

11:42am EDT 26-Oct-01 Salomon Smith Barney (Raymond Niles +1-212-816-2807) ENE
ENE: DOWNGRADE TO 3S FROM 1S; CREDIT CONCERNS NEED TO BE ADDRESSED

SALOMON SMITH BARNEY

Enron Corporation (ENE)#

ENE: DOWNGRADE TO 3S FROM 1S; CREDIT CONCERNS
NEED TO BE ADDRESSED

3S (Neutral, Speculative)
Mkt Cap: \$11,847.2 mil.

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SUMMARY

POWER & NATURAL GAS

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- * Lower rating to 3S (Neutral, Speculative) from 1S (Buy, Speculative)
- * Enron is the industry dominant player in the energy merchant industry; their business performance should continue unimpeded if current concerns over credit and liquidity are addressed. We continue to think this is the most likely outcome.
- * However, until management addresses these issues, particularly the use of off-balance sheet financing, we think growing credit concerns could put increasing strain on Enron's commercial relationships. Concern over a now higher probability "worst-case" outcome drives our 3S rating and reduced price target..
- * Enron's shares represent a "binary" outcome to investors. We see low-end valuation of \$10 (1x "look through" book value), with upside potential to \$24 (2.2x bv).

FUNDAMENTALS

P/E (12/01E)	9.1x
P/E (12/02E)	7.6x
TEV/EBITDA (12/01E)	NA
TEV/EBITDA (12/02E)	NA
Book Value/Share (12/01E)	\$15.66
Price/Book Value	1.0x
Dividend/Yield (12/01E)	\$0.52/3.2%
Revenue (12/01E)	\$100,789.0 mil.
Proj. Long-Term EPS Growth	23%
ROE (12/01E)	11.5%
Long-Term Debt to Capital(a)	43.0%

ENE is in the S&P 500(R) Index.

(a) Data as of most recent quarter

SHARE DATA

Price (10/25/01)	\$16.35
52-Week Range	\$84.63-\$16.35
Shares Outstanding(a)	724.6 mil.
Convertible	No

RECOMMENDATION

Current Rating	3S
Prior Rating	1S
Current Target Price	\$14.00
Previous Target Price	\$30.00

EARNINGS PER SHARE

FY ends		1Q	2Q	3Q	4Q	Full Year
12/00A	Actual	\$0.40A	\$0.34A	\$0.34A	\$0.41A	\$1.47A
12/01E	Current	\$0.47A	\$0.45A	\$0.43A	\$0.46E	\$1.80E
	Previous	\$0.47A	\$0.45A	\$0.43A	\$0.46E	\$1.80E
12/02E	Current	NA	NA	NA	NA	\$2.15E
	Previous	NA	NA	NA	NA	\$2.15E

12/03E	Current	NA	NA	NA	NA	NA
	Previous	NA	NA	NA	NA	NA

First Call Consensus EPS: 12/01E \$1.81; 12/02E \$2.13; 12/03E NA

OPINION

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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