

Initiated 2026-10-24 · Price \$12.63 (close 2026-10-23, stockanalysis.com) · Mkt cap \$27.8bn (2,285mm diluted shares) · Utilities / regulated electric and gas (Pacific Gas and Electric) · Model: verified

Rating: Sell — Conviction: Medium

PG&E looks cheap on earnings (7.2x forward, core EPS guided up 9–10% a year), but the cheapness sits on top of \$53bn of corporate debt and free cash flow that stays negative through the capex plan. On the cash it actually generates, the equity is worth less than the price even before any new wildfire. The August legislative session left liability uncapped and the Continuation Account's 2028 sunset in place. Management has since cut 2027 capex, withdrawn the 2028–30 plan and opened a strategic review. The downside is open-ended; the upside needs reform that failed once this year.

Conviction tests (3a-v-c): T1 pass (Base –66.1% at +1pp, –20.2% at –1pp; Sell at both) · T2 pass (Gordon alone \$0.00, exit alone \$10.13, –19.8%) · T3 pass (every FY0 fact and historical series from EDGAR XBRL, the FY2024/FY2025 10-Ks and the Q3 2026 10-Q; no est. facts) · T4 fail (strategic review outcome; 2027 liability legislation)

The rule gives Medium. I'd read it as closer to Low, because the Sell rests on a cash-flow framework that the market, pricing PG&E on P/E, does not share.

MODEL VALUE RANGE VS PRICE



Business overview

PG&E Corporation owns Pacific Gas and Electric, the regulated electric and gas utility for Northern and Central California. FY2025 revenue was \$24.9bn (electric \$18.3bn, gas \$6.6bn). GAAP EPS was \$1.18 and core EPS \$1.50. Earnings are an allowed return on rate base, which the company puts at ~\$69bn in 2025, rising to \$81bn in 2027 (~8% a year). The CPUC set a 9.98% ROE for 2026. Three variables drive value: how fast rate base grows (2026 capex \$12.4bn, 2027 cut to \$11.4bn on 2026-09-02, 2028–30 withdrawn), whether customers can afford it (the company targets 0–3% annual bill growth), and wildfire liability, which sits outside the rate formula. Core EPS guidance: 2026 \$1.64–1.66, 2027 \$1.78–1.82.

Competition

PG&E's wires are a franchise monopoly, so competition shows up in load and capital, not price. Community choice aggregators keep taking generation load: the CPUC's May 2026 report lists four CCA expansions in 2025, two in 2026 and two in 2027; Ava Community Energy alone added 1,338 GWh on 2025-01-01. Large loads are the offset: the data-center pipeline is 12.9 GW, of which 174 MW has been energized since 2024 (Q3 2026). The sharper contest is for capital. The closest comparable, Edison, trades at 9.35x forward earnings and 7.32x EV/EBITDA. Sempra and Xcel trade at 15.89x and 18.32x forward (stockanalysis, 2026-10-23).

Bull case

1. **Rate base and load compound** — ~8% rate-base growth to 2027 with 94% of 2026 and 87% of 2027 already authorized, 9–10% core EPS growth, no equity issuance through 2030, and data-center load spreading fixed costs. Plays out if the 2027 GRC lands near the request and large loads connect. *Model: rev_growth, ebitda_margin, terminal_growth*
2. **Reform and investment grade re-rate the stock** — a 2027 liability package (per-incident cap, Fund replenishment, repeal of the 2028 sunset) and investment-grade ratings at every agency would narrow the discount to non-California peers. Plays out if Sacramento acts in 2027. *Model: wacc, exit_ev_ebitda*

