



RWE Agrees to Buy Utility Essent for EU9.3 Billion (Update1)

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By Holger Elfes and Paul Dobson

Jan. 12 (Bloomberg) -- **RWE AG** agreed to buy Dutch utility **Essent NV**, minus its distribution networks and waste-management unit, for 9.3 billion euros (\$12.5 billion) including debt, making it the largest announced deal in Europe this year.

RWE, Germany's second-largest utility, reached an agreement on a binding all-cash offer for the Arnhem-based power company, according to a statement distributed today. Essent's shareholders are provincial and municipal authorities.

RWE has been saying for two years it's seeking to increase revenue outside its home market and expand in the Benelux region, spokeswoman **Annett Urbaczka** said today by phone.

"If you have the opportunity to finally buy into a market that you have been eyeing for so long, it's important to take that opportunity" even as credit markets tighten, **Ingo Becker**, an analyst at Landsbanki Kepler in Frankfurt, said today by phone. RWE may need to divest Essent's German assets because competition authorities won't allow it to expand at home, he added.

The pace of mergers and acquisitions dropped 39 percent to \$2.48 trillion last year as the credit crisis checked companies' ability to fund deals, according to data compiled by Bloomberg. European utilities have been able to buck that trend as changes in European Union law provide incentives for consolidation. Cost-cutting, diversification and falling stocks have also made targets cheaper.

RWE Slumps

RWE fell as much as 1.56 euros, or 2.5 percent, to 61.57 euros in Frankfurt, the lowest intraday price in two weeks. The stock was at 61.75 euros as of 2:53 p.m. local time, valuing the Essen-based company at 34.3 billion euros.

Buying Essent would give RWE about 6,000 megawatts of **power-generation capacity**, according to Essent's 2007 annual report. RWE said today the Dutch utility has 5.3 million customers. The transaction excludes its distribution networks, which transport energy from transmission grids to homes and businesses.

"Strategically there's no question mark" over the combination, Becker said. "The asset base fits, it's close geographically."

The deal, Europe's largest so far this year according to Bloomberg data, comes amid wider industry consolidation.

Gas Natural SDG SA, Spain's largest gas supplier, is awaiting regulatory approval for a 16.8 billion-euro purchase of Union Fenosa SA, while in the U.S., Exelon Corp. is buying NRG Energy Inc. for \$6.49 billion to create the largest U.S. power producer.

Utilities Stocks Drop

The Dow Jones Europe Stoxx 600 Utilities Index fell 38 percent last year, encouraging acquisitions.

Dutch utilities began separating commercial operations such as production, trading and sales from grid operations in July after parliament approved a so-called unbundling law. Essent and Nuon NV, the second-largest Dutch utility, failed to merge in 2007 and are both seeking foreign partners.

Essent has been advised on the sale by Citigroup Inc.

E.ON AG, RWE's bigger German competitor, owns 1,850 megawatts of power-generation capacity in the Netherlands and supplies electricity and gas to households and businesses through its E.ON Benelux unit.

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