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ENRON CORPORATION

FY99 Fourth Quarter Slightly Ahead of Expectations; Outlook for 2000 Solid

Hugh F. Holman (617) 526-7437 hugh_holman@rscsco.com

Robertson Stephens	Robertson Stephens	
Enron Corporation	ENE	\$55.94
Energy Technologies & Services		
	Hugh F. Holman	(617) 526-7437
	Ronaldo Garces	(617) 526-7464

Change in	Yes/No	Was	Is
...Rating:	No		BUY
...EPS 1998A:	No		\$1.01
...EPS 1999A:	Yes	\$1.17	\$1.18
...EPS 2000E:	No		\$1.35
...EPS 2001E:	No		\$1.55
52-Week Range:			30-57
Shrs Out (MM):			779.1
Market Cap (\$MM):			\$43,581
Average Daily Volume (000):			2,753.5
12/98 Book Value/Share:			\$9.05
1998 ROE:			11.1%
1998 IBIT Margin			5.1%
Tot. dbt / cap as of 12/98:			24.8%
12/98 Net Cash/Share			\$0.14
Dividend/Yield:			0.9%
3 Year Sec Growth Rate:			15%

FY Dec	1999A	2000E	2001E
EPS: 1Q	\$0.34	\$0.30	
2Q	\$0.27	\$0.32	
3Q	\$0.27	\$0.34	
4Q	\$0.31	\$0.38	
Year	\$1.18	\$1.35	\$1.55
P/E	47.4	41.6	36.1
Cal Year	\$1.18	\$1.35	\$1.55
Cal P/E	47.4	41.6	36.1
Revs(\$M)	1999A	2000E	2001E
1Q	\$7,632	\$8,861	
2Q	\$9,673	\$11,852	
3Q	\$11,835	\$12,811	
4Q	\$10,973	\$13,462	
Year	\$40,113	\$46,985	\$52,873
EqtyMkt/Rev	1.1	0.9	0.8

Key Points:

- Enron reported 4Q earnings of \$0.31 per share, slightly ahead of our estimate of \$0.29 per share. The P&L closely tracked expectations, with the most significant variance (relative to our model) coming in a better-than-expected performance by the retail energy services unit. Energy services turned its first-ever profit, contributing \$7 million in IBIT versus our estimate of a \$9 million loss at the IBIT line.
- What can we say? Enron is simply hitting on all cylinders, and doing it in markets that themselves are gaining momentum. The restructuring of the power business, here and abroad, continues to open opportunities for Enron. Along the way, the company continues to identify and invest in new markets, such as broadband telecommunications, that leverage its unique set of skills.
- We will maintain our Buy rating on this stock and our estimates of \$1.35 per share and \$1.55 per share, respectively, for 2000 and 2001. The company will hold its annual analysts' conference this Thursday; we will revisit our model to incorporate any new guidance that emerges from the meeting.

The Company and Investment Thesis

Enron is an integrated global energy company. Its operations span the production of natural gas and oil; the transmission and distribution of natural gas; the generation, transmission, and distribution of electricity; wholesale trading of energy in all forms; and retail sales of energy and of services associated with retail energy use. Approximately 80% of Enron's revenues derive from its domestic businesses; its international operations are principally in Europe, South America, and Asia. In 1999, the company reported revenues of \$40.1 billion and net income of approximately \$950 million (net of nonrecurring items).

We view Enron as the premier, large-cap play on the deregulation and restructuring of the electric utility industry in the U.S. and Europe. In our view, the opportunities created by this restructuring are substantial (see our April 12, 1999, report *Rejoice Re: Juice Redux* and our October 20, 1999, report, *Talkin' 'Bout My Generation*). In addition, Enron has established itself as a leading force in other international power markets, where privatization is allowing new entry.

Investment Risks

Among the risks faced by Enron are risks associated with the company's construction of new power plants and other energy projects: the cost to construct, time to complete, and operating characteristics of the projects once complete all represent potential sources of risk. Enron's strategy has been to build merchant peaking plants, thus exposing the company to the risks (and high potential rewards) of power sold to meet short-term and relatively unpredictable requirements. As the largest marketer of power, Enron faces trading risks. Enron hedges these risks to a significant extent. Lastly, Enron faces exposure to political risk in its international operations.

4Q and 1999 Earnings Recap

Among the points made during the company's 4Q recap conference call were the following:

- Key events of the year: The company laid the foundation for its broadband services and turned profitable in retail energy services. 4,370 megawatts of new generating capacity went into service. The company set up an online trading operation (enrononline.com).
- Retail energy services: In 1999, the company signed contracts covering \$8.5 billion in energy expenditures, including 3 contracts covering over \$1 billion each. Enron is now managing the energy needs of 16,500 facilities worldwide. The company expects "strong profits" from the segment in 2000; more guidance to come at the analysts' meeting. In Atlanta (to focus on just one major market), Enron manages 307 locations with a total load of 0.5 million megawatt hours/year. This represents 3.5% share of the total commercial and light industrial load in the region.
- EnronOnline: Since coming online in late November, EnronOnline has been the site of over 10,000 transactions and is trading on a notional basis \$170 million of energy per day. The company is now rolling out this service in Europe.
- Nonrecurring items: In 4Q, the company generated \$16 million in IBIT from the sale of a generating plant at Portland General Electric, and recognized losses of \$25 million in connection with its investment in Azurix.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT YOUR ROBERTSON STEPHENS REPRESENTATIVE AT:

**Robertson Stephens
555 California Street, Suite 2600
San Francisco, CA 94104**

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Hugh F. Holman

Hugh Holman joined Robertson Stephens in 1998 as a senior equity analyst covering the environmental sector and the deregulation of the electric utility industry. Prior to joining the firm, he ran his own consulting firm, Environmental Capital Associates, Inc. Hugh has seven years of experience on Wall Street as an equity analyst, principally with Alex. Brown. Prior to joining Alex. Brown in 1989, Hugh was a management consultant with Putnam, Hayes & Bartlett. He also worked for the U.S. Environmental Protection Agency, where he was the lead policy analyst for the Agency's hazardous and solid waste programs. In 1994, *The Wall Street Journal* recognized him as an All-Star pollution control analyst. He received his BA degree from Dartmouth College and his MBA from Stanford University.

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