Iberdrola plugs into Scottish Power and turns itself into a European powerhouse

The £43bn merger of **Iberdrola** of Spain and **Scottish Power** has addressed several issues in the pan-European and global mergers and acquisitions boom. The deal, in reality an Iberdrola takeover of Scottish Power, creates the third-largest utility company in Europe. It has 36 gigawatts of generating capacity (enough to power more than half of Britain) and supplies electricity to over 21 million customers, more than there are in the UK.

The merger gives Iberdrola access to the most liberalised power market in the world – the UK – and creates a business large enough to be predator-proof for the time being in a consolidating European energy industry.

While it also creates a world leader in renewable energy and wind farms in particular, it is also another example of a Spanish company raiding the UK corporate market. It also follows the trend of British power companies falling into overseas hands.

The deal, a scheme of arrangement needing 75% shareholder support as well as court approval and which is expected to be effective from April, was struck at 400p in cash for Scottish Power shareholders, a special dividend of 12p and 0.1646 of a new Iberdrola share for every Scottish Power share held.

The deal valued Scottish Power shares at 777p, ensured that 53% of the consideration was in cash, and valued the entire Scottish Power equity at £11.6bn. It also left Scottish Power shareholders in control of 21.4% of the enlarged Iberdrola.

"The combination of the two businesses will enable Scottish Power to expand its geographical presence, diversify operational risk, achieve greater economies of scale and have the financial strength to invest in substantially larger infrastructure projects in the coming years," said Scottish Power's Chief Executive Philip Bowman.

"In an increasingly competitive environment the terms provide an attractive price for Scottish Power shareholders and allow shareholders the opportunity to maintain an interest in the enlarged Iberdrola."

ABN Amro advised Iberdrola and its stockbroking house Hoare Govett acted as broker. Iberdrola is raising £7.955bn of debt financing via ABN Amro, Barclays and the Royal Bank of Scotland.

Scottish Power was advised by Morgan Stanley and as joint broker by JPMorgan Cazenove.

The European junk bond market ended the year at an all-time record high having raised nearly €40bn with high-yield investors. The biggest deal at the year-end was a €1.4bn multiple issue from **TIM Hellas**, the Greek mobile phone operator, after its private equity backers Apax Partners and Texas Pacific Group decided not to sell the company but take a dividend instead.

The company sold a €960m floating rate note paying 600 points over Euribor and due in January 2015. Also due in January 2015 is a new dollar-denominated $275m floating rate note priced at 575 points over Libor.

In addition, the company is tapping its existing 2012 floating rate note by raising an additional €97.25m and selling it at 102.625% of face value, as well as raising a further €200m via a payment-in-kind (PIK) note, due in July 2015 and priced at 800 points over Euribor.

Running the sale as joint bookrunners were Deutsche Bank, JPMorgan, Lehman Brothers and Morgan Stanley.

"The company is taking advantage of favourable debt conditions," TIM Hellas said.

There is no sign of abatement in the appetite for the riskiest form of debt after Italian telecoms group **Wind** launched, at €1.7bn, the biggest payment-in-kind (PIK) notes in history.

High-yielding on the one hand but, on the other, the lowest ranking form of debt, with cash payout or coupons deferred in favour of rolled-over debt instruments, PIKs are nonetheless proving that the market for ultra high-risk debt is alive and kicking. To buy out a €1.9bn, 26% stake held by the Italian energy company Enel, Wind offered the biggest PIKs of their kind: five-year notes of €1.325bn paying 750 points over Euribor and a $500m note paying 725 points over Libor.

After six months the PIKs can be called at 102% and thereafter at 101%. Sources confirmed: "The price tightened, indicating good demand."

The sale was managed by Deutche Bank, Banca IMI, Citigroup and Credit Suisse.

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EQUITIES

ISSUER	AMOUNT	TYPE	NO OF SHARES	TRANCHE OFFER PRICE	PRICING DATE	EXCHANGE	BOOKRUNNER
Hansard Group PLC	$290m	IPO	50,671,326	$2.60	13 Dec 2006	AIM	Durlacher
Innovation Group plc	$76m	FO	171,335,263	$0.21	14 Dec 2006	London	ABN Amro Rothschild

IPO= Initial Public Offering, FO=Follow on

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