Capital on the move
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After a transformative 2012 for power and utility companies (P&Us) around the world, the first quarter of this year delivered a more robust platform for M&A in the sector. While deal value has decreased (reaching US$25.3b in Q1 2013, down from US$27.6b in Q4 2012), encouraging signs are in place, including progress on large European privatizations and divestment initiatives.

Key findings, Q1 2013
- Q1 2013 global P&U M&A registers US$25.3b, down US$2.3b (8%) on the prior quarter.
- Divestments in Europe remain the center of activity, while power generation deals drive an increase in US activity.
- Capital is on the move with cross-border M&A rising 49% (US$3.2b) quarter-on-quarter, driven by a need to secure energy supplies, expand market share and add stable cash flows.
- Renewable M&A contributes 50% to global deal volume (23% to value), with Asia Pacific the new clean energy hub.

Europe driving global activity
Europe remained the focal point for global M&A, contributing more than 51% (US$13b) to global deal value in Q1, with activity mostly driven by continued divestments by large utilities, including GDF Suez, E.ON, RWE, Dong Energy, Iberdrola and Veolia.

Many of these companies turned their interest to higher growth markets. In Brazil, E.ON raised its stake in MPX Energia while, Enerjisa, a joint venture between Turkish Sabanci and E.ON, placed the highest bids in privatization tenders for Turkey’s Toroslar and Ayedas power grids (US$1.7b and US$1.3b, respectively).

Power prices to rise in the US
In the US, hybrid utilities – those with regulated and non-regulated portfolios – continued to divest competitive power generation assets, with FirstEnergy, Dominion and Ameren Energy announcing sales of competitive assets in the quarter. While the sale of these generation assets by hybrids is nothing new, Dynegy’s acquisition of Ameren’s competitive business for US$99m was warmly welcomed by investors. The deal is in line with Ameren’s strategy to exit the merchant generation business. For Dynegy, the deal marks its resurgence from a bankruptcy restructure in 2012 and is expected to create value by building upon the company’s existing scale in key markets. The Ameren acquisition also gives Dynegy an established retail business with significant scale.

The deal encourages the growing sense that power prices may be on the rise, at least from the very low levels seen today. With upcoming coal retirements in companies such as PJM and declining reserve margins in the Electric Reliability Council of Texas (ERCOT), there is a hint of optimism. Prices don’t need to rise much. For example, it has been reported that a rise of just US$1 per million metric British thermal units in gas prices will deliver Dynegy about US$330m in EBITDA.¹

Cross-border and renewables up
Q1 2013 witnessed a surge in cross-border deal activity driven primarily by Canada, Germany and Japan. For Canadian investors, expansion of the clean energy portfolio and acquisition of natural gas assets – particularly in the US – remained the key focus, while German utilities continued to grow their business outside their domestic markets. In Japan, investors focused on European renewable assets.

Of the five outbound Japanese transactions in the quarter, four involved solar and wind assets, with Mitsubishi Corp. participating in three of them.

In fact, renewables were generally on the rise this quarter, contributing 50% to global deal volume (23% to value). While most of these deals took place in Europe, the Asia Pacific region is seeing more renewable energy transactions and, in Q1, achieved a two-year high of US$3.8b. Large Chinese hydro deals contributed the bulk (US$3.1b).

Aggressive stance from financial buyers
Following a two-year high in 2012, financial buyers continued their aggressive stance into Q1 2013. US-based private equity (PE) and infrastructure funds, such as Energy Capital Partners, emerged as the most active bidders, participating in six deals worth a combined US$1.9b. Transmission and distribution, merchant assets and renewable energy assets in Europe and North America emerged as the key target segments for buyers. We anticipate that their investment in the sector will grow significantly in 2013, with a particular focus on network deals in Europe.

Anticipate the buyer
Expect an exciting year in P&U transactions with M&A activity on track to outpace 2012. Utilities are continuing to reshape their asset portfolios – to deleverage from commodity volatility or increase footprint in high-growth markets – and creating significant opportunities for buyers and sellers. As companies, particularly in Europe, continue their divestment programs, they will need to be aware of what the new breed of buyer wants. Carve-out financials, clear and concise financial and operation information and a well-articulated value proposition are essential ingredients to a successful program.

Spotlight on China
Recent news that Chinese economic growth dipped slightly in the first quarter of 2013 disappointed those hoping for an increase in the recovery that began midway through 2012. However, despite market volatility and a global economic outlook that is far from certain, Chinese companies continued to rise in prominence in the global M&A market.

Positive foreign investment policies, diversification of funds and geographic expansion are driving outbound M&A, with the P&U sector a core focus for Chinese investors. Most interest is in Europe’s privatization and divestment programs, although we also expect Chinese buyers to explore deals in Australia and the US in the future. All the ingredients are in place for 2013 to be an exciting transaction year.

Chinese outbound deal value and volume by target geography, 2008–2012

Joseph Rodriguez
Global Power & Utilities Sector Resident
Transaction Advisory Services
New York, US
+ 1212 773 7105

Joseph is the Global Power & Utilities Sector Resident for Transaction Advisory Services and has managed numerous transactions for private equity, corporate investors and sovereign wealth funds. His experience includes financial analysis and due diligence (buy-side and sell-side); deal negotiation; analysis of financial forecasts; working capital requirements; analysis of free cash flow; and synergy assessments. Joseph has experience on a number of power and utility and infrastructure transactions, including power generation, gas and electricity transmission and distribution, and renewables.
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EYG no. DX0178

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EMEIA MAS 1546.0413