SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
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Prior Report: September 27, 2007
January 26, 2007

Rating: Hold

Constellation Energy
CEG – NYSE - $90
Peer P/E Valuation

Price (intra-day)	4/2 90						
52-week range	108-77				Price	Yr.-end	12 Mos.
Book value (12/31/07)	29.26	306%	p/b	Performance	4/2	% Chg.	%Chg.
Earnings - ongoing				Constellation	90	(13)	2
2005 actual	2.89	31.0	p/e	Phila. 22 Index	523	(8)	(4)
2006 actual	3.61	24.8		Dow Industrials	12,647	(5)	2
2007 actual	4.60	19.5		Shares-millions	182		
2008 Consensus	5.67	15.8		Equity Value - $Bil.	16		
2009 Consensus	6.45	13.9		Analyst Coverage	12	50%	Buys
Dividend	1.91	2.1%	Yield				

Price – Earnings Overview

Back in a January 31, 2007 analysts meeting, E. Follin Smith, then Executive Vice President and Chief Financial Officer, offered a market valuation approach for Constellation Energy using EBITDA multiples (income before interest, income taxes, depreciation and amortization) of selected peer companies. At Constellation Energy's "Analysts Day" presentation in August, John Collins, the new Chief Financial Officer, reaffirmed Smith's approach. Not surprisingly, this approach created a significantly higher value than current market. In a report issued in September 2007, we calculated a market value of CEG at anywhere from $104 to $156 a share. In its January 2008 presentation management omitted peer comparison analysis as well as equity and potential return ranges for the components of the non-regulated businesses segments.

Management compared fleet generation to merchant generators Mirant (MIR-not rated), NRG Energy (NRG-not rated) and Reliant Energy (RRI-not rated). Customer-Serving retail and wholesale competitive businesses were compared to specialty insurers Berkley (BER-not rated), James River Group (merged with a subsidiary of Franklin Holdings in December), Kingsway Financial (KFS-not rated), RLI Corp. (RLI-not rated) and White Mountain Insurance (WTM–not rated). Risk management and investing (RMI) was linked to the merchant banks Bear Sterns (BSC–not rated), Goldman Sachs (GS–not rated) and Lehman (LEH-not rated). For regulated earnings, management suggested the price/earnings multiples of Duke (DUK-Hold), Energen (EGN-not rated), Nstar (NST-not rated), PG&E (PCG-not rated) and Southern Co. (SO-Hold).

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See page 4 of report for Analyst's Certification, pages 4-5 for Important Disclosures and page 5 for Other Disclosures and Disclaimers

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Table 1 takes the peer companies and lists their consensus 2008-9 earnings per share and price/earnings estimates and year-to-date and trailing 12-month price performances. The companies differ from the initial peer group as James River was removed and Bear Stearns replaced by Morgan Stanley (MS-not rated).

Table 1
Constellation Energy
Peer Group Comparisons

Column		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Intra-Day	Price		EPS		P/E		Shs.	Mkt.
Company	Sym	4/2	%-ytd.	%-1Yr.	2008	2009	2008	2009	Mil.	$-Bil
Fleet										
Mirant	Mir	37	(6)	(11)	2.99	3.58	12.3	10.2	213	8
Nrg	Nrg	40	(7)	10	2.20	2.72	18.3	14.8	236	10
RRI	Rri	24	(9)	15	0.97	1.37	24.6	17.4	345	8
Group		34	(7)	2	2.05	2.56	16.4	13.1	265	9
Specialty Ins.										
Berkley Corp	Ber	29	(3)	(13)	3.73	3.72	7.7	7.7	177	5
Kingsway Fin.	Kfs	12	1	(35)	1.61	1.86	7.5	6.5	55	1
RLI Corp.	Rli	51	(11)	(8)	4.45	4.39	11.4	11.5	22	1
White Mtn. Ins.	Wtm	479	(7)	(15)	32.70	34.90	14.7	13.7	11	5
Group		143	(7)	(15)	10.62	11.22	13.4	12.7	66	3
Merchant Bks.										
Morgan Stanley	Ms	50	(7)	(24)	5.66	6.57	8.8	7.6	1105	55
Goldman Sachs	Gs	180	(16)	(13)	16.60	20.77	10.8	8.6	396	71
Lehman Bros.	Leh	45	(32)	(35)	4.81	6.61	9.3	6.8	553	25
Group		91	(9)	(7)	9.02	11.31	10.1	8.1	684	62
Utilities										
Duke	Duk	18	(10)	(12)	1.26	1.35	14.5	13.5	1263	23
Energen	Egn	62	(3)	20	4.26	4.63	14.7	13.5	72	4
Nstar	Nst	31	(14)	(13)	2.22	2.36	14.1	13.2	107	3
PG&E	Pcg	38	(11)	(23)	2.96	3.20	12.9	11.9	356	14
Southern Co.	So	37	(6)	(1)	2.31	2.45	15.8	14.9	765	28
Group		37	(8)	(4)	2.60	2.80	14.3	13.3	512	19

