



140 BROADWAY NEW YORK, NY 10005

RAYMOND E. MOORE, CFA
(212) 320-3065

Trading (212) 320-3001

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ray.moore@shieldsandco.com

Time for Contrarian

Electric Utilities Year-to-Date Price Performance

	5/25	Year-to-date %	12-Months %
Dow Jones Industrials	13,507	8%	18%
Philadelphia 22 Electric Stock Index	545	10%	28%

Overview

Electric companies continued to outpace gains registered by the Dow Industrials, rising 10% and 28% year-to-date and trailing 12-months, respectively, versus comparable advances of 8% and 18% for the Dow Industrials. The best performance year-to-date among the 25-larger companies we monitor was registered by Public Service Enterprises (30%-not rated), following termination of merger with Exelon Corporation (hold), increased earnings estimates and a reinvigorated investor relations program. Other strong performances continued to mirror analysts' recommendations: Constellation Energy (27%-hold), Edison International (25%-not rated), PPL Corporation (24%-hold) and Entergy (20%-not rated). In short, there was little enthusiasm for names outside the mainstream recommendations of the sell-side community. It seems to us that in an environment of buyouts and other M&A, stocks trading at discounts, combined with the absence of wide street support, should attract investor interest.

Au Contraire

Table 1 reflects a screening of 25 larger electric companies we monitor and lists the following characteristics: 1) less-than-average year-to-date price performance (column 3), 2) less-than-average percentage of recommendations to total (column 4), 3) below-average price/earnings multiples for 2007 and 2008 based on Bloomberg consensus (columns 10-11) and higher-than-average yields (column 13). The companies that meet these criteria are: American Electric Power (AEP-not rated), Ameren (AEE-not rated), Con. Edison (ED-hold), Duke Energy (DUK-rated hold), NiSource (NI-not rated) and Xcel (XEL-not rated).

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Table 1
Out of Favor Names
Among 25 of the Larger Electric Companies
(Below-Average Ratings and P/E and Above-Average Yields)

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Company	Price			Rec			Mkt Cap	EPS	EPS	P/E	P/E	Div.	Yield
	5/25	Ytd-%	Rank	Bias	Total	Buy	\$-Bil	2007	2008	2007	2008	PS	%
AEP	47	11	14	31	16	5	19	2.89	3.15	16.3	15.0	1.56	3.3
Ameren	52	(3)	24	25	12	3	11	3.53	3.71	14.7	14.0	2.54	4.9
Con. Ed.	48	0	19	14	14	2	12	3.15	3.25	15.3	14.8	2.32	4.8
Duke Energy	19	(1)	22	32	19	6	22	1.16	1.24	16.5	15.5	0.84	4.4
NiSource	24	(1)	23	9	11	1	7	1.50	1.56	15.9	15.3	0.92	3.8
Xcel	23	(1)	21	33	12	4	9	1.42	1.50	16.1	15.3	0.92	4.0
Average 25-Cos	53	12		38	7	3	17	3.11	3.40	17.0	15.5	1.54	2.9

Favorites

Table 2 sorts 25 of the larger companies we monitor according to analysts' biases (buy recommendations as a percentage of total recommendations - column 4). The most loved company as per the analysts reporting to Bloomberg Financial Service is Constellation Energy (80%), followed by Exelon (74%), Allegheny Energy (73%-not rated), MDU Resources (62%-not rated) and PPL Corp. (60%).

Highlighted numbers reflect less-than-average market performance, below-average price/earnings ratios based on consensus estimates or above-average yields. Dominion Resources (rated buy) appears the laggard, increasing only 3% year-to-date despite discounted price/earnings multiples and above-average yields.

Table 2
Favorites Based on Analysts' Recommendations
(Highlighted Numbers Reflect Less-Than-Average Market Performance
Below-Average P/E and Above-Average Yield)

Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Company	Price			Rec.			Mkt Cap	EPS	EPS	P/E	P/E	Div.	Yield
	5/25	Ytd-%	Rank	Bias	Total	Buy	\$-Bil	2007	2008	2007	2008	PS	%
Alleg Ergy	52	13	11	73	11	8	8	2.24	2.65	23.1	19.6	0.00	0.0
Constellation	88	27	2	80	10	8	16	4.59	5.57	19.1	15.7	1.74	2.0
Dom. Res.	87	3	17	48	21	10	30	5.63	6.09	15.4	14.2	2.84	3.3
Edison Intl.	57	25	4	58	12	7	19	3.40	3.66	16.7	15.5	1.16	2.0
Entergy	111	20	6	53	15	8	23	5.60	6.88	19.8	16.1	2.16	1.9
Exelon	73	18	7	74	19	14	49	4.31	4.63	17.0	15.8	1.76	2.4
First Energy	69	14	10	50	12	6	22	4.18	4.24	16.4	16.2	2.00	2.9
FPL Group	63	15	9	41	17	7	25	3.43	3.75	18.2	16.7	1.64	2.6
MDU Res.	30	16	8	62	13	8	5	1.81	1.96	16.5	15.2	0.54	1.8
Pepco Holdings	29	11	13	44	9	4	6	1.98	1.98	14.6	14.6	1.04	3.6
PG&E Corp.	49	4	16	40	15	6	17	2.75	2.97	17.9	16.5	1.44	2.9
PPL Corp.	44	24	5	60	10	6	17	2.33	2.39	19.1	18.6	1.22	2.7
PS Ent.	86	30	1	40	10	4	22	5.16	6.04	16.7	14.3	2.34	2.7
Wisc. Energy	47	(1)	20	38	13	5	6	2.59	2.77	18.2	17.0	1.00	2.1
Average 25-Cos	53	12		38	7	3	17	3.11	3.40	17.0	15.5	1.54	2.9

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.

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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.

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		% Investment Banking
Buy	12%	0%
Hold	82%	0%
Sell	6%	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.

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