CIBC Oppenheimer

A CIBC WORLD MARKETS COMPANY

Equity Research

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Enron Corp.

Shares Should Hold Multiple Premium;

Natural Gas

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Investment Conclusion

- Enron's asset and earnings mix continues to transition with management aggressively targeting higher growth energy sectors; accordingly, we believe longer term earning power should build at attractive rates relative to its traditional diversified gas peer group. Although we are maintaining our Hold rating—at the current P/E multiple of 28.3X our 1999 EPS estimate, the shares trade at a 50% premium to the diversified gas peer group—we expect ENE shares to maintain a significant group premium; accordingly, we would look to accumulate these shares on any pullbacks to $60 or less. This equates to about 22X-23X projected 2000 EPS.
- Among integrated energy companies—including the larger integrated oil companies—Enron appears best positioned in two of the most powerful global energy themes now under way: (1) the deregulation of wholesale and retail energy markets in developed economies and (2) the privatization of energy and utility infrastructure in emerging economies. Over the past month we believe the sharp increase in ENE shares can be attributed to two factors. 1) rising expectations and valuations for Enron Energy Services (EES), Enron's retail marketing arm, following management's increased expectations for the potential size of the higher margin energy management/outsourcing business, and 2) clarification of the company's strategy and initial potential in communication and water businesses
- Following operating setbacks in 1995-1997, Enron has re-emerged as a sector favorite. The company's leadership role in a number of rapidly evolving energy-related disciplines (wholesale gas and power marketing, power generation, retail marketing and energy outsourcing), combined with an expanding international portfolio, should sustain a relative P/E multiple premium. While it is too early to gauge management's success in communications and water, these businesses appear to have the potential to provide further valuation support.

Rating: HOLD

ENE-NYSE (1/25/99):	$65
52-week Range:	$67 1/8-40
Shares Outstanding:	358 Million
Float:	295 Million Shares
Market Capitalization:	$23 Billion
Dividend/Yield:	$1.00/1.5%
Fiscal Year Ends:	December
Book Value:	$19.80 per Share
1999E ROE:	10.5%
LT Debt:	$9 Billion
Preferred:	$990 Million
Common Equity:	$7 Billion

Earnings per Share

1998	$2.01
1999E	$2.30
2000E	$2.65

P/E Ratio

1998	32.3X
1999E	28.3X
2000E	24.5X

Cash Flow per Share

1998	$4.36
1999E	$4.65
2000E	$5.40

P/CF Ratio

1998	14.9X
1999E	13.9X
2000E	12.0X

Company Description:
Enron is a diversified global energy company with operations in natural gas pipelines, natural gas and power marketing/supply management, and the development and operation of international power plants.

In measuring the merits of investing in Enron, investors also should consider that large-capitalized leaders within various industry sectors have seen marked relative multiple expansion in recent years. Higher multiple companies have also gained more flexibility to use stock in further targeting growth opportunities. In light of the stock's strong recent performance, we would not rule out Enron management utilizing additional equity financing through either a secondary or directly in targeting acquisition opportunities.

Business Model Seen Sustaining P/E Premium

At the January analysts' conference in Houston, management provided significant details about its long-range plans to build earnings power along several fronts. If a successful sale of the company's 53% stake in Enron Oil Gas is completed, proceeds would likely be reinvested in higher growth business segments.

Wholesale Energy Opportunities. Management appears to have the systems, personnel and, importantly, customer relationships in place to maintain its leadership role in energy marketing, namely gas and power, for the foreseeable future. The company is also moving rapidly to provide new risk management services in growing areas such as weather insurance and emission trading. Through Enron Europe, the company is currently the only U.S. concern aggressively targeting a restructuring European energy sector; a market that rivals the U.S. in annual consumption and may offer equal potential longer-term..

Retail marketing: energy management services (outsourcing) seen boosting commodity-based service margins. Enron Energy Services **(**EES) appears well positioned to see rising profit opportunities from energy outsourcing to U.S. businesses. Increasingly, relative to pure commodity delivery services, Enron's management sees greater margins and profit opportunities in energy management outsourcing for commercial and industrial customers. To date, management has indicated that strong market response is resulting in significant contract success. At year-end 1998, total retail contracts (based on future revenue) stood at $3.8 billion. Management is targeting $8 billion by year-end 1999, a number that could prove conservative. The backlog of potential prospects now stands at $18 billion. Importantly, EES is expected to turn profitable by the fourth quarter.

