Mergers, Acquisitions, And Other Deals
Mergers, acquisitions, spinoffs, and asset sales are common in the Electric Utility Industry. Utilities want to grow, accept an attractive offer, make strategic improvements, or raise funds for capital spending, debt reduction, or some other purpose. A few utilities reviewed in Issue 1 are involved in pending deals. However, completing transactions in this industry doesn’t always occur due to the numerous regulatory approvals needed.

AVANGRID is involved in a utility combination as the acquiring company. It has agreed to buy PNM Resources, the parent of utilities in New Mexico and Texas, for $4.3 billion in cash. The companies received most of the regulatory approvals needed to complete the deal, but “most” isn’t good enough. The New Mexico commission rejected the proposal, so the companies appealed the order to the state Supreme Court. PPL Corporation received all of the regulatory approvals needed to buy Narragansett Electric, an electric and gas utility in Rhode Island, but even this might not be sufficient to complete the purchase. The Rhode Island attorney general is trying to stop or at least amend the agreement. These two deals illustrate the difficulties electric companies often face when attempting mergers or acquisitions.

There are a few more examples of asset purchases, sales, or spinoffs in the Electric Utility Industry. Dominion Energy has agreed to sell its smallest utility subsidiary, a gas company in West Virginia. Public Service Enterprise Group completed the sale of its nonnuclear generating assets in the past several months. Duke Energy and FirstEnergy have agreed to sell a 19.9% stake in a utility subsidiary. Such a move enables a company to raise cash while still retaining operational and financial control of a utility subsidiary. Eversource bought a gas utility in October of 2020 and has a small water-utility acquisition pending. Finally, in early February, Exelon spun off its nonutility operations into a separate company.

Worries For Solar Power
Many companies in the Electric Utility Industry have built or announced solar projects in recent years. In some cases, this is done to help meet a state’s renewable-energy requirements. (Wind power plays a part in this, too.) In others, this is done to meet demand from large customers. Some of these projects are constructed and owned by utilities, others by nonutility subsidiaries.

NextEra Energy is a major player in renewable energy in the United States. However, the company is worried about inflation, additional tariffs, and supply-chain problems involving solar panels. The U.S. Department of Commerce is investigating the importation of solar panels from four countries in Southeast Asia (Malaysia, Vietnam, Thailand, and Cambodia), with the possibility of imposing additional tariffs. Even if this does not come to pass, inflation and supply-chain delays are causes for concern. This might well push some planned projects from 2022 to 2023. Among companies reviewed in this week’s Issue, AVANGRID and Consolidated Edison also have nonutility subsidiaries that construct and own renewable-energy projects.

Conclusion
There has been a wide disparity in the performance of equities in the Electric Utility Industry so far this year. Even in a bad year for the overall market, some issues have advanced solidly in price. Overall, the group has retreated slightly, but has fared better than the broader market averages. NextEra Energy and AVANGRID have seen their prices hurt by the aforementioned problems with solar panels.

Interest rates are rising, but since the market anticipated this, higher rates do not appear to be a major problem for the stocks in this group, so far. However, the possibility of a recession has risen. Nevertheless, what is important for these stocks isn’t so much the national economy, but the economy in the company’s service area. As this report went to press, many utilities had not yet reported first-quarter results. Among those that had, NextEra Energy and Southern Company stated that the economy of their service territories was still solid. Whether this will change in the coming months remains to be seen.

The dividend yield of the Electric Utility Industry is 3.4%, which is well above the median of all dividend-paying stocks under our coverage. The group is more attractive for the dividend yield than for 18-month or 3- to 5-year prospects.

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