail Energy

Enron Energy Services (EES) showed EBIT of \$40 million versus \$6 million in 1Q'00 on revenues of \$693 million. EES reported new contracts of \$5.9 billion during the quarter, in-line with estimates for EES contracts, which keeps EES on target for our EBIT estimate of \$225 million in '01 (versus \$111 million in '00).

Transportation & Distribution

ENE's T&D unit showed 1Q'01 EBIT of \$193 million versus \$233 million a year ago. ENE's Pipeline group showed \$133 million of 1Q'01 EBIT versus \$128 million in 1Q'00. Portland General reported an decrease in EBIT to \$60 million in 1Q'01 versus \$105 million in 1Q'00, reflecting higher power costs.

Broadband Services

Enron Broadband Services (EBS) reported revenues of \$83 million and an EBIT loss of \$35 million. For the full year, we continue to look for an expense of about \$120 million.

Enron “Files” for \$570 Million in PCG Bankruptcy; Becomes Part of Creditors Committee; Immaterial EPS Impact After Reserves

Press reports last week, confirmed by ENE, indicate that the company has filed a request to be part of the creditors committee in the PCG bankruptcy, indicating a claim for \$580 million. This amount is larger than previous indications because it includes credits that the Enron Energy Services (EES) unit is owed based on its contracts with California customers.

Net of reserves and credit insurance, we expect the impact of this claim, even if it is unpaid, to be immaterial to our estimates. We anticipate some concern that the amount is larger than previously thought, beginning a trend that others making claims in the bankruptcy may follow.

N.B.: CREDIT SUISSE FIRST BOSTON CORPORATION may have, within the last three years, served as a manager or co-manager of a public offering of securities for or makes a primary market in issues of any or all of the companies mentioned.

Table 1
Statement of Income

	<u>2002E</u>	<u>2001E</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
						(PGN 7/1)
Earnings before interest, minority interest and taxes <i>(includes equity earnings)</i>						
Enron Gas Pipeline Group (GPG)	\$418.2	\$388.0	\$391.0	\$380.0	\$351.0	\$364.0
Portland General	289.1	284.2	341.0	305.0	286.0	114.0
Commodity Sales and Services	2,949.0	2,685.0	1,622.0	610.0	411.0	249.0
Energy Assets and Investments	585.0	556.0	899.0	850.0	709.0	565.0
Asset Development and Construction	-	-	-	-	-	77.0
Cash and Physical	-	-	-	-	-	310.0
Risk Management	-	-	-	-	-	143.0
Finance and Investing	-	-	-	-	-	284.0
Unallocated expenses	(300.0)	(329.0)	(259.0)	(171.0)	(152.0)	(160.0)
Wholesale Energy Operations & Services	3,234.0	2,912.0	2,252.0	1,299.0	968.0	654.0
International Gas & Power Services (EI)	1,293.6	1,164.8	900.8	519.6	387.2	255.1
E&P (EOG+Corp hedge)	0.0	0.0	0.0	65.0	128.0	183.0
Enron Energy Services (EES)	425.0	225.0	111.0	(50.0)	(119.0)	(107.0)
Enron Broadband Services (EBS)	(100.0)	(120.0)	(60.0)	0.0	0.0	0.0
Corporate/Other (incl. EREC, EOTT)	<u>(400.0)</u>	<u>(458.0)</u>	<u>(289.0)</u>	<u>(37.0)</u>	<u>(8.0)</u>	<u>(31.0)</u>
Total	3,866.3	3,231.2	2,746.0	1,982.0	1,621.0	1,177.0
Interest expense, net	(840.0)	(831.0)	(838.0)	(656.0)	(550.0)	(401.0)
Dividends on pfd stock of subsidiary	(72.0)	(72.0)	(77.0)	(76.0)	(77.0)	(69.0)
Minority interest in E&P (53%)	0.0	0.0	0.0	6.0	(24.0)	(80.0)
Minority interest	(160.0)	(160.0)	(154.0)	(141.0)	(53.0)	0.0
Pretax income	2,794.3	2,168.2	1,677.0	1,115.0	917.0	627.0
Income tax	698.6	566.5	411.0	158.0	219.0	137.7
Tax rate	25.0%	26.1%	24.5%	14.2%	23.9%	22.0%
Net income	2,095.7	1,601.6	1,266.0	957.0	698.0	489.3
Preferred dividends	<u>84.0</u>	<u>83.0</u>	<u>83.0</u>	<u>66.0</u>	<u>17.0</u>	<u>17.0</u>
Recurring net to common	2,011.7	1,518.6	1,183.0	891.0	681.0	472.3
EES gain	0.0	0.0	0.0	0.0	0.0	61.0
Extraordinary	<u>0.0</u>	<u>0.0</u>	<u>(287.0)</u>	<u>(64.0)</u>	<u>5.0</u>	<u>(445.3)</u>
Reported net to common	2,011.7	1,518.6	896.0	827.0	686.0	88.0
Per share data (diluted):						
Continuing operations				\$1.26	\$1.12	\$0.99
Recurring earnings	\$2.25	\$1.80	\$1.47	\$1.18	\$1.00	\$0.87
Extraordinary items	0.00	0.00	(0.35)	(0.08)	0.01	(0.71)
Reported earnings	\$2.25	\$1.80	\$1.12	\$1.10	\$1.01	\$0.16
					(effect of \$0.015 anti-dil)	
Diluted avg. shares (mm)	921.5	892.9	813.9	769.0	696.0	591.6