Bear case

1. **Wildfire liability stays open-ended** — SB 492 passed on 2026-08-30 without the \$6bn per-incident cap, without repealing the Continuation Account's 2028 sunset, and without a way to replenish the Fund. The stock fell 18% that day. PG&E's recovery of costs above \$1.0bn in a coverage year depends on what other utilities' claims (Eaton) leave in the Fund. Plays out with a large PG&E-caused fire or a depleted Fund. *Model: wacc, exit_ev_ebitda; uncapped liability quantified in the tail below*
2. **Credit and funding strain** — one major agency still rates the Utility's unsecured debt below investment grade (10-Q). The 2027 capex cut cited financing costs, and the strategic review makes investment grade a "foundational objective". Net leverage is 5.5x on the model's basis, and 9M 2026 operating cash flow of \$5.8bn covered only 61% of \$9.6bn capex. Plays out if spreads widen or the review ends in a recapitalization. *Model: wacc, exit_ev_ebitda*
3. **Affordability erodes the rate base story** — a 0–3% bill target caps revenue growth below rate-base growth. CCA expansion continues. Kincade, Dixie and wildfire-and-gas-safety cost-recovery decisions (Q4 2026) could bring disallowances. Plays out if the CPUC trims the GRC or the 2028–30 plan returns smaller. *Model: rev_growth, ebitda_margin, terminal_growth*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/E forward (consensus)	7.24x	n/a (unverified)	EIX 9.35x, SRE 15.89x, XEL 18.32x	stockanalysis 2026-10-23
EV/EBITDA (model basis: OI + DA&D + wildfire claims + SB 901 charges, FY2025; corporate debt only, leases excluded)	8.58x (9.81x incl. \$11.7bn VIE debt)	EBITDA \$7.7–9.5bn FY2023–25	lease-inclusive TTM: EIX 7.32x, SRE 15.59x, XEL 14.44x (PCG 8.65x)	10-K, 10-Q, stockanalysis 2026-10-23
P/B	0.84x	n/a (unverified)	EIX 1.26x, SRE 1.68x, XEL 2.03x	stockanalysis 2026-10-23
FCF yield (TTM)	-17.89%	9M 2026 OCF \$5.8bn vs capex \$9.6bn	EIX -1.76%, SRE -9.54%, XEL -15.78%	stockanalysis 2026-10-23, 10-Q

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$0.00 · Base \$5.06 · Bull \$17.84 per share, i.e. implied returns of -100.0% / -59.9% / +41.2% vs \$12.63. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits 71% of the way from Bear to Bull and well above Base, so the market is already paying for most of the bull case: reform plus continued rate-base growth.
- **Re-rating.** Base's 8.5x exit is a 1% de-rating from today's 8.58x. The methods disagree completely (Gordon \$0.00, exit \$10.13): the Gordon terminal value is ~5.8x Y5 EBITDA, because on the model's basis the after-tax return on capital sits below the 6.6% WACC. Y5 capex is normalized to 28% of revenue (plan years 38–48%).
- **Floored cases.** Base Gordon and both Bear methods print \$0.00, but they are not equally bad: Base exit still leaves \$10.13, while Bear's exit value falls short of net debt.

- **Generosity checks.** Adding Wildfire Fund expense back (the company's core basis) lifts Base to \$7.19 (–43.1%). Holding cash tax at 7% lifts it to \$8.34 (–34.0%). Neither reaches the price.
- **Tail.** A hypothetical \$5bn of uncapped, shareholder-borne fire liability cuts Base to \$3.97 (–68.6%) and Bull to \$15.65; \$15bn cuts Base to \$1.78 and Bull to \$11.27 (–10.8%). Treating the \$11.7bn of VIE debt as corporate debt cuts Base to \$2.50 (–80.2%) and Bull to \$12.70.

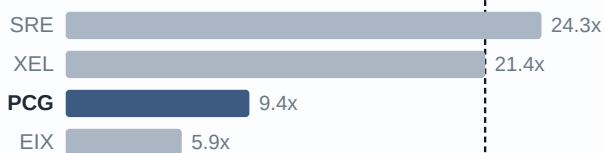
Balance sheet: net leverage 5.51x FY2025 EBITDA on corporate debt (\$53.3bn less \$0.9bn cash), 6.7x including VIE debt; coverage 3.6x. Liquidity: \$902mm cash plus revolver capacity (availability n/a (unverified)). Nearest material maturity: \$3.5bn of short-term borrowings and current long-term debt in 2027. Ratings: the Utility's unsecured debt is below investment grade at one major agency (10-Q, 2026-09-30); S&P one notch below investment grade (press, 2026-08-31); Moody's and Fitch n/a (unverified).

Model note: built and verified (LibreOffice recalculation matched all 3,207 formula cells). Unverified inputs: none. Assumptions without basis: none. No scenario CHECKS. EBITDA keeps Wildfire Fund expense as a cost, as a proxy for continuing Fund contributions; the company's core basis adds it back. Base Y1 EPS of \$1.18 sits 28% below the \$1.64–1.66 core guide. The model excludes ~\$0.9bn a year of interest and other income (AFUDC equity, regulatory balances), the GAAP tax benefit, Wildfire Fund amortization and non-core items, so later updates should track the guide, not the model's EPS line. Diluted shares include the mandatory convertible as converted. Rate-base figures are from a secondary summary of company slides.

