PRIVATISATIONS

EdP win highlights growing Chinese appetite for European assets

Portuguese privatisation process presenting attractive opportunities for new investors

In what some suggest is the first ripples of a wave of Chinese acquisitions of "real assets" across Europe, China Three Gorges has acquired the Portuguese Goverment stake in leading domestic utility EdP.

China Three Gorges has paid €2.7bn for the Government's remaining 21.35 percent stake, which was the subject of a competitive bid process that also saw Germany's E.ON, and Eletrobras and Cemig from Brazil, advance to the final round with bids reportedly ranging between €2.3bn-€2.7bn.

The sale contracts were signed at the end of December. Morais Leitão Galvão Teles Soares da Silva (MLGTS) advised the Portuguese Government, with PLMJ advising Electrobras and Linklaters E.ON. Three Gorges was advised by Serra Lopes Cortes Martins.

The Portuguese Government has sold its holding as it looks to raise cash and implement the terms of the €78bn financial assistance package agreed with the EU, ECB and IMF. Under the terms of the bailout, the Government is also looking to sell its holdings in national oil company Galp and to privatise the gas and electricity distributor REN.

As part of the EdP sale, China Three Gorges will provide an additional €2bn of liquidity through a long-term revolving credit facility. Local reports suggest that the Portuguese utility may ultimately benefit from as much as €8bn in credit from China. EdP has €2.6bn of maturing debt in 2013 but has declared that it now has sufficient finance to support operations through to 2015.

Clarity over who was to be EdP's largest individual shareholder has already helped reduce the financial uncertainty surrounding the group, say lawyers close to the deal.

Chinese investors are also however among the shortlist of bidders for the 40 percent of REN the Portuguese Government is selling. But of the four bids originally under scrutiny only two now remain, China's State Grid International Development and Oman Oil Co, after the withdrawal of US fund Brookfield Infrastructure Group and British utility National Grid, citing market volatility.

MLGTS is again acting for the Portuguese Government in the sale, while REN is represented by PLMJ; State Grid by Linklaters, and Brookfield had been represented by Garrigues. The Government's stake is valued at around €410m but under the terms of the sale process no single investor may hold more than 25 percent of REN's share capital.

Although many had hoped for a final decision on the sale before the end of 2011, bidders had until mid-January to present their final proposals with a decision now more likely to come by Easter, say experts.

Nonetheless, further State sales are also anticipated over the coming year including stakes in the national airports operator ANA and national airline TAP.

The high profile of Chinese investors in the privatisation process to date reflects not only a rise in international ambition but a desire among many Chinese businesses to diversify into cash-generating European assets, say some. Experts estimate that China has more than $3.2 trillion in foreign-exchange reserves and while the EU may be China's largest export market, foreign direct investment has been tiny by comparison – estimated at between €7bn-€9bn.

Nonetheless, many in the market suggest that it is still early days for Chinese investment in Europe. There is a perception issue to overcome, and presently the investment focus has largely been towards the control of brands, patents and technology that will help boost Chinese companies' domestic positions or which help support wider international strategies.

Alongside the major global law firms, a number of Portuguese and Spanish firms are however increasingly betting on a rising flow of Chinese investment to and through Europe. MLGTS has addded Macau-based MdME to its MLGTS Legal Circle, PLMJ has an increasingly close relationship with China firm Dacheng Law Offices, while Cuatrecasas, Garrigues, Uría Menéndez and Roca Junyent all now operate an on-the-ground China presence.

Despite such strategies, China Three Gorges in choosing Serra Lopes and State Grid's decision to retain Linklaters marked notable wins for these two firms in what are the largest Chinese investments in Portugal to date. Whether such mandates arose as a result of conflicts elsewhere is not known, but the leading domestic Portuguese firms (like the Chinese themselves) appear to be content to play the long game. Promoting not only their domestic expertise but also their ability to channel investments elsewhere, notably into Africa and Latin America.