

European Utilities

From demergers to M&A: E.ON and RWE set to transform European energy sector



The transformational asset deal set out by German utilities E.ON and RWE should reassure investors and creditors by creating two less complex companies which would also be more resistant to foreign takeover.

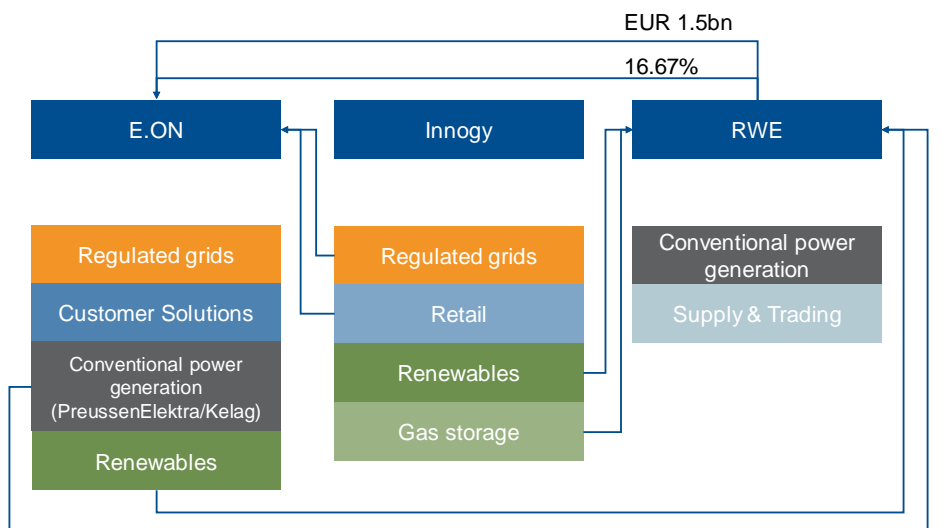
“Expect more deal-making to come in the European power sector,” says Scope Ratings director Sebastian Zank. “This deal could lead to a new transaction record in 2018 in the European utility landscape.”

On 11 March E.ON SE (not rated by Scope) and RWE AG (not rated by Scope) launched a complex asset deal on the 76.8% share package of Innogy SE (not rated by Scope) held by RWE. Moreover, E.ON will have launched a voluntary public takeover offer to the shareholders of Innogy for EUR 40 per share. Assuming the deal gets regulatory approval, E.ON will become a power utility with a strong focus on regulated grids, while RWE will concentrate on power generation with a fully diversified generation portfolio.

From Scope Ratings’ perspective, the proposed deal is important for two main reasons:

- The breakup of Innogy with the allocation of different utility assets to E.ON and RWE will simplify the two utilities’ corporate structures, thereby making it easier for investors and creditors to assess the corporates’ value and creditworthiness.
- Secondly, the deal will reduce the risk of further intrusion by foreign companies into Germany’s power sector after a number of recent transactions: 20% in 50Hertz to be acquired by Chinese State Grid Corporation of China or 47% in Uniper [rated BBB+/Stable by Scope] acquired by Fortum. The two new larger entities which will integrate Innogy’s current market cap of around EUR 19bn would be more difficult to be acquired by foreign investors such as Engie, Enel or Iberdrola.

Figure 1: Simplified deal structure



Source: Scope illustration

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Related Research

- 2018 Corporate Outlook, Nov 2017
- European Utilities: Commodity Rebound – Past the Trough, Nov 2017
- European Integrated Utilities: From Headwinds to Tailwinds, Sep 2016

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Improved financials and visibility on political support put utilities in M&A mode

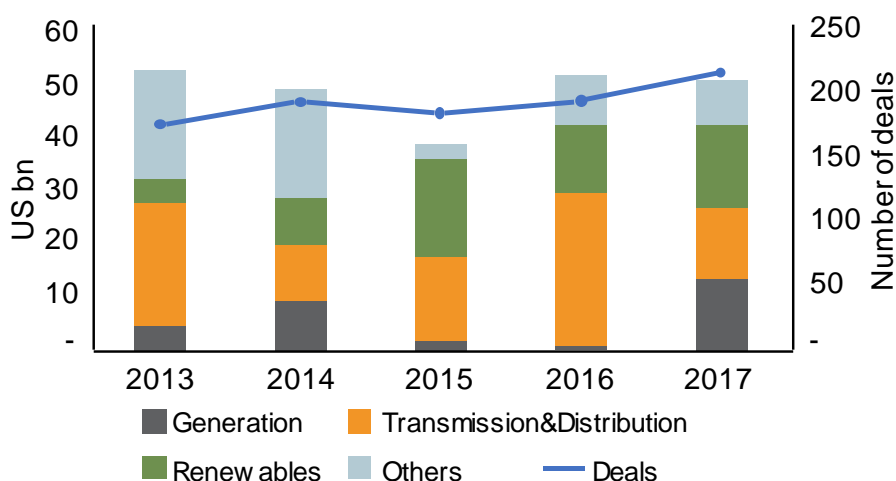
Deal size representing around 50% of annual M&A volume

2018 might become new record year in utility transactions in Europe

As pointed out in Scope's utilities sector outlook 2018, Scope believes the European utilities have put a long period pressure on credit quality behind them after a series of operational restructurings, helped by the rebound of commodity prices (see also Scope's study: [European Utilities: Commodity Rebound – Past the Trough](#)) and less turbulent political and regulatory headwinds (i.e. on capacity markets or CO2 emission trading). Following depressing years of business contraction and demergers, major European utilities appear to be in an expansion mode again. Balance sheets have been 'cleaned' and financing remains comparatively cheap.

With the E.ON-Innogy-RWE deal which implies an overall deal volume of around EUR 20bn, the European utility market may be geared for a new record after the USD 50.3bn (~EUR 44.6bn) reached in 2017 (according to Ernst&Young – Power transactions and trends).

Figure 2: Power transactions in Europe - Deal value and volume, by segment



Source: Scope, EY analysis based on Mergermarket data



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