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PROPRIETARY

Iberian Trendspotter: Strong pipeline underpins cautious optimism for region - sources

Analysis

16 DEC 2019

- Dealmakers eagerly await Suez's sale of Spanish water business Agbar, slated for mid-2020
- Inconclusive Spanish election and minority government in Portugal do not deter investors
- Iberian YTD deal value lowest in five years

A strong pipeline of Iberian deals for 2020 underpins cautious optimism for M&A in the region in the months ahead, despite the risks of a global downturn, local dealmakers said.

The deal pipeline for Iberia is bursting, which means dealmakers are expecting an “optimistic” start to 2020, according to Ignacio Pallares, a partner in the Corporate Department of Latham & Watkins. Private equity funds are “insatiable,” with lots of appetite for Spanish deals, he added.

One of the most eagerly awaited deals in the pipeline is Suez’s [EPA:SEV] Spain-based water business Agbar, which activist shareholder Amber Capital has said could raise around EUR 3bn. A sale is likely halfway through the year, as reported.

If Agbar is sold around this price, it could be larger than the region’s biggest deal so far this year. This was Carlyle Group’s purchase of a 30% stake in oil company Cepsa for EUR 2.8bn.

Political risk

Spain, the largest market in Iberia, is still being run by a caretaker government after two general elections last year delivered an uncertain result. There is still a risk of a third election next year if Socialist leader Pedro Sanchez again fails to form a coalition government.

However, investors are staying committed to deals despite some political uncertainties, according to Victor Manchado, the head of the corporate practice at Linklaters Madrid. Low interest rates make it easier to finance acquisitions, he said.

Although there is some political risk in Spain, it is having very little impact on investment at the moment, Jose Antonio Sanchez-Dafos, who is also a partner in Latham & Watkins’ Corporate Department, agreed.

Meanwhile, Portugal's Socialist Prime Minister, Antonio Costa, also went to the polls this year. Unlike his Spanish counterpart, though, he has been able to establish a minority government.

From a political point of view, stability in Portugal should continue to be the hallmark for 2020, Duarte Schmidt Lino, partner and co-head of the corporate M&A practice at top-ranking Portuguese law firm PLMJ, said.

The global economic environment in 2020 is likely to be shadowed by uncertainty due to the