BUSINESS DEALS

Chinese utility will need more than high bid to win Portugal's EDP

Three Gorges group faces resistance from shareholders, public and other governments

MARIA CAETANO, Contributing writer
May 27, 2018 00:09 JST

EDP operates power plants and facilities in 14 countries such as this thermal power plant in Soto De Ribera, Spain. (Courtesy of Energias de Portugal)

LISBON -- Portugal may be willing to allow a Chinese state-owned enterprise to take over the country's main power company, but the deal could still be thwarted by other governments which may find allies among the directors and shareholders of Energias de Portugal and even among the groups supporting the governing Socialist Party.

The government of the Iberian nation has so far welcomed the proposed 9.14 billion euro ($10.72 billion) buyout by China Three Gorges, operator of the namesake dam on the Yangtze River, of Energias de Portugal, the nation's largest company by market value. After Three Gorges' bid was announced on May 11, Prime Minister Antonio Costa described Chinese companies as "good investors" and said Portugal remained open to such investments.

But the deal, which would rank among the largest-ever Chinese buyouts of a European company, is not a matter for Portugal alone. This is both because EDP operates power plants and facilities in 13 other countries and because the EU, of which Portugal is a member, is increasingly concerned about Chinese buyouts of strategic assets and in the midst of preparing a bloc-wide oversight policy.

Spain, where EDP operates hydropower and nuclear plants, announced May 17 that it would review Three Gorges' offer. Spanish Energy Minister Alvaro Nadal said Three Gorges is facing "a regulatory wasp nest" with its offer.

Three Gorges' initial bid for the 76% of EDP shares it does not currently hold of 3.26 euros a share, a 4.8% premium over EDP's share price before the offer was announced, was rejected by the EDP board on May 15. That refusal, combined with the rise of EDP shares since the bid -- the shares closed at 3.42 euros on May 25 -- and the expectation other bidders could soon emerge, is expected to bring Three Gorges back to the table with a higher offer. CNIC, a Chinese government-owned investment company, holds a 5% stake.

Three Gorges became EDP's largest shareholder by acquiring an initial 21.35% stake in 2012, at 3.45 euro a share, as the Portuguese government was selling down state assets to service its debts. At that time, State Grid Corp. of China also became the top shareholder in Redes Energeticas Nacionais, Portugal's monopoly grid operator.

EDP's network includes wind farms in the U.S., Canada, France, Italy, Poland, the U.K. and Romania. It also operates hydropower plants in Brazil. Apart from its holdings in EDP itself, Three Gorges has acquired stakes in a number of these projects from EDP since 2012 and the two companies jointly won a contract in 2016 to build a hydropower plant in Peru.

The Portuguese government has so far welcomed the proposed 9.14 billion euro buyout of Energias de Portugal by China Three Gorges, operator of the namesake dam on the Yangtze River. © VCG/Getty Images

Proposed acquisitions by Chinese companies, especially state-owned enterprises, of energy infrastructure have drawn controversy in Western nations. German officials reportedly helped encourage Belgian utility Elia to preempt State Grid's offer in February to buy a 20% stake in German network operator 50Hertz; State Grid is said to be now trying to pick up other shares in the company. It made previous unsuccessful attempts to buy stakes in other Germany and Belgian grid companies before succeeding last year in taking a 24% stake in Greece's ADMIE.

The European Parliament is expected to vote on new foreign investment screening rules on May 28. The legislation would allow the European Commission to review and offer its opinion on deals that have the potential to undermine security and public order and request information from member states. The focus of the proposal is critical infrastructure and technologies. The Portuguese government has pushed to water down the new rules; they will now allow national governments to have the final say on inbound investments.

As with 50Hertz, there are expectations that those worried by the prospects of a Chinese takeover of EDP will encourage European utilities to make a counteroffer.

"There are players geographically closer to EDP than Three Gorges and with greater synergies in the same Iberian market," said Octavio Viana, director of the Portuguese Association of Investors and Market Analysts, specifically mentioning Spain's Iberdrola, a former EDP shareholder. "Investors would favor an offer by Iberdrola or another player in the same market."

Gas Natural Fenosa, another Spanish utility, is also reportedly interested in buying EDP and seeking allies for a bid. Other potential suitors include France's Engie, Italy's Enel, and Germany's Eon.

Among the Portuguese politicians showing concern about Three Gorges' bid are members of leftist parties backing the government. They note the irony of the EU forcing the country to privatize EDP and then having it potentially fall under the control of the Chinese government.

"How can we explain that the Portuguese state cannot control energy, but the Chinese state can?" said Catarina Martins, leader of the party Left Bloc. "This maneuver is particularly dangerous since the Chinese state controls REN already through different companies and in increasing its power over EDP, there will more dependence on a foreign state."

Jeronimo de Sousa, the leader of the Portuguese Communist Party, said: "What the country needs is that its strategic companies, instead of being in the hands of American, German, French, Spanish or Chinese economic groups, be in the hands of the Portuguese state."

Other local voices are also speaking out. "Will having a company owned by another country be the best guarantee if a possible emergency situation involving the national power supply occurs?" asked Jose Pedro Teixeira Fernandes, a researcher on geopolitics and security at the Portuguese Institute of International Relations. "I am hardly convinced of that," he said, calling for the government to open a public debate. "This is a long-term and pivotal decision."

Added Bernardo Pires de Lima, a political risk analyst at Firma, a Portuguese business consultancy, "The disproportionate propensity toward a single international investor, or a single nation, jeopardizes our bargaining power in the coming years."