

## ConEd Insiders Discharge Shares

By NAUREEN S. MALIK

Two **Consolidated Edison** insiders find that shares of the New York utility company have charged up enough to sell.

On Monday Eugene McGrath, a director since 1997 and a former ConEd chairman and chief executive, sold 70,000 shares in the open market for nearly \$3.36 million after acquiring them through options. The options, set to expire in February 2008, were priced at \$42.56 each and cost a total of \$2.98 million, according to Securities and Exchange Commission filings. McGrath still beneficially owns about 215,000 shares.

Two days later John McMahon, the president and chief executive of ConEd subsidiary Orange and Rockland Utilities, sold nearly 20,200 shares for \$965,000. He continues to hold roughly 35,000 shares.

The insiders' total sales of \$4.32 million trumps the five-year average of \$1.04 million in sales for the calendar fourth quarter, according to Thomson Financial data. There were about 256.8 million ConEd shares outstanding as of Oct. 31.

Michael Painchaud says the recent sales are interesting because insiders at ConEd and industry peers "tend to be buyers at utilities."

At ConEd for example, insiders logged 313 transactions dating back to 1992, of which only 100 were sell transactions. This 3:1 buy-to-sell ratio is the inverse of the broader market trend where insiders tend to sell three shares for every one purchased, says Painchaud.

Amid this selling, SEC filings indicate that other ConEd insiders continue to pick up shares regularly through employee stock plans.

McGrath's own history has been rather mixed this year. He was selling shares acquired through options this week. But, Thomson Financial data show that earlier this year he spent about \$6,000 to purchase 135 shares as he sold 42,000 shares for nearly \$2 million.

McMahon has been buying under an employee plan. He sold 5,000 shares in the open market in January for about \$236,000. McMahon's only other sales were in July 2005 and August 2003.

Altogether, ConEd insiders sold about 162,500 for \$7.7 million, compared to 224,400 shares in 2005 for \$10.4 million and 274,800 shares in 2004 for \$12 million, according to Thomson Financial data. Among these shares, 49% of this year's sales were options-related whereas in the two previous years more than 80% of the shares sold were acquired through options.

Looking at the bare numbers, ConEd insider sales may not look remarkable, that is until the transactions are compared to the shares' volatile activity this year.

Insider sales in January and July took place ahead of depreciations in the stock in the following months, notes Painchaud. Now, ConEd insiders are selling as the shares trade around one-year highs.

ConEd is trading 16.9 times earnings estimates for the next four quarters, or the high end of its five-year range of 10.7 times to 16.9 times, Thomson Financial data indicate. However compared to diversified utilities, ConEd is trading at a 16% discount to peers when it historically has traded at a 10% premium in recent years.

Based on ConEd's historical valuation, "I'm not surprised [insiders] are selling out," says Harris Hall, director of equity research at Singular Research. "The stock is a little bit ahead of itself and I don't think there are any secret surprises" to propel it higher.

ConEd's dividend offers a yield of 4.8%, comparable to Treasury yields today, notes Hall. "I could get absolutely no risk with Treasuries, so why would I take the risk with a New York utility?" he says.

ConEd's third-quarter earnings per share reported earlier this week took a 16-cent hit related to a power outage in the Queens borough of New York City in July. The stock has gained, Hall says, probably because natural-gas prices have receded. Still, ConEd is only getting less than 4% return on equity, and the company is heavily leveraged.

Also, "the institutional ownership looks a little low to me at 46%" of outstanding shares, says Hall.

The bearish outlook on ConEd is shared by other utilities, notes Market Profile Theorem's Painchaud. Among utility insiders, "we are seeing unusual selling across the board," including companies such as Southern Co.

Higher energy prices or mild weather could pressure ConEd earnings going forward.

However, A.G. Edwards & Sons analyst Neil Kalton maintains a Buy rating for "conservative income-oriented investors." In a Nov. 6 report, he expects "reasonable regulatory treatment" toward ConEd's investments to upgrade its aging infrastructure to drive earnings growth.