Source: CSFB estimates

Table 2
Statement of Cash Flows

	<u>2002E</u>	<u>2001E</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net income	\$2,095.7	\$1,601.6	\$1,266.0	\$957.0	\$698.0	\$489.3
DD&A	875.0	850.0	855.0	870.0	827.0	600.0
Deferred taxes	349.3	283.3	207.0	21.0	87.0	(174.0)
Exploration expenses	0.0	0.0	0.0	49.0	121.0	102.0
Take-or-pay recovery	20.0	20.0	20.0	20.0	20.0	20.0
Operating cash flow	3,340.0	2,754.9	2,348.0	1,917.0	1,753.0	1,037.3
Operating cash flow per share	\$3.60	\$3.10	\$2.88	\$2.49	\$2.52	\$1.75
<i>Less:</i>						
Capital expenditures	1,200.0	1,200.0	2,381.0	2,363.0	1,905.0	1,392.0
Equity investments	500.0	500.0	933.0	722.0	1,659.0	700.0
Sales of investments (proceeds)	0.0	0.0	(494.0)	(294.0)	(239.0)	(473.0)
Business acquisitions	0.0	0.0	777.0	311.0	104.0	82.0
Other investments	0.0	0.0	(303.0)	405.0	536.0	445.0
Pfd dividends	84.0	83.0	83.0	66.0	17.0	17.0
Common dividends	<u>476.9</u>	<u>446.5</u>	<u>363.0</u>	<u>325.0</u>	<u>320.0</u>	<u>268.0</u>
Cash requirement	2,260.9	2,229.5	3,740.0	3,898.0	4,302.0	2,431.0
Cash requirement per share	\$2.45	\$2.50	\$4.60	\$5.07	\$6.18	\$4.11
Free cash flow	1,079.1	525.5	(1,392.0)	(1,981.0)	(2,549.0)	(1,393.7)
Free cash flow per share	\$1.17	\$0.59	(\$1.71)	(\$2.58)	(\$3.66)	(\$2.36)
<i>Discretionary:</i>						
Stock issued	0.0	0.0	307.0	852.0	867.0	0.0
Issuance of subsidiary stock	0.0	0.0	500.0	568.0	828.0	555.0
Preferred stock of subsidiary	0.0	0.0	0.0	0.0	8.0	372.0
Other	<u>0.0</u>	<u>1,187.5</u>	<u>327.0</u>	<u>139.0</u>	<u>13.0</u>	<u>0.0</u>
Total cash flow	1,079.1	1,713.0	(258.0)	(422.0)	(833.0)	(466.7)
Total cash flow per share	\$1.17	\$1.92	(\$0.32)	(\$0.55)	(\$1.20)	(\$0.79)
<i>Cash flow from operating activities exclude</i>						
Gain on sale of stock by subsidiary	0.0	0.0	(146.0)	(541.0)	(82.0)	(195.0)
Regulatory/litigation adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Deferred contract reformation costs	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenues	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid information technology services	0.0	0.0	0.0	0.0	0.0	0.0
Net assets from price risk management	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	0.0	0.0	(146.0)	(541.0)	(82.0)	(195.0)
per share	\$0.00	\$0.00	(\$0.18)	(\$0.70)	(\$0.12)	(\$0.33)

