

12:42pm EDT 19-Oct-01 Salomon Smith Barney (Raymond Niles +1-212-816-2807) ENE  
ENE: THE BALANCE SHEET MATTERS; PROSPECT FOR FURTHER WRITEDOWNS

SALOMON SMITH BARNEY

Enron Corporation (ENE)#

ENE: THE BALANCE SHEET MATTERS; PROSPECT FOR  
FURTHER WRITEDOWNS

1H (Buy, High Risk)  
Mkt Cap: \$23,332.1 mil.

October 19, 2001

SUMMARY

POWER & NATURAL GAS

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- \* ENE shares have declined due to concern over writedowns, actual and prospective, in our view. While management announced \$2.21 billion in charges (\$1.01 billion through the income statement and \$1.2 billion as a direct charge to shareholders equity) when they reported earnings (see our 10/16/01 note), the prospect of further charges has spooked the stock
- \* We think further write-offs are likely at non-core global assets (Dabhol and South America) and possibly at their broadband unit (already partially written off). Several other complex off-balance sheet vehicles have raised concern.
- \* Offsetting these potential hits to shareholders equity are likely reductions in debt from the proceeds of various asset sales over the balance of the year
- \* Moody's has captured these concerns by putting Enron's senior debt on review for possible downgrade.
- \* We are evaluating these issues and currently maintain our 1H rating.

FUNDAMENTALS

P/E (12/01E)	17.9x
P/E (12/02E)	15.0x
TEV/EBITDA (12/01E)	NA
TEV/EBITDA (12/02E)	NA
Book Value/Share (12/01E)	\$15.66
Price/Book Value	2.1x
Dividend/Yield (12/01E)	\$0.52/1.6%
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 (10/17/01)	\$32.20
52-Week Range	\$84.63-\$25.15
Shares Outstanding(a)	724.6 mil.
Convertible	No

RECOMMENDATION

Current Rating	1H
Prior Rating	1H
Current Target Price	\$55.00
Previous Target Price	\$55.00

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 \$2.14; 12/03E NA

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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