



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	© VALUE LINE PUB. LLC	20-22
15.40	13.91	13.97	14.95	16.70	17.75	19.43	23.15	18.85	20.61	22.97	21.26	22.11	22.74	21.01	21.89	<b>22.15</b>	<b>22.75</b>	Revenues per sh	<b>24.50</b>
3.43	2.99	3.00	3.27	3.05	3.44	3.86	4.16	4.07	5.15	6.05	5.66	5.65	5.87	5.75	5.98	<b>6.20</b>	<b>6.45</b>	"Cash Flow" per sh	<b>7.25</b>
1.27	.57	.64	.69	.76	1.27	1.63	1.73	1.50	2.07	2.48	2.26	2.20	2.27	2.03	2.39	<b>2.45</b>	<b>2.60</b>	Earnings per sh <sup>A</sup>	<b>3.00</b>
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1.85	1.75	2.03	1.94	2.28	2.73	4.63	5.36	5.95	5.27	5.90	6.70	7.18	8.50	8.55	7.03	<b>6.35</b>	<b>5.65</b>	Cap'l Spending per sh	<b>7.00</b>
9.01	9.20	10.51	11.23	11.56	12.60	14.76	15.47	16.45	19.04	19.03	20.57	23.44	24.39	25.13	26.52	<b>27.65</b>	<b>28.80</b>	Book Value per sh <sup>C</sup>	<b>32.25</b>
49.99	49.61	47.56	47.40	48.14	46.00	45.15	44.88	43.92	42.57	39.96	40.11	40.27	40.36	40.44	40.52	<b>40.60</b>	<b>40.70</b>	Common Shs Outst'g <sup>D</sup>	<b>41.00</b>
11.0	23.0	18.3	22.0	26.7	16.9	15.3	11.9	10.8	10.7	12.6	14.5	15.9	16.4	18.3	18.7	<b>19.8</b>	<b>19.8</b>	Avg Ann'l P/E Ratio	<b>16.5</b>
.56	1.26	1.04	1.16	1.42	.91	.81	.72	.72	.68	.79	.92	.89	.86	.92	.98	<b>1.30</b>	<b>1.30</b>	Relative P/E Ratio	<b>1.05</b>
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**CAPITAL STRUCTURE as of 12/31/16**  
 Total Debt \$1360.2 mill. Due in 5 Yrs \$209.7 mill.  
 LT Debt \$1195.5 mill. LT Interest \$72.3 mill.  
 (LT interest earned: 2.9x)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		20-22
877.4	1038.9	828.0	877.3	918.0	852.9	890.4	917.5	849.9	886.9	<b>900</b>	<b>925</b>	Revenues (\$mill)	<b>1000</b>						
74.8	77.6	66.9	90.3	103.5	90.8	88.6	91.4	81.9	96.8	<b>100</b>	<b>105</b>	Net Profit (\$mill)	<b>125</b>						
31.6%	32.8%	33.1%	36.1%	34.2%	34.1%	33.0%	31.0%	29.9%	35.8%	<b>36.0%</b>	<b>36.0%</b>	Income Tax Rate	<b>36.0%</b>						
15.9%	20.4%	24.3%	22.1%	17.6%	22.4%	24.1%	30.8%	27.5%	17.6%	<b>10.0%</b>	<b>11.0%</b>	AFUDC % to Net Profit	<b>15.0%</b>						
49.6%	53.8%	52.7%	51.2%	51.8%	54.8%	51.4%	53.5%	52.7%	51.5%	<b>52.7%</b>	<b>51.5%</b>	Long-Term Debt Ratio	<b>51.5%</b>						
50.4%	46.2%	47.3%	48.8%	48.2%	45.2%	48.6%	46.5%	47.3%	47.3%	<b>48.5%</b>	<b>47.5%</b>	Common Equity Ratio	<b>48.5%</b>						
1321.6	1503.9	1527.7	1660.1	1576.7	1824.5	1943.5	2118.4	2150.8	2269.9	<b>2320</b>	<b>2470</b>	Total Capital (\$mill)	<b>2725</b>						
1450.6	1595.6	1756.0	1865.8	1947.1	2102.3	2257.5	2488.4	2695.5	2821.2	<b>2930</b>	<b>3005</b>	Net Plant (\$mill)	<b>3325</b>						
7.1%	6.7%	6.0%	7.0%	8.3%	6.5%	6.1%	5.7%	5.3%	5.8%	<b>6.0%</b>	<b>6.0%</b>	Return on Total Cap'l	<b>6.0%</b>						
11.2%	11.2%	9.3%	11.1%	13.6%	11.0%	9.4%	9.3%	8.1%	9.0%	<b>9.0%</b>	<b>9.0%</b>	Return on Shr. Equity	<b>9.5%</b>						
11.2%	11.2%	9.3%	11.1%	13.6%	11.0%	9.4%	9.3%	8.1%	9.0%	<b>9.0%</b>	<b>9.0%</b>	Return on Com Equity <sup>E</sup>	<b>9.5%</b>						
11.2%	11.2%	9.3%	11.1%	10.0%	6.3%	4.9%	4.8%	3.4%	4.4%	<b>4.5%</b>	<b>4.5%</b>	Retained to Com Eq	<b>4.0%</b>						
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**BUSINESS:** El Paso Electric Company (EPE) provides electric service to 411,000 customers in an area of approximately 10,000 square miles in the Rio Grande valley in western Texas (68% of revenues) and southern New Mexico (19% of revenues), including El Paso, Texas and Las Cruces, New Mexico. Wholesale is 13% of revenues. Electric revenue breakdown by customer class not available. Generating sources: nuclear, 49%; gas, 34%; coal, 2%; purchased & other, 15%. Fuel costs: 26% of revenues. '16 reported depreciation rate: 2.3%. Has about 1,100 employees. Chairman: Charles A. Yamarone. President & CEO: Mary Kipp. Incorporated: Texas. Address: Stanton Tower, 100 North Stanton, El Paso, Texas 79901. Tel.: 915-543-5711. Internet: www.epelectric.com.

