El Paso Electric Company (EPE) provides electric service to 435,000 customers in an area of approximate 2,000 square miles in the Rio Grande valley in western Texas (68% of the utility’s service area) and New Mexico (32%).

The company’s generating sources include gas-fired plants, nuclear plants, purchased power, and hydroelectric facilities. Electric revenue breakdown by customer class is not available.

Completion of the takeover of El Paso Electric Company has taken longer than the companies expected. The Infrastructure Investments Fund, advised by J.P. Morgan, agreed to pay $62.5 billion in cash for each share of EPE. All approvals have been received except that of the Federal Energy Regulatory Commission (FERC), which has given its conditional approval. The companies believe they can satisfy FERC’s conditions, and filed proposed mitigation options with approval on April 15th. At this point, we have no reason to think the delay is a cause for concern, especially considering discussions to normalize operational causation by the boards of directors of EPE and the original transaction to be completed by mid-2020, but have extended the merger agreement to September 1, 2020 due to the delay. We believe the companies will extend this again if the delay in the approval process persists.

We still advise stockholders to sell their shares on the open market.

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The recent quotation is just modestly below the takeover price. Thus, there is little upside potential for EPE holders who retain their shares on the open market. If the takeover is completed, there is little upside potential for EPE holders who retain their shares on the open market. If the takeover is completed.

On the other hand, the stock might well get hit hard if the combination fails to win FERC’s approval. This equity’s Time-

lines rank remains suspended due to the pending takeover.

We cut our 2020 earnings estimate by $0.23 a share, to $2.00. The first-quarter deficit was worse than usual due to the poor stock-market performance in the period, which caused a large unrealized loss on EPE’s nuclear decommissioning trust for Unit 3 of the Palo Verde nuclear station.

The better stock-market performance helped the second-period tally, but the utility undoubtedly felt the effects of the economic recession. EPE is also incurring significant expenses associated with the pending takeover. These amounted to $0.03 a share in the first quarter. (Management is no longer providing guidance due to the takeover.) We did not change our 2021 profit estimate of $2.60 a share, which won’t be relevant anyway if the deal is completed.

The board of directors raised the dividend in the second quarter. The hike was $0.025 a share (6.5%) quarterly.

Paul E. Debbas, CFA July 24, 2020