European Power & Renewables Deals
Quarterly M&A outlook

Spring 2012

"A deal lull in the European power sector may be temporary. The investment challenges facing the sector and the need for repositioning are delivering a flow of disposals that are attracting a range of buyers."

- The divestment programmes of large European power utility companies still have some way to run as companies strengthen their balance sheets.
- On the government side, the response to sovereign debt is prompting a number of privatisations of state-owned power assets.
- Sales continue to attract international interest from buyers outside Europe, including Chinese entities, sovereign wealth funds and infrastructure investment funds.
- Nuclear energy repositioning looks set to be an important spur for further major deal activity.
- The long drawn-out implementation of the third energy package is likely to lead to some remaining unbundling deals.
- Insurance companies are stepping up their interest in both power and renewable energy assets.
- Inbound and outbound 'go abroad' strategies are behind a number of larger deals.
- The investment base for windpower projects is widening with significant corporate investments from outside the power sector.
- Solar photovoltaic (PV) cost base reductions are prompting further manufacturing distress sales but also increasing generation investment attractiveness despite downward tariff revisions.

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Deal overview

The European power and utilities sector is proving a modest source of deal momentum despite the overall downturn in mergers and acquisitions (M&A) activity in the wider global economy. There are plenty of headline reasons to be pessimistic about the European power sector deal outlook – eurozone worries, macro-economic uncertainty and stretched company balance sheets among them – but the reality is that there are also a number of specific factors that are providing significant underlying deal momentum. The European power sector is capable of delivering notable deal demand despite the wider deal doldrums.

Deal trends

Dealmaking for European power and renewables targets was subdued in the first three months of 2012, reflecting eurozone uncertainties and a constrained financing environment (figure 1). Total deal value was US$5.4bn, down from the US$8.1bn low reached as the sovereign debt crisis intensified in Q3 2011 (and less than a third of the US$18.3bn recorded in the first quarter of 2011). In parallel with European deal value, global deal value in the sector has fallen. European deal value accounted for a fifth of total global sector M&A value in the first three months of 2012.

The European totals would have been substantially boosted by the US$9.6bn bid by GDF Suez for the 30% stake in International Power that it did not already own. Although, first made public just before the end of the first quarter, the formal offer announcement came in the second quarter and, thus, is not included in the Q1 data in figure 1. Deal volume is down but, nonetheless, one in three (32%) of worldwide power and renewables deals were for European targets in Q1 2012, exactly in line with the share in the first quarter of 2011.

European power attraction

Why the focus on mature power markets in Europe when European power companies themselves are looking for growth in faster expanding markets elsewhere, such as Brazil? Part of the reason is the divestment programmes of European power companies as they seek to deleverage their balance sheets and move away from the high debt positions that are proving a squeeze on earnings in more capital constrained times. The flow of divestments still has some way to run. E.ON, for example, is about two thirds of the way through its asset sales programme. Such sales are attracting international interest from buyers outside Europe, including Chinese entities, sovereign wealth funds and infrastructure investment funds.

The strengthening of balance sheets by companies is, in some respects, the corporate side of the eurozone debt crisis. On the government side, the response to sovereign debt is prompting a number of sales of state-owned power assets. Privatisation sales in Poland and Portugal have been among the biggest power deals in 2012 so far (see deal makers section) and government austerity programmes mean there are more to come, notably in Ireland where the government is planning the sale of the retail business of Bord Gais, the state gas company, and some of the generating capacity of the Electricity Supply Board (ESB).