International projects moving toward commercialization. A large percentage of the company's international project portfolio is moving from the development stage to commercialization.

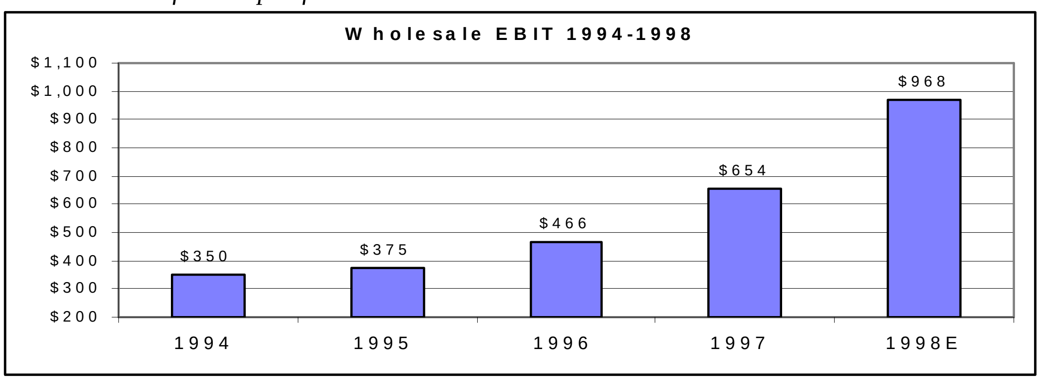
New initiative in communications. Enron recently made public an ambitious plan to operate and control a highly efficient national fiber-optic network. While it is too early to gauge the success of management's communications initiatives, the strategy appears to be sound based on invested capital and Enron's national presence in energy markets.

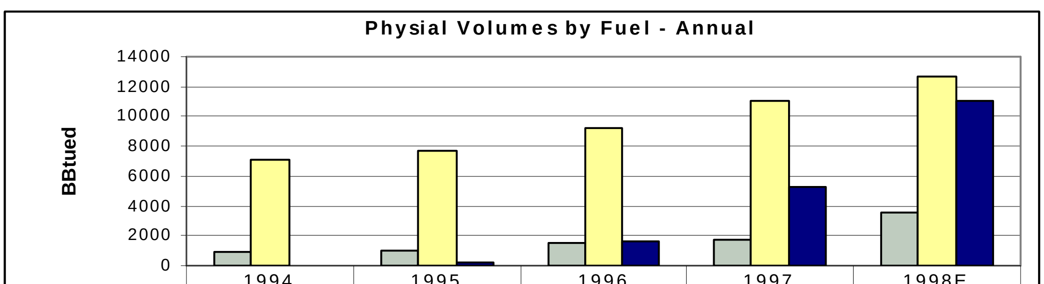
Premium multiple affords management premium currency. If, as we expect, Enron shares continue to command a premium P/E multiple, ENE shares will become an increasingly attractive currency to fund acquisitions, including other publicly traded companies.

Wholesale Energy Operations

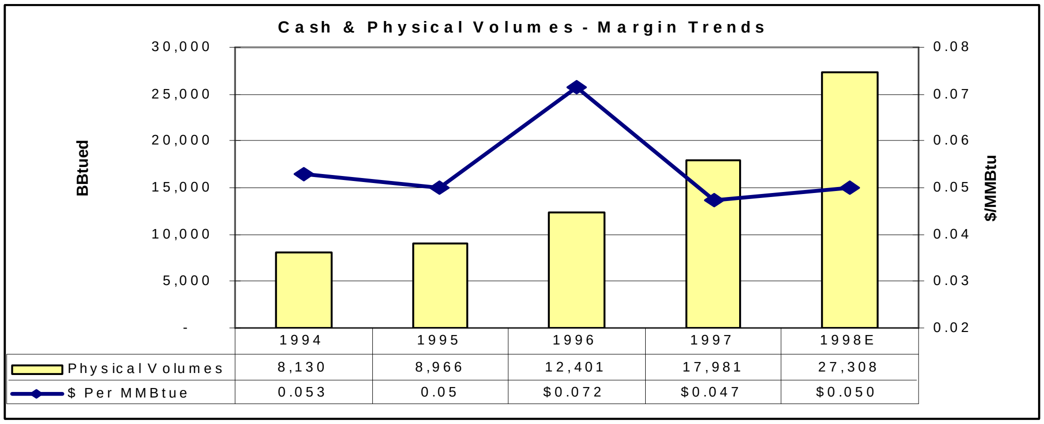
- **ECT - North America**
- **Enron Europe**
- **Enron International**