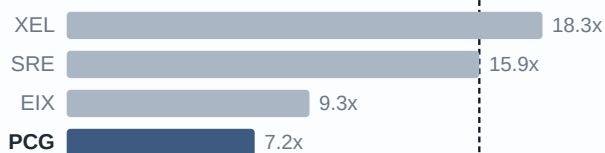
RELATIVE VALUE VS PEERS

Metric	PCG	EIX	SRE	XEL	Peer median	vs median
P/E (TTM)	9.4x	5.9x	24.3x	21.4x	21.4x	–56%
P/E (forward)	7.2x	9.3x	15.9x	18.3x	15.9x	–54%
PEG	0.8x	2.2x	1.9x	1.9x	1.9x	–58%
EV/EBITDA (TTM)	8.7x	7.3x	15.6x	14.4x	14.4x	–40%
EV/Sales (TTM)	3.6x	3.4x	6.8x	6.0x	6.0x	–41%
P/B	0.8x	1.3x	1.7x	2.0x	1.7x	–50%
FCF yield	–17.9%	–1.8%	–9.5%	–15.8%	–9.5%	–8.4pp
Dividend yield	1.6%	6.1%	3.1%	3.0%	3.1%	–1.5pp

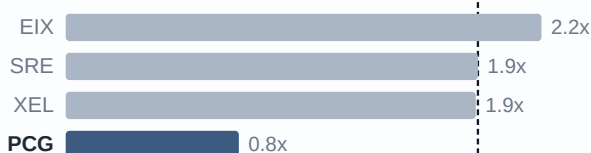
P/E (TTM)



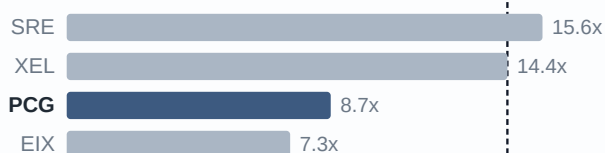
P/E (forward)



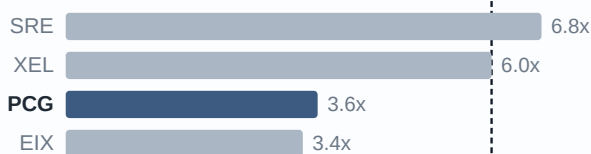
PEG



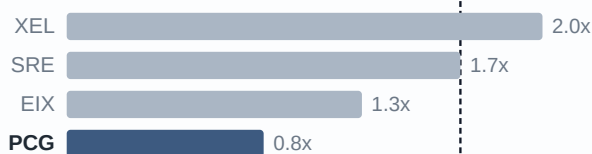
EV/EBITDA (TTM)



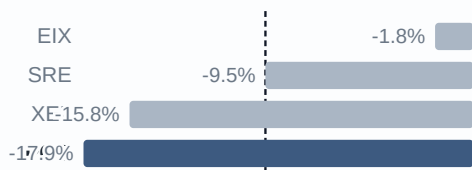
EV/Sales (TTM)



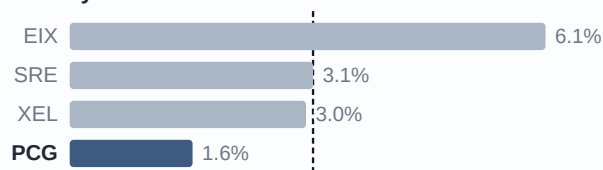
P/B



FCF yield



Dividend yield



As of 2026-10-24. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting reported cash and including lease liabilities and all debt. Not the model's own EV basis (see the report's valuation table). Pages fetched 2026-10-24 (Saturday); figures reflect the 2026-10-23 close. Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-24.

Notes. PEG as given by the source. EIX's TTM P/E is depressed by GAAP earnings that include wildfire cost recoveries. Negative across the set: regulated capex exceeds operating cash flow for all four.