In the pipeline – highlights

Austria *– Verbund rumoured to be considering sales of its transmission system operator APG and a minority stake in Steweag Steg.*

France *– Total assessing option for sale of south-west France gas transport and storage assets.*

Ireland *– selected Bord Gais and ESB asset privatisation.*

Germany *– Energie Baden-Wuerttemberg (EnBW) reportedly seeking advisers for the sale of its electricity transmission networks. E.ON's auction of Open Grid Europe expected to reach firm bid stage in May 2012.*

Greece *– privatisation of Greece's gas company DEPA and natural gas grid operator DESFA.*

Spain *– sale of Eolia, one of the leading independent European renewable power producers, and further divestments of ACS renewable assets (wind and concentrating solar power).*

UK *– sale of Horizon nuclear joint venture by E.ON and RWE. The UK and Dutch governments, RWE and E.ON, the shareholders in uranium enrichment company, Urenco, are considering their options for a possible exit.*

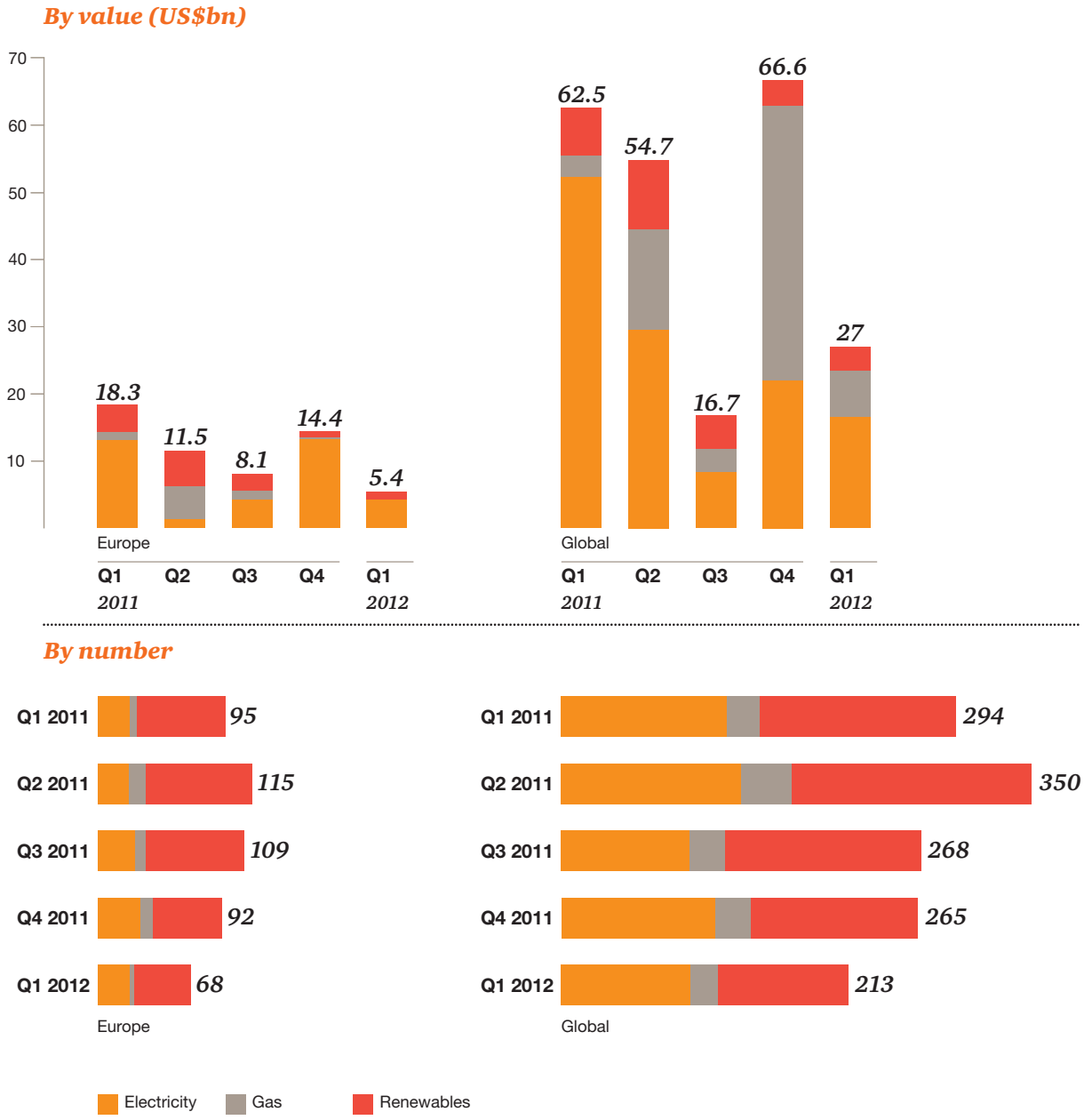
Continued repositioning

The accelerated German nuclear phase-out following the Fukushima nuclear emergency has added to the pressure on the big German power utility companies, leading E.ON and RWE to pull out of their Horizon joint venture to build new nuclear power plants in the UK. The joint venture is up for sale but the sales process will be complicated by the challenging regulatory and funding environment for nuclear power and the rival claims of gas in the UK and European generation mix. For example EDF, a potential bidder for the joint venture, has recently moved to gain a degree of diversification away from nuclear generation through its takeover of Italy's Edison.

Other potential bidders for Horizon include other international power utilities. Indeed, inbound interest in European power assets from foreign buyers remains very high. China's State Grid International and Japan's Mitsubishi Corporation were among foreign buyers in the first quarter of the year (see deal makers). The regulatory impetus to unbundle supply and distribution remains. It is likely to provide further opportunities for inbound foreign buyer interest as the European Commission puts further weight behind the long drawn-out implementation of the third energy package. Unbundling was scheduled to be completed last year but a significant number of countries are still to write reforms into law.