Commodity Sales and Services: includes the *trading/marketing* arm, which incorporates the worldwide sales of energy commodities at the wholesale level (including large industrial customers) and related *price risk management products*.
Energy Assets and Investments: includes the *development, construction and operation of energy assets worldwide* and the *origination and management of the company's energy investments and finance portfolio.*





	1994	1995	1996	1997	1998E
Crude/Liquids	947	1,053	1,507	1,677	3,570
Natural Gas	7,150	7,700	9,237	11,037	12,714
Electricity	33	213	1,648	5,256	11,024



Source: Company data, CIBC Oppenheimer estimates

International Assets

Facilities in Operation:

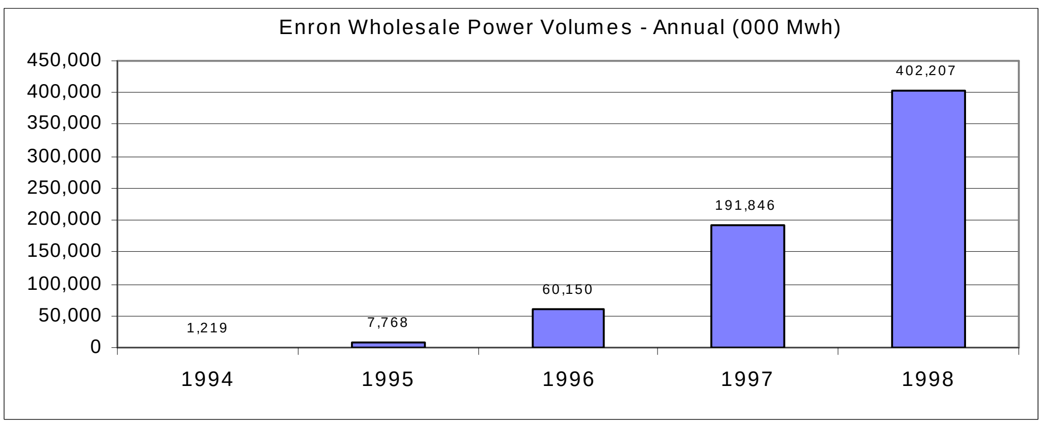
- 3,030 MW of power generation
- 7,554 miles of pipeline

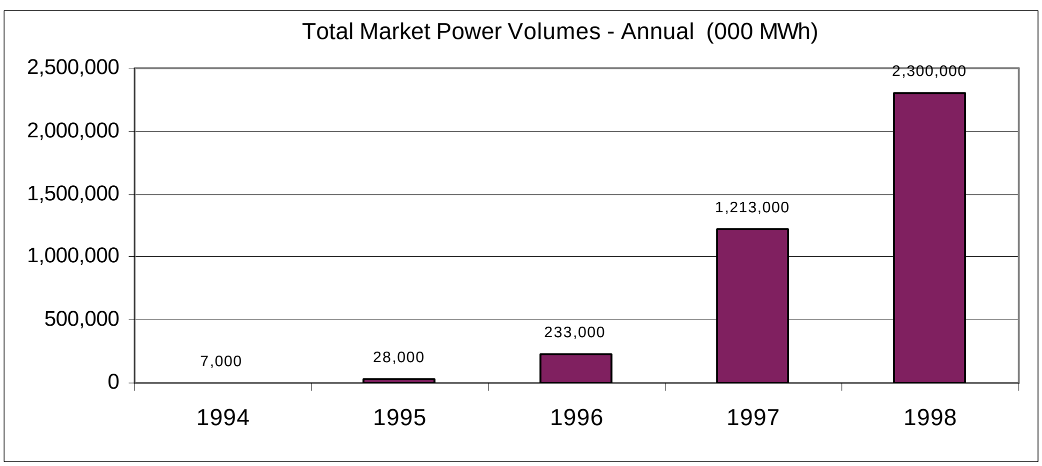
Facilities in Construction:

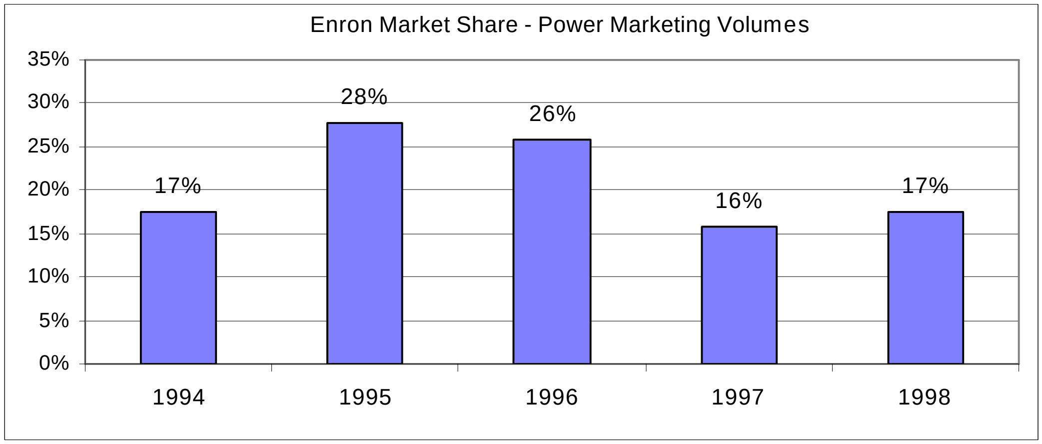
- 3,569 MW of power generation
- 1,180 miles of pipeline

ECT North America

ECT North America is the largest wholesale energy marketer in the United States. Core strengths include Physical Delivery, Risk Management, Finance and Asset Management.







Source: Company data

Evolutionary Changes in the Structure of the North American Electricity Market……….

Changing Trends	From:	To:
WHOLESALE & RETAIL ACCESS	**Utility Service Providers; Rate Tariffs**	**New Service Providers, New Products and Services**
ASSET BASE RESTRUCTURING	**Regulated Utility Ratebase**	**At-Risk, Non-Regulated Ownership**
MARKET LIQUIDITY	**Low Levels of Price Discovery; Low Liquidity and Volatility**	**Market-Driven Pricing, Extreme Extreme Volatility**
ENVIRNONMENTAL ISSUES	**Limited Exposure and Regulated Cost-Based Mitigation**	**Financial Exposure and Market Based Mitigation**

………Driving Dramatic Changes in Energy Commodity and Capital Markets

Changing Trends	
WHOLESALE & RETAIL ACCESS	**New Products Generate Demand for Reliable Energy Supply, Risk Management Tools, Capital, Environmental Solutions and Weather Related Products**
ASSET BASE RESTRUCTURING	**Capital to Fund Acquisitions and Development Projects, Power and Gas Risk Management Products, Emergence of Markets for Coal, Fuel Arbitrage, New Assets Which Stimulate Demand For Gas**
MARKET LIQUIDITY	**Increasingly Complex, Volatile and Integrated Wholesale Gas and Power Market Creates Barriers to all but a Few Higly Sophisticated Energy Marketers**
ENVIRNONMENTAL ISSUES	**Market-Based Emissions Solutions Will Provide Large Opportunities For Capital, Gas and Electricity Risk Management and Creative New Products**

Source: Enron

Enron is the industry leader in one of the most powerful structural changes ever seen in US energy markets: the deregulation and restructuring of traditional gas and electric utilities. Traditional providers of energy services, namely regulated investor owned and municipal utilities, lack the expertise (systems and people) to succeed in a new competitive market place. Other traditional natural gas players seeking a share of a rapidly expanding new market include Dynegy, El Paso and Williams.

Source: Company data, CIBC Oppenheimer estimates

Control/Ownership of Power Generation Seen Enhancing Marketing Efforts

Existing generating assets changing hands. Since 1997 approximately 12% of the U.S. generating base has been sold or is currently on the market. We expect Enron and other major national and regional marketers to aggressively pursue strategic generating assets.