Source: CSFB estimates

Table 3
Statement of Income by Quarter

	1999					2000					2001E					2002E
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2QE	3QE	4QE	FY	FY
<i>(dollars in millions, except per share amounts)</i>				560	560											
Operating income																
Enron Gas Pipeline Group	\$126.0	\$72.0	\$85.0	\$97.0	\$380.0	\$128.0	\$77.0	\$83.0	\$103.0	\$391.0	\$133.0	\$79.4	\$61.8	\$113.8	\$388.0	\$418.2
PGN	92.0	56.0	52.0	105.0	305.0	105.0	62.0	74.0	100.0	341.0	60.0	58.9	70.3	95.0	284.2	289.1
Regulated operations	218.0	128.0	137.0	202.0	685.0	233.0	139.0	157.0	203.0	732.0	193.0	138.3	132.1	208.8	672.2	707.3
Commodity Sales and Services	232.0	88.0	169.0	121.0	610.0	256.0	420.0	407.0	539.0	1,622.0	785.0	630.0	630.0	640.0	2,685.0	2,949.0
Energy Assets and Investments	136.0	325.0	240.0	149.0	850.0	220.0	55.0	305.0	309.0	889.0	59.0	140.0	177.0	180.0	556.0	585.0
Unallocated Expenses	(40.0)	(50.0)	(39.0)	(42.0)	(171.0)	(47.0)	(60.0)	(82.0)	(70.0)	(259.0)	(89.0)	(80.0)	(80.0)	(80.0)	(329.0)	(300.0)
Wholesale Energy	328.0	363.0	375.0	233.0	1,299.0	429.0	415.0	630.0	778.0	2,252.0	755.0	690.0	727.0	740.0	2,912.0	3,234.0
Retail Energy Services	(39.0)	(33.0)	(15.0)	37.0	(50.0)	6.0	46.0	27.0	32.0	111.0	40.0	57.5	62.5	65.0	225.0	425.0
Communications	0.0	0.0	0.0	0.0	0.0	0.0	(8.0)	(20.0)	(32.0)	(60.0)	(35.0)	(30.0)	(27.5)	(27.5)	(120.0)	(100.0)
Other	10.0	(14.0)	(28.0)	(5.0)	(37.0)	(44.0)	17.0	(128.0)	(134.0)	(289.0)	(158.0)	(100.0)	(100.0)	(100.0)	(458.0)	(400.0)
Total	533.0	469.0	507.0	473.0	1,982.0	624.0	609.0	666.0	847.0	2,746.0	795.0	755.8	794.1	886.3	3,231.2	3,866.3
Interest income (expense)	(175.0)	(175.0)	(187.0)	(119.0)	(656.0)	(161.0)	(196.0)	(247.0)	(234.0)	(838.0)	(201.0)	(210.0)	(210.0)	(210.0)	(831.0)	(840.0)
Dividends on pfd. stock of subsidiary	(19.0)	(19.0)	(19.0)	(19.0)	(76.0)	(18.0)	(21.0)	(20.0)	(18.0)	(77.0)	(18.0)	(18.0)	(18.0)	(18.0)	(72.0)	(72.0)
Minority interest in E&P	6.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	(39.0)	(23.0)	(38.0)	(41.0)	(141.0)	(35.0)	(39.0)	(35.0)	(45.0)	(154.0)	(40.0)	(40.0)	(40.0)	(40.0)	(160.0)	(160.0)
Total	(227.0)	(217.0)	(244.0)	(179.0)	(867.0)	(214.0)	(256.0)	(302.0)	(297.0)	(1,069.0)	(259.0)	(268.0)	(268.0)	(268.0)	(1,063.0)	(1,072.0)
Pretax income	306.0	252.0	263.0	294.0	1,115.0	410.0	353.0	364.0	550.0	1,677.0	536.0	487.8	526.1	618.3	2,168.2	2,794.3