Financing conditions in the sector are generally tougher. In Spain, for example, the investment climate has been affected by new regulatory frameworks in the electricity and gas sector and the reduction of some current incentives for some renewable energy technologies as part of public deficit measures. This has led to credit restrictions and uncertainties within the sector for both corporate and infrastructure funds. However, there are opportunities in the sector in Spain, mainly due to groups' divestments of non-core energy business units so as to focus on their primary businesses and the privatisations of state-owned power assets. This pattern is also mirrored to a certain extent in other countries.

Figure 1: Quarterly power and renewable energy deal trends – Europe (by target) and global



Source: European Power & Renewables Deals, Spring 2012

Deal makers

Moves by European utility companies to increase their exposure to faster growth emerging markets continue to take the deal spotlight. As the first quarter closed, GDF Suez made a bid for outright ownership of International Power in a proposed deal initially worth US$9.6bn, which was rejected by the target as undervaluing the company. GDF Suez had taken control of International Power with a 70% stake last year when it injected its non-European assets into the British-listed company. GDF Suez believes a full merger would provide significant benefits to both businesses and enable International Power to achieve its growth strategy more quickly and with greater certainty than under the existing structure. As the second quarter unfolded, a raised offer from GDF Suez, by its wholly owned subsidiary Electrabel, was accepted by the independent Board of International Power.

Insurer and financial buyer interest

Insurers, infrastructure funds and other financial investment entities are becoming active bidders in sales of European power assets, particularly electricity and gas distribution network companies but, also increasingly, existing or 'just operational' windpower projects. At a time of low interest rates and market investment uncertainty, such assets offer stable, long-term and predictable returns.

The most notable current example is the auction of Open Grid Europe, E.ON's gas transmission network, which is attracting widespread interest from a number of rival consortia that reportedly include insurers such as French company CNP Assurances and German insurer Allianz[1]. The various consortia also include a number of European gas companies, foreign infrastructure and pension funds, and sovereign wealth funds. Binding bids are expected in May 2012. The auction is expected to attract bids up to US$3.3bn[2].