New merchant plants will be largely gas-fired. Over 90% of the proposed new merchant plants—approximately 63,000 Mw—will be fired by natural gas.

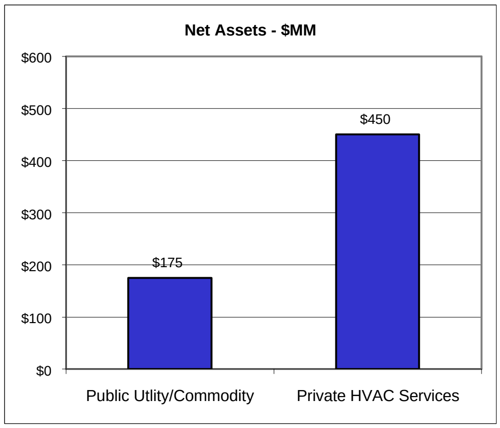
EES - Enron Energy Services

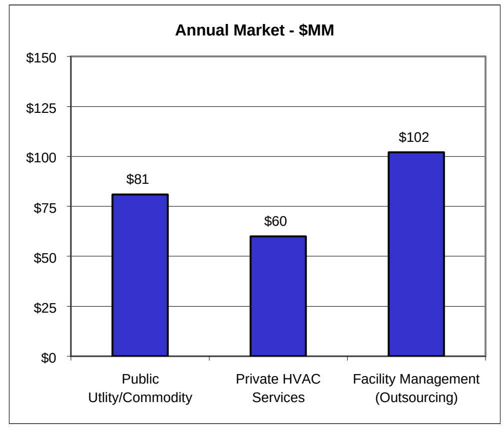
Enron Energy Services provides comprehensive energy solutions to U.S. commercial and light industrial end-users. Retail contracts are growing, and future undiscounted revenue should exceed $3 billion by year-end. Management continues to build its retail business under Enron Energy Services. Notable customers include Lockheed Martin, Lucent, Applied Materials, TRW, PacTel, General Cable and a number of educational institutions. Importantly, by year-end, the value of anticipated contracts should easily exceed the annual start-up expenses burn rate of ~$100 million. The division is expected to turn profitable during the second half of 1999. During the fourth quarter, the company signed contracts representing $1.8 billion of total future energy expenditures, taking the total under contract to $3.8 billion. Contracts under negotiation include a rising mix of service and outsourcing income, which should carry higher margins. Management expects the announcement of several large national contracts in the first quarter of 1999.

Management is aggressively expanding services from commodity supply to facility management/ownership (outsourcing). As detailed below, relative to commodity supply services, Enron's management sees greater profit potential in energy outsourcing (facility management.

Retail Structure - Commercial/Industrial Markets | **Enron Outsource**

Public Utility	**Private "Utility" HVAC Businesses**		**Market Targeted**
Distribution	**Energy Conversion Assets** Boilers		**Lighting**
Transmission	Chillers Controls	**Facility Management**	**Conditioned Air**
Generation	Lighting Substations		**Managed Facilities**





Source: Enron

Revenue Plan - Enron Energy Services	**1998**	**1999**	**2000**
Services	$165	$720	$2,250
Commodity	$935	$1,680	$2,250
Total Revenues	$1,100	$2,400	$4,500
% Services	15%	30%	50%
Estimated Avg Margins			
Services	7.5%	8.0%	8.0%
Commodity	2.0%	2.0%	2.0%
Total Margin	2.8%	3.8%	5.0%
Gross Income			
Services	$12	$58	$180
Commodity	$19	$34	$45
Total Gross Income	$31	$91	$225
SG&A, Allocated Expense	($151)	($171)	($175)
EBIT	($119)	($80)	$50

Source: Company data, CIBC Oppenheimer estimates

5-Year Target Income Potential 2005
Preliminary Valuation Model for EES - Retail Services

