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German fight for Endesa sparks patriotic frenzy in Spain

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Spain's energy market became the focus of frenzied takeover activity yesterday amid concern about Europe's supplies.

Spanish construction groups bought stakes in Spain's leading power companies as analysts suspected manoeuvres to create national champions following a move by Germany's E.ON to increase its offer for Spain's leading energy group, Endesa.

Spain's fourth-largest builder, Acciona, baffled some analysts by paying euros 3.4bn (pounds 2.3bn) for a 10% stake in Endesa amid talk that it could raise its holding to 25%, triggering a takeover in tandem with a Madrid savings bank.

Hours after E.ON raised its offer for Endesa yesterday by euros 10bn to euros 37bn, ACS, Spain's largest construction group, bought a 6.3% stake in a rival power supplier, Iberdrola. Iberdrola's shares leapt nearly 16% yesterday amid talk of takeover interest by the Italian utility ENEL.

ACS, which also owns 35% of the electricity supplier Union Fenosa, said it had not decided on a full merger between the two, the second and third-largest energy suppliers. But Spanish observers believe the firm genuinely has this in its sights.

Spain's socialist government was told by the European commission on Tuesday to amend laws blocking foreign takeovers of utilities and is widely believed to have quietly encouraged the market moves by private-sector companies. The government had favoured an all-Spanish merger of Endesa and the Barcelona-based Gas Natural. That deal, worth euros 21bn, was blocked by court injunctions but analysts believe Gas Natural could now be part of a tie-up with Fenosa and Iberdrola.

The fevered activity in Spain, which pushed the country's main Ibex stock index to a record high, follows growing concerns about the security of Europe's energy supplies. The fears have led to a new wave of consolidation to create companies of sufficient size to negotiate with fuel-exporting countries. Most analysts believe there will be just four or five major players by 2010 or so but Spain's energy market, though fast-growing and increasingly lucrative, remains fragmented.

Pedro Solbes, Spain's economy minister and a former EU commissioner, said it was not in the government's interests to have a confrontation with Brussels but insisted: "It is in our interest to try to secure supply." This is seen as ministerial justification for defensive national mergers.

But Prof Christopher Kummer, of the institute of mergers, acquisitions and alliances at Webster university in Vienna, said: "Spain is not a developing country. If the energy infrastructure is in the hands of foreign owners, supply is not at risk.

"From a national perspective, I would have thought it more interesting for the Spanish government to position its companies internationally - and there's no market logic for construction companies to get involved in utilities."

Prof Kummer believes Acciona does not have the financial firepower to make a full-scale bid for Endesa and might be prepared to settle for a strategic partnership with E.ON. The German firm has raised its offer for Endesa to euros 35 a share in what is widely regarded as a knockout blow.

But he warned that E.ON, which denies it is overpaying, should not raise its bid. "euros 35 are only justifiable if they want to save the deal, which makes strategic sense. But they should not go any higher and maybe start thinking of alternatives or they may end up with the winner's curse: paying far too much," he said.

Last month Wulf Bernotat, E.ON's chief executive, said it could revisit the UK market again after Scottish Power's rebuff in 2005. But, barring court upsets, he is said to be keen to finish the Endesa deal and create Europe's biggest energy champion.

Endesa windmills: Madrid is tilting at foreign groups buying Spain's utilities