Diversification and privatisation

Of the deals announced in the first quarter of 2012, the largest was the public offer stage of EDF's planned takeover of Italian company Edison. Negotiations on the arrangements between the main shareholding parties had been going on for much of 2011. The deal is a complex one, split between the purchase of a stake that will take EDF's share in Edison to 78.95%, announced in December 2011, and the latest stage in the form of the requirement of a public offer of the remaining 21.05%.

The deal will give EDF a degree of diversification away from nuclear generation and add to moves to widen its energy mix. But the deal is subject to approval by the Italian market regulator Consob and discussions with Delmi which, alongside EDF, holds half of Transalpina di Energia a company that has 61.281% of Edison's share capital. Uncertainty remains with the regulator calling for EDF to raise the price it has proposed to buy out Edison's shareholders. Elsewhere, the Polish government sold a 7% stake in the country's largest power utility, PGE Polska Grupa Energetyczna, in a privatisation deal worth US$0.8bn. The sale is part of an ongoing sell-off of state-owned assets.

Many buyers are looking west – Asian buyers to Europe and European buyers to the Americas.

Figure 2: Top five deals for European power targets

No.	Value of transaction (US$m)	Date announced	Target name	Target nation	Acquirer name	Acquirer nation
1	1231.2	15 Feb 12	Edison SpA (21.05%)	Italy	Electricite de France SA – EDF	France
2	798.5	24 Feb 12	PGE Polska Grupa Energetyczna SA (7.00615%)	Poland	Market Purchase	Poland
3	507.8	2 Feb 12	Redes Energeticas Nacionais SGPS – REN (25%)	Portugal	State Grid International Development Ltd	China
4	448.9	6 Mar 12	TenneT Holding BV (HelWin2 and DolWin2 grid connection projects, Germany)	Germany	Mitsubishi Corp	Japan
5	368.9	1 Feb 12	TERNA – Rete Elettrica Nazionale SpA (5.094%)	Italy	Market Purchase	Italy

Source: European Power & Renewables Deals, Spring 2012

1 Four bidders left for E.ON's Open Grid network, Reuters, 15 February 2012.
2 Financial Times, E.ON secures interest in pipeline unit sale, 13 December 2011.

'Go abroad' strategies

European 'go abroad' moves were in the spotlight with E.ON's announcement of a 10% stake in Brazil's MPX Energia in a deal worth just under US$0.5bn. It is E.ON's first investment in Brazil, one of its target growth markets outside of Europe, and also gives the company access to the Chilean market. The partnership between MPX and E.ON aims to develop a total capacity of 20,000MW in Brazil and Chile, which would make it the largest private energy company in Brazil.

The 'go abroad' strategies of Chinese companies continued with the China State Grid Corporation's successful US$0.5bn bid for 25% of Portuguese power grid company REN (Redes Energeticas Nacionals). State Grid will also offer funding support for the group's expansion of its Mozambique and Colombian operations.

'Go abroad' strategies are also important in renewable energy. More than half of Iberdrola's renewable output, for example, is outside Europe, principally in the US. Like Iberdrola, EDF has recently bought back its renewable arm. With EDF Energies Nouvelles, EDF's ambition is for 25% of its electricity generation fleet to be in renewable energy by 2020, up from 19% in 2010. It is seeking out growth in high-potential areas for wind and solar, such as the Americas, North Africa and South Africa.

Renewable building blocks

Renewables deals continue to be dominated by the refinancing of existing or 'just operational' assets, primarily windpower projects. The largest deal saw Dong Energy sell 50% of the German offshore wind Borkum Riffgrund 1 to KIRKBI A/S and the Oticon Foundation, via its investment company, William Demant Invest for a total sum of US$837m. KIRKBI is the parent company of children's toy group Lego and Oticom is one of the world's leading hearing aid manufacturers. The move represents a notable widening of the investment base for windpower projects to include corporate investors from outside the power sector.