Source: Bloomberg

Management earnings guidance remains $5.25 to $5.75 a share for 2008 and a 15% to 20% increase (implied $6.17 to $6.76 a share) in 2009. Utility earnings are forecast at $0.65 to $0.75 a share in 2008, leaving non-regulated profits of $4.60 to $5.00 a share. Table 2 takes a simple approach at valuing CEG shares. Column 1 assumes earnings of $5.75 a share, the high end of management's guidance, including regulated earnings of $0.75 a share. Regulated market value based on the 14.3 P/E works out to $10.76 a share. If for the sake of this exercise (we have not refined the components of non-regulated operations since September 2007) non-regulated earnings of $5.00 a share are capitalized at 16.4 times (the average of the higher P/E merchant generators) the value contribution is $81.84 a share for a consolidated $92.60 a share. If the same exercise is applied to 2009, the value range is $88.87 to $81.14 a share with an $85.01 mid-point. Our estimated 12-month trading range is $86-$96.

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Table 2
Valuation Based on Peer Price/Earnings

Column	(1)	(2)	(3)	(4)	(5)	(6)
		2008			2009	
CEG	High	Low	Mid	High	Low	Mid
Earnings Per Share	5.75	5.25	5.50	6.76	6.17	6.46
Utility EPS	0.75	0.65	0.70	0.75	0.65	0.70
Price/Earnings		14.3			13.3	
Value	10.76	9.32	10.04	10.00	8.67	9.33
Non-utility EPS	5.00	4.60	4.80	6.01	5.52	5.76
Gen P/E		16.4			13.1	
Value	81.84	75.30	78.57	78.87	72.47	75.67
Consolidated	92.60	84.62	88.61	88.87	81.14	85.01

Recommendations & Holders

According to Bloomberg Financial Service, Constellation Energy has 12 active sell-side recommendations, including 6 buys, 6 holds and 0 sells. Buy or the equivalent ratings are maintained by Credit Suisse, Deutsche Bank, CitiGroup, UBS, B of A and Lehman.

The company's 10-largest holders account for 67 million shares, 37% of outstanding shares.

Table 3
Largest Shareholder Profile
December 31, 2007

Institution	Shares Mil	Institution	Shares Mil
Barclays Global	11.7	State Street Corp.	6.0
Fidelity	10.9	Vanguard	5.3
AXA	9.2	Capital World	4.0
Franklin	7.0	Bank of NY	3.7
Janus	6.1	TIAA CREF	3.4
Total			67.3

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Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Constellation Energy reports issued by me are: 2/24/06 ($58) - Hold; 1/9/06 ($58) - Hold; 9/13/05 ($60) – Hold; 5/12/05 ($54) – Hold; 1/26/07 ($71) – Hold; 9/27/07 ($87) – Hold.

Important Disclosures

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Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.
Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.
Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy	17%	0%
Hold	83%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

Important Disclosures, continued

Capital Management Associates holds positions in the common shares of White Mountain Insurance, Lehman Brothers, Duke Energy, Energen, and Southern Co. in managed accounts.

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