
On April 9, 1999, Dynegy announced a $2 billion investment in Dynegy in the form of convertible notes (such as the recent Hackberry LNG Project for $20 million). If Dynegy can come up with this sum, in conjunction with its $2.2 billion in unpledged assets, it should be able to convince its banks to refinance its $1.4 billion in credit lines, which expire in May. ChevronTexaco made a $1.5 billion investment in Dynegy in the form of convertible notes, which are due in November. Dynegy’s business isn’t as interesting to ChevronTexaco these days, but the oil giant may not wish to sever its ties completely (see our ChevronTexaco report).

Probably the only question on Dynegy shareholders’ minds is: shall I continue to hold this stock, or shall I cut my losses and sell? Certainly there is a case for selling the stock, given the large degree of uncertainty that still surrounds the company. But the case for continuing to hold the stock is valid. The stock has peaked up a bit since our December report. It is now selling between $2 and $3 a share, which is about the same as our estimate of net asset value. We are not suggesting the issue will ever reach anywhere near the heights attained in the 2000/2001 timeframe, but should the company be able to get its finances in order (see below), we think the stock could eventually (by perhaps the 2006-2008 timeframe) stage a partial recovery. Given such a scenario, investors may as well forget about the stock until that time period.

Dynegy has not had success in turning up the balance sheet. The company is expected to generate about $1.2 billion in cash flow this year. It should be able to earn around $25 million in net income ($0.05 a share). $550 million will likely come from GDD&A, $500 million from the liquidation of trading assets (risk management), and the remainder will probably arise from a tax refund and the sale of assets (such as the recent Hackberry LNG Project for $20 million). If Dynegy can come up with this sum, in conjunction with its $2.2 billion in unpledged assets, it should be able to convince its banks to refinance its $1.4 billion in credit lines, which expire in May. ChevronTexaco made a $1.5 billion investment in Dynegy in the form of convertible notes, which are due in November. Dynegy’s business isn’t as interesting to ChevronTexaco these days, but the oil giant may not wish to sever its ties completely (see our ChevronTexaco report).

This poorly ranked stock is only suitable for accounts with high risk tolerance. Dynegy also has legal problems including Project Alpha-related litigation, California power contract negotiations, and the Enron shareholder lawsuit, as well as having to restate its 1999-2001 financial statements. As such, it should come as no surprise that this stock is ranked 5 (lowest) for Safety. J. Butler

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