Scenario stress test

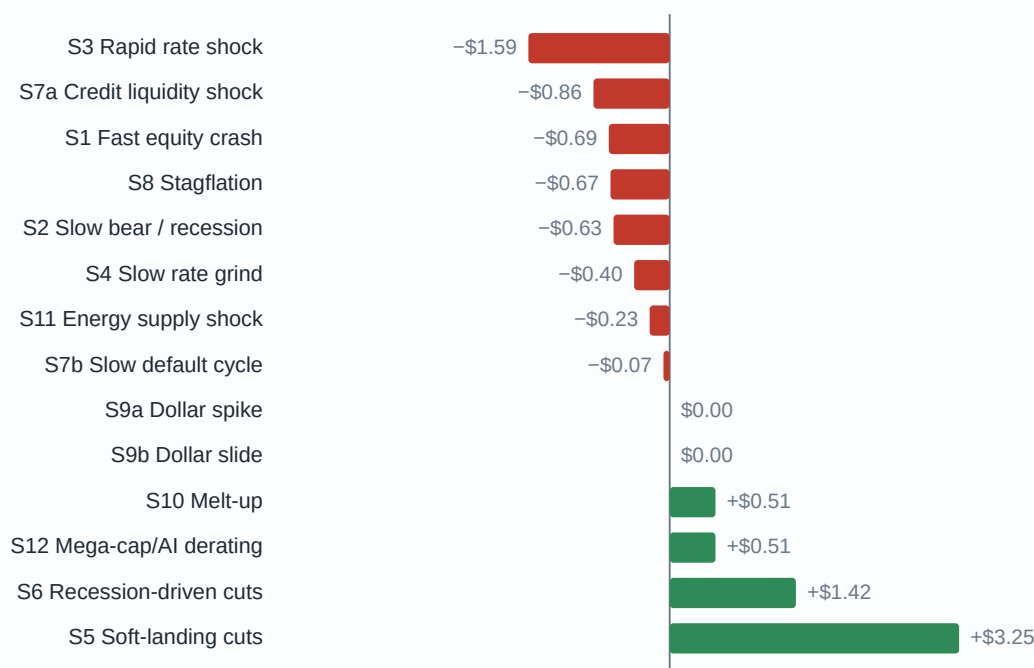
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Liquidity de-rating of a low-beta utility, amplified by leverage; no operating channel	Med	-\$0.69
S2 Slow bear / recession	-	Decoupled revenue; bad debt and slower load, partly offset by lower yields. Far milder than Base – Bear (\$5.06) because the bear case is a liability and credit break, not a demand cycle	Med	-\$0.63
S3 Rapid rate shock	-	Bond-proxy equity on ~69% debt capital funding \$11–12bn a year of capex; returns reset with a lag	High	-\$1.59
S4 Slow rate grind	-	Refinancing at higher coupons; the cost-of-capital mechanism passes part through	Low	-\$0.40
S5 Soft-landing cuts	+	Lower yields re-rate rate-sensitive utilities; leverage magnifies it	High	+\$3.25
S6 Recession-driven cuts	+	Rate relief outweighs a small load and bad-debt hit	High	+\$1.42
S7a Credit liquidity shock	-	Split-rated issuer funding heavy capex as spreads gap wider	Med	-\$0.86
S7b Slow default cycle	-	Customer bad debt and a wider funding spread	Low	-\$0.07
S8 Stagflation	-	Rates rise while O&M inflation outruns the GRC cycle and the 0–3% bill target limits requests	Med	-\$0.67
S9a Dollar spike	0	no material effect, not modeled	Low	\$0.00
S9b Dollar slide	0	no material effect, not modeled	Low	\$0.00
S10 Melt-up	+	Tight credit eases capex funding; modest re-rating	Med	+\$0.51
S11 Energy supply shock	-	Gas and power pass through, but higher bills sharpen affordability push-back; rates rise	Low	-\$0.23
S12 Mega-cap/AI derating	+	Rotation into defensive yield names; no fundamental channel	Med	+\$0.51

Deltas are small because Base Gordon already floors at \$0.00, so most rows move only the exit method. No row carries a wildfire event.

Currently active/on watch per the playbook: S3 partially active (10Y back at 5.00% on 2026-10-23); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: a 2027 law caps per-incident liability or Fund draws and repeals the 2028 sunset; every agency rates the Utility investment grade; or the strategic review produces a structure that lowers the cost of capital without equity dilution, alongside a reissued 2028–30 plan.

Downgrades if: a PG&E-linked catastrophic fire occurs, the Fund is materially depleted by Eaton claims, an agency downgrades, or the review ends in an equity raise.

Watch items

- **W1:** Kincade/Dixie cost recovery and the wildfire-and-gas-safety Track 1 decision — size of any disallowance — CPUC decisions / Q4 release — Q4 2026 — *Model: ebitda_margin*
- **W2:** Strategic review outcome and the reissued 2028–30 capital plan — structure, equity need, capex level — 8-K / Q4 2026 release — date n/a (unverified) — *Model: capex_pct_rev*
- **W3:** 2027 legislative session and ratings — liability cap, Fund replenishment, sunset repeal; S&P/Moody's/Fitch actions — legislation, rating releases — 2027 — *Model: wacc*
- **W4:** 2027 GRC proposed decision — authorized revenue vs request — CPUC — March 2027 — *Model: rev_growth*

Sources

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- Macro log (10Y 5.00%, 2026-10-23) — logs/macro-2026-10.md

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.