

# EDF UK distribution network sale

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The acquisition of the EDF UK network in September 2010 is without doubt one of the most remarkable M&A deals of the year - due to both its size and its competitive process.

After almost a year of competition, EDF Energy - the UK subsidiary of EDF - finally sold its distribution network to a Hong Kong-based consortium comprised of Cheung Kong Infrastructure (CKI), Hong Kong Electric (HEH) and the Li Ka Shing Foundation, all companies controlled by Li Ka Shing, for a total of up to £5.8 billion [\[Transactions Database\]](#).

This amount is slightly more than the sum EDF had hoped to raise as the network was previously estimated at between £4 billion and £5 billion.

Clearly, the quality of the assets and the stability of the UK market appear attractive for Asian investors. EDF's electricity distribution network is the biggest in Britain, supplying power from the high-voltage grid to 20 million people via three networks in England's east and southeast.

## The context

The sale of the electricity distribution business was part of EDF's plan to reduce its net debt by €5 billion. As soon as May 2009, rumours circulated that the company was considering selling its UK network in order to cut the debt which swelled to close to €25 billion due to recent acquisitions.

In September 2008, EDF acquired British Energy for a total £12.5 billion (US\$20bn) and half of Constellation Energy's nuclear business in October of the same year for US\$2 billion. Therefore, the French utility company's debt was estimated at around €24.5 billion (US\$34.5bn) at the end of 2008.

The British electricity network was a profitable business, and it was probably easier for EDF to sell its assets in the UK than in France where it could have met political and union resistance.

The only question which remained was who the potential buyer would be. Given the economic context and the effect of the financial crisis, speculation was rife. The idea of a fund getting involved emerged at that time as most utility companies were also looking to sell some of their assets to refinance their debt.

The Swedish group Vattenfall was one of them. The company was seeking to sell its German long-distance power grid - the 50Hertz Transmission TSO in Germany - but had to delay the sale as no agreement could be reached. The Belgian transmission system operator Elia and the infrastructure fund manager Industry Fund Management (IFM) acquired the grid at the beginning of 2010.

## The transaction

The EDF Energy network is the largest in the UK, supplying power from the high-voltage grid to 20 million people via

three networks in London, and England's east and southeast. The sale also included a private network business that delivers power to the London Underground, Heathrow airport and the Channel Tunnel under long-term contracts.

In July last year, the French utility company granted Hong Kong investor CKI a 'period of exclusivity' to negotiate a £5.8 billion sale of its electricity grid network. The Hong Kong consortium comprised:

- CKI – 40 per cent
- HEH – 40 per cent
- the Li Ka Shing Foundation – 20 per cent

EDF said the offer comprised an equity consideration of €3.8 billion and total consideration including assumed debt of £5.8 billion. This represented a premium to 1 April 2010 Regulated Asset Value of 27 per cent for the regulated electricity distribution networks, and a multiple of 8.1x estimated 2010 EBITDA for the total business. The offer remained open for 90 days from 26 July 2010 until 24 October the same year.

In this period, the French company had to negotiate a partnership agreement for commercial cooperation in the UK market and to present it to its European Works Council (EWC).

Prior to choosing the CKI consortium as preferred bidder, EDF received interest from several investors but most of them pulled out of the deal and the only rival to stand up against CKI was a consortium made up of Macquarie Bank, Canadian pension plan CPPIB and the Abu Dhabi Investment Authority.

### **The financing**

The US\$1.9 billion debt package is provided by a club of seven banks, six of which are European. The lenders are the following:

- Barclays
- BNP Paribas
- Deutsche Bank
- Grupo Santander
- Lloyds
- Royal Bank of Scotland
- Mizuho Financial Group

The debt was split into five tranches with two term loan tranches of US\$754.28 million and US\$301.7 million respectively. The US\$754.28 million term loan debt has a three year tenor.

The equity split is as follows:

- CKI – 40 per cent
- Hong Kong Electric – 40 per cent
- Li Ka Shing Foundation – 20 per cent

The project reached financial close on 29 October 2010.

The financial advisers on the sale were Barclays, Deutsche Bank and BNP Paribas for EDF and RBS for the consortium.

The legal advisers on the deal were Clifford Chance, DLA Piper and Herbert Smith. Mott MacDonald was technical adviser.

### **Conclusion**

The sale of the EDF UK electricity network represents one of the largest deals in the power sector over the past ten years and showed the way for other European utility companies. German group E.ON also later put its UK electricity network

up for sale.

The preferred bidder for this deal was revealed in March 2011 - US company PPL, which will acquire the asset for £4 billion. The CKI consortium and the Abu Dhabi Investment Authority consortium - which also participated in the EDF's UK network sale - also bid for the network but were both beaten.

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