The vast majority of renewables deals with European buyers were for targets in Europe. But the Q1 2012 activity also included a series of purchases by European buyers of windpower assets in the Americas. These included BP investing in two windfarms in Pennsylvania and Kansas, EDF Energies Nouvelles buying the Spinning Spur and the Bobcat Bluff wind projects in Texas in two separate deals with US developers, and Dutch pension fund manager, Stichting Pensionenfonds, along with Mitsubishi Corporation, acquiring a 67.5% stake in Energia Eolica Marena SA de CV, a windfarm project operator in Mexico. None of these deals had values disclosed.

Looking ahead, solar PV looks set to breakthrough and feature more prominently in renewables deal flow. The sector has been hit by subsidy cuts but, as subsidies are being cut, prices are actually falling more rapidly. This is enabling the sector to remain attractive as a source of predictable long-term returns in jurisdictions where investors can have confidence that any future changes will not be applied retrospectively.

In the meantime, distressed Europeans solar module manufacturers are being bought by foreign buyers. German company Solon was bought by United Arab Emirates-based Microsol, Chinese company LDK Solar acquired a majority ownership of another German company Sunways, and Swiss equipment maker Oerlikon agreed to sell its solar division to Japanese industrial electronics conglomerate Tokyo Electron Group[3].

A number of German offshore wind projects look likely to change hands in the coming period. Again, insurers and financial investors are prominent on the buy-side for windpower assets. Allianz added 38MW to its windpower portfolio with acquisitions in the French and German markets in March but no deal value was disclosed. The company reports that it now has a total of over US$1.7bn invested in renewable energy, owning a total of 34 windfarms, generating 658MW, and seven solar parks with a total capacity of 74MW.

Figure 3: Top five deals for European renewable energy targets

No.	*Value of transaction (US$m)*	*Date announced*	*Target name*	*Target nation*	*Acquirer name*	*Acquirer nation*
1	836.6	23 Feb 12	Dong Energy A/S (Offshore windpower facility project Borkum Riffgrund 1, Germany)	Denmark	KIRKBI A/S (32% share); William Demant Holding AS (18% share)	Denmark
2	74.7	15 Feb 12	Proventus Energy plc	United Kingdom	Captive Audience Display Solutions plc	Ireland
3	68.2	2 Feb 12	Power Station (Windpower plant in Bulgaria)	Bulgaria	LUKoil AIK; ERG SpA	Russian Federation
4	63.5	21 Mar 12	Centrica Energy Renewable Investments Ltd (50%)	Ireland	Dong Energy A/S	Denmark
5	16.5	6 Jan 12	ER Energia Rinnovabile Srl	Italy	Antin Infrastructure Partners SAS	France

Source: European Power & Renewables Deals, Spring 2012

3 Clean Energy Pipeline, 6 March 2012.

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Methodology

European Power & Renewables Deals includes analysis of all global power utilities, renewable energy and clean technology deal activity. This version focuses on the European market. We include deals involving power generation, transmission and distribution; natural gas transmission, distribution and storage; and energy retail. Deals involving operations upstream of these activities, including upstream gas exploration and production, are also excluded. Renewable energy deals are defined as those relating to the following sectors: biofuels, biomass, geothermal, hydro, marine, solar and wind. Renewable energy deals relate to the acquisition of (i) operating and construction-stage projects involved in the production of renewable energy and (ii) companies manufacturing equipment for the renewables sector. We define clean technology deals as those relating to the acquisition of companies developing energy efficient products for renewable energy infrastructure. We exclude deals relating to nuclear power assets and deals where only a minority of the business's activity is in renewables.

The analysis is based on published transactions from the Dealogic 'M&A Global database' for all electricity, gas utility and renewables deals. It encompasses announced deals, including those pending financial and legal closure, and those which are completed. Deal values are the consideration value announced or reported including any assumption of debt and liabilities. Comparative data for prior years may differ to that appearing in previous editions of our annual analysis or other current year deals publications. This can arise in the case of updated information or methodological refinements and consequent restatement of the input database.