**El Paso Electric has filed a general rate case in Texas.** The utility is seeking an increase of \$217 million, based on a return of 10.5% on a common-equity ratio of 48.35%. The application is intended to place Units 3 and 4 of a gas-fired generating station in the rate base, among other things. EPE is also asking for changes in rate design so that tariffs for each customer class reflect (or come very close to reflecting) the cost of service. In particular, residential solar customers would pay considerably more than they are now paying because other users have been subsidizing them. A ruling from the Texas regulators is due in the fourth quarter, but will be retroactive to July 18, 2017. Thus, the portion of EPE's revenues that would have been recorded in the third quarter will be booked in the fourth period instead. Accordingly, the December quarter, which is normally seasonally weak, will be stronger than usual this year. Note that because of the uncertainty surrounding this rate case, management has not provided earnings guidance for 2017.

**The utility has postponed its plan to file a rate application in New Mexico.** EPE determined that it did not need rate relief in the state right away. Thus, the utility will still have some effects of regulatory lag in 2018, but these will be limited because the Texas portion of EPE's business (at more than 80%) is far greater than the New Mexico portion.

**We estimate earnings growth in 2017 and 2018.** We assume reasonable regulatory treatment in the Texas rate case. The utility is also benefiting from strong customer growth, which is a byproduct of the healthy economy in El Paso and environs. **The company expects to raise the dividend growth rate at its board meeting in late May.** EPE's goal is a payout ratio in a range of 55%-65% by 2020. Dividend hikes in recent years have amounted to \$0.06 a share annually, but we estimate an increase of \$0.08 a share (6.5%) next month.

**The dividend yield of this timely stock is low for a utility.** This reflects EPE's good dividend growth potential. Like most utility issues, the recent quotation is within our 2020-2022 Target Price Range, so total return potential is un spectacular.

*Paul E. Debbas, CFA* *April 28, 2017*

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
<b>2014</b>	185.5	251.8	283.6	196.6	917.5
<b>2015</b>	163.8	219.5	289.7	176.9	849.9
<b>2016</b>	157.8	217.9	323.2	188.0	886.9
<b>2017</b>	170	230	295	205	900
<b>2018</b>	175	235	315	200	925

  

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
<b>2014</b>	.11	.75	1.30	.11	2.27
<b>2015</b>	.09	.52	1.40	.02	2.03
<b>2016</b>	d.14	.55	1.84	.14	2.39
<b>2017</b>	d.10	.65	1.60	.30	2.45
<b>2018</b>	d.10	.70	1.80	.20	2.60

  

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
<b>2013</b>	.25	.265	.265	.265	1.05
<b>2014</b>	.265	.28	.28	.28	1.11
<b>2015</b>	.28	.295	.295	.295	1.17
<b>2016</b>	.295	.31	.31	.31	1.23
<b>2017</b>	.31				