



ELECTRIC UTILITIES

**ENRON (ENE): ALL STRESSED-UP...
... AND NO PLACE TO GO**

RATINGS

ENRON CORP (ENE)	Issuer	Outlook	Senior Sec.	Sen Unsec
Moody's	Baa1	Stable	Baa1	Baa1
S&P	BBB+	Stable	NA	BBB+
Portland General Electric Corp				
Moody's	A3	Stable	A2	A3
S&P	A	WL- Developing	A	A-

The big question of the day is what are the consequences of Jeffrey Skilling's resignation as Chief Executive Officer (CEO) from Enron (ENE)? Clearly, Skilling's departure is not a credit "positive" event...specifically, lead to an upgrade? No. That leaves two remaining choices – neutral or negative. We chose neutral -- in which case, ENE might be a better source of funds at this time. Lacking a definitive upside, the best characterization we can offer is neutral -- which happens to correspond with S&P's official comment that Skilling's exit is a credit "neutral" event.

Business Description

Five Basic Business Segments

- Wholesale Energy Services
- Retail Energy Services
- Broadband Services
- Transportation & Distribution
- Corporate & Other

Beginning in 2001 ENE reclassified its business lines for reporting purposes under the five headings. All commodity-risk management activities were consolidated into one segment - Wholesale Services. The wholesale services business creates networks involving assets ownership, arranging contractual access to third-parties assets and market making activities. Retail energy services sells or manages the delivery of natural gas, electricity, liquids and other commodities to industrial and commercial customers on a world-wide basis. ENE has been expanding its Broadband services, the centerpiece of which is Enron Intelligent Network (EIN). Transportation & Distribution (T&D) is engaged in the T&D of natural gas, as well as houses ENE's Portland General electric utility subsidiary. The Corporate & Other segments conduct "non-core" business activities

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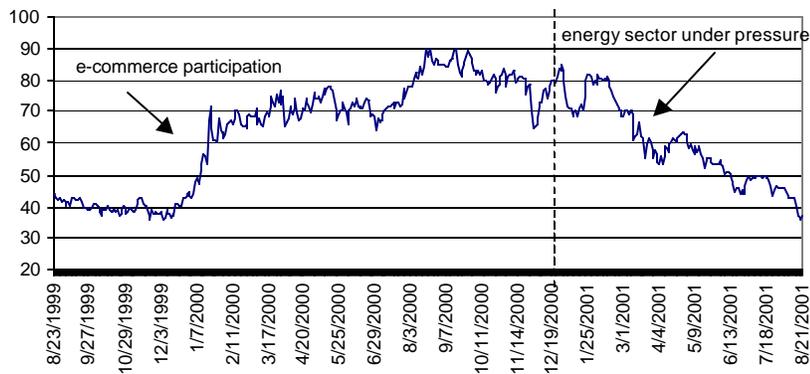
SUMMARY RATIOS

<i>Dollars in millions</i>	Three Months Ended 6/30/01	Three Months Ended 6/30/00	Six Months Ended 6/30/01	Six Months Ended 6/30/00
Operating Income	\$542	\$419	\$1,218	\$691
Depreciation & Amortization	\$240	\$192	\$453	\$364
Interest Charges	\$215	\$196	\$416	\$357
Operating Coverage	2.52	2.14	2.93	1.94
EBIT	3.69	3.11	3.82	3.45
EBITD	4.00	3.45	4.04	3.78
DA	1.12	0.98	1.09	1.02

Source: Company 10-K

The equity markets have not taken this “news” well. ENE’s stock initially fell 5 points on the announcement and another 3 points the following day -- by the end of the week ENE shares were down about 6 points (about 14%). The bond market seems to have taken the news in stride-- with no meaningful trading activity or change in spreads.

STOCK CHART



Source: Company Data

ENE stock chart is very telling. The bearish sentiment has been entrenched for several months – but, then again, the “energy” sector has been pressured since the beginning of the year. The burst in the “e-bubble” may also have contributed to ENE’s share weakness. ENE stock surged in late 1999/early 2000 when the company announced stepped-up participation in the “new economy” – especially, through its Broadband/Communications and energy management services (EMS) businesses. Broadband has been a drain on operating earnings with operating losses reaching \$137 million for the first six months of this year as compared to a nominal \$8 million loss in the first half of 2000. To a large degree, Skilling was associated with ENE’s strong “e-profile” and this raises questions about future activity in that market.