Income taxes	53.0	30.0	40.0	35.0	158.0	72.0	64.0	72.0	203.0	411.0	130.0	119.5	131.5	185.5	566.5	698.6
Tax rate	17.3%	11.9%	15.2%	11.9%	14.2%	17.6%	18.1%	19.8%	36.9%	24.5%	24.3%	24.5%	25.0%	30.0%	26.1%	25.0%
Income - continuing operations	253.0	222.0	223.0	259.0	957.0	338.0	289.0	292.0	347.0	1,266.0	406.0	368.3	394.5	432.8	1,601.6	2,095.7
Preferred dividend	4.0	19.0	19.0	24.0	66.0	20.0	21.0	21.0	21.0	83.0	20.0	21.0	21.0	21.0	83.0	84.0
Recurring net income	249.0	203.0	204.0	235.0	891.0	318.0	268.0	271.0	326.0	1,183.0	386.0	347.3	373.5	411.8	1,518.6	2,011.7
Extraordinary items	(131.0)	0.0	67.0	0.0	(64.0)	0.0	0.0	0.0	(287.0)	(287.0)	0.0	0.0	0.0	0.0	0.0	0.0
Reported net income	118.0	203.0	271.0	235.0	827.0	318.0	268.0	271.0	39.0	896.0	386.0	347.3	373.5	411.8	1,518.6	2,011.7
Per share data (diluted):																
Continuing operations (ex *retail)	\$0.37	\$0.30	\$0.28	\$0.28	\$1.24											
Recurring earnings (incl. EES)	\$0.34	\$0.27	\$0.27	\$0.31	\$1.18	\$0.40	\$0.34	\$0.34	\$0.41	\$1.47	\$0.47	\$0.41	\$0.44	\$0.48	\$1.79	\$2.27
Extraordinary items	(\$0.18)	\$0.00	\$0.09	\$0.00	(\$0.08)	\$0.00	\$0.00	\$0.00	(\$0.36)	(\$0.35)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reported earnings	\$0.16	\$0.27	\$0.35	\$0.31	\$1.10	\$0.40	\$0.34	\$0.34	\$0.05	\$1.12	\$0.47	\$0.41	\$0.44	\$0.48	\$1.79	\$2.27
Diluted average shares	744.0	771.0	781.1	779.1	769.0	851.9	862.2	869.6	787.7	813.9	871.6	900.0	900.0	900.0	892.9	921.5

Source: CSFB estimates

AMSTERDAM31 20 5754 890
 ATLANTA1 404 656 9500
 AUCKLAND64 9 302 5500
 BALTIMORE1 410 223 3000
 BANGKOK62 614 6000
 BEIJING86 10 6410 6611
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 FRANKFURT49 69 75 38 0
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 MUMBAI91 22 230 6333
 NEW YORK1 212 325 2000
 PALO ALTO1 650 614 5000
 PARIS33 1 53 75 85 00
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 PHILADELPHIA1 215 851 1000
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 SAN FRANCISCO ... 1 415 836 7600

SÃO PAULO55 11 3841 6000
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 SHANGHAI86 21 6881 8418
 SINGAPORE65 212 2000
 SYDNEY61 2 8205 4433
 TAIPEI886 2 2715 6388
 TOKYO81 3 5404 9000
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