Retail Energy Marketing* - Five Year Potential		
Commercial and Light Industrial market		2004
Market Size Opened Up $Billion - Energy Sales		$81
Facility Mgmt $Billion		$60
Market Size Opened Up $Billion-Related Services (HVAC,etc)		$102
Total Market Size (Annual Revenues)		$243
EES Revenue Share - 10% penetration		8%
Enron Target Revenues (EES) $Billions		$19
Projected EBIT Margin		4.0%
Gross Margin Target ($ Million)		$778
Allocated Expenses		$250
EBIT		$528
Taxes		$185
		$343
Fully Diluted Shares		375
EPS potential		$0.91
Valuation		EBIT
Target EBIT Multiple		10.0X
Terminal Value		$7,776
Implied P/E		22.7
Present Value	**12.5% discount**	$4,315
	Per Share	**$11.51**

Source: Company data, CIBC Oppenheimer estimates

Sales and Marketing Management
The 25 Best Sales Forces

1	GE Capital	13	BJ Services
2	Cisco	14	Merck
3	Frito-Lay	15	Hewlett Packard
4	Dell	16	Marriott
5	Physician Sales and Services	17	Coopers & Lybrand LLP
6	Lear Corporation	18	Tosco
7	Northwestern mutual life	19	Federal Express
8	Halliburton	20	Deere & Company
9	Pfizer	21	Lucent
10	**Enron**	22	DHL
11	Intel	23	IBM
12	Merrill Lynch	24	Philip Morris
		25	Proctor & Gamble

Three Criteria:
Superior Sales Performance
Reputation For Customer Service
Reputation For Employee Satisfaction

Source: Sales and Marketing Management Magazine, July 1998

Sales Force Experience: Enron Corp.

	# of Sales Personnel	Average Years Sales Experience
1997	102	5
1998	114	7
1999	136	10

Source: Enron Corp.

Our quarterly EPS estimates are shown below.

		1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Year
1998	Actual	$0.65	$0.42	$0.47	$0.48	$2.01
1999E	Current	---	---	---	---	$2.30E
2000E	Current	---	---	---	---	$2.65E

FINANCIAL DATA $MM	1997	1998E	1999E	2000E
EBIT				
Transportation & Distribution:				
Gas Pipeline Group/Ventures	$364	$351	$360	$375
Portland General	$114	$286	$295	$300
Wholesale Energy Operations:	$654	$968	$1,200	$1,250
Exploration & Production	$183	$128	$150	$175
Corporate and Other	($31)	$7	($10)	$0
Wessex			$10	$20
Core Business EBIT	$1,284	$1,740	$2,005	$2,120
Retail Energy Services (EES)	($107)	($119)	($70)	$50
Gain on Sale of 7% in EES	$61	-	-	-
EBIT Totals	$1,238	$1,621	$1,935	$2,170
Interest Expense	$401	$550	$683	$695
Dividends on Preferred Stock (sub)	$69	$77	$78	$78
Minority Interest	$80	$77	$84	$84
Pretax Income	$688	$917	$1,090	$1,313
Income Taxes	$112	$219	$262	$341
Tax Rate	16%	24%	24%	26%
Income From Continuing OPS	$576	$698	$829	$972
Preferred Stock Dividends	$17	$17	$18	$18
Earnings on Common Shares	$559	$681	$811	$954
Common Shares Outstanding	272.0	321.0	330.0	332.5
Fully Diluted Shares	296.0	347.5	360.0	367.0
EPS FD	**$1.95**	**$2.02**		
Non-Recurring	($1.60)	$0.01		
Fully Diluted EPS Reported	$0.34	$2.03	$2.30	$2.65
Cash Flow Per Share	$3.50	$4.41	$4.66	$5.24
EBITD Per Share	$6.21	$7.29	$8.14	$9.04
Price/Earnings Ratio (FD)	**32.7**	**31.9**	**28.2**	**24.5**
Price/Cash Flow Ratio	18.5	14.7	13.9	12.4
Enterprise Value	$25,439	$29,976	$31,287	$32,240
EV/EBITD	14.3	11.8	10.7	9.7
Year-End Book Value	$18.98	$19.82	$20.46	$21.76
Price/Book	3.4	3.3	3.2	3.0
Return on Avg. Equity	2.1%	10.5%	11.4%	12.5%
Return on Capital	9.4%	8.3%	8.9%	9.1%
Relative P/E	1.36	1.39	1.34	1.30
S&P 400	24.0	23.0	21.0	18.9
Interest Coverage	3.8	3.8	3.6	4.1

Source: Company Reports, CIBC Oppenheimer estimates