Skilling will be replaced in the interim by Ken Lay, a longtime member of the Senior ENE management team – thus, there should be minimal concerns about a management void – especially, in the absence of other senior executive departures. Skilling is leaving for “family reasons.”

ASSETS BY BUSINESS SEGMENT

<i>Dollars in Millions</i>	As of 6/30/2001	Percent	Year-End 2000	Percent
Wholesale Services	\$49,314	77.8%	\$51,099	78.0%
Retail Energy	\$1,353	2.1%	\$1,205	1.8%
Broad Band Services	\$1,453	2.3%	\$1,337	2.0%
Transportation & Distribution	\$8,499	13.4%	\$8,283	12.6%
Corporate & Other	\$2,773	4.4%	\$3,579	5.5%
Total	\$63,392	100.0%	\$65,503	100.0%

Source: BNP Paribas

Has ENE’s credit story run out of steam? Probably. It’s safe to assume that an upgrade is not on the horizon – some of that are industry related and some of that is company related. On the industry front, deregulation/political turbulence poses an upgrade barrier to all companies – except those with compelling fundamentals and/or well above average rates of return. ENE doesn’t pass this test.

REVENUES BY BUSINESS SEGMENT

<i>Dollars in millions</i>	Three Months Ended 6/30/01		Three Months Ended 6/30/00		Six Months Ended 6/30/01		Six Months Ended 6/30/00	
Wholesale Services	\$48,478	96.8%	\$15,967	94.6%	\$96,984	96.8%	\$28,296	94.2%
Retail Energy	\$557	1.1%	\$420	2.5%	\$1,250	1.2%	\$734	2.4%
Broad Band Services	\$16	0.0%	\$151	0.9%	\$99	0.1%	\$210	0.7%
Transportation & Distribution	\$981	2.0%	\$597	3.5%	\$1,994	2.0%	\$1,200	4.0%
Corporate & Other	\$28	0.1%	-\$249	-1.5%	-\$138	-0.1%	-\$409	-1.4%
Total	\$50,060	100.0%	\$16,886	100.0%	\$100,189	100.0%	\$30,031	100.0%

Source: BNP Paribas

By most standards, 2Q results were impressive. For the 3 months ended June 30, 2001, ENE posted \$383 million Net Income for Common (51 cents per share) versus \$289 million (37 cents per share) for the same period last year – an impressive 43% gain. First half of 2001 figures was also strong, with Net Income for common for the six months ended June reaching \$788 million versus \$586 million in 2000.

OPERATING MARGINS BY SEGMENT

	Three Months Ended 6/30/01	Three Months Ended 6/30/01	Six Months Ended 6/30/01	Six Months Ended 6/30/01
Wholesale Services	1.7%	2.6%	1.6%	3.0%
Retail Energy	10.8%	11.0%	8.0%	7.1%
Broad Band Services	-637.5%	-5.3%	-138.4%	-3.8%
Transportation & Distribution	14.5%	23.3%	16.8%	31.0%
Corporate & Other	-389.3%	-6.8%	193.5%	6.6%
Total	1.6%	3.6%	1.6%	4.1%

Source: BNP Paribas

* Operating Income / Revenues

Absolute financial results show no glaring cracks in ENE's credit profile -- but, indeed, expectations have been changed due to (in no particular order):

- ❑ *Skilling's Departure*
- ❑ *Collapse of the Portland General sale (some \$3.0 billion of cash that wasn't realized).*
- ❑ *A balance sheet which is more highly leverage than anticipated (at mid-year, total debt-to-capital was 50% versus 45% at year-end 2000).*
- ❑ *A weak period for Broadband (... has anyone had a good year in Broadband?). ENE's Broadband segment posted a \$102 million operating loss for the 2Q (compared to an \$8 million loss for the same quarter last year).*
- ❑ *Questions over the sustainability of price volatility and margins in the wholesale energy services business – about 97% of ENE's Revenues and 78% of assets.*

RETURN ON ASSETS

	June 30, 2001	Year-End 2000
Wholesale Services	77.8%	78.0%
Retail Energy	2.1%	1.8%
Broad Band Services	2.3%	2.0%
Transportation & Distribution	13.4%	12.6%
Corporate & Other	4.4%	5.5%
Total	100.0%	100.0%

Source: Company Data

Although we see no immediate rating threat -- ENE has been "hot" and a "cooling off" period may be in store. For investors looking for "performance" bonds, ENE may not be the ideal choice --especially, in upcoming quarters as investors look for equilibrium in the energy industry and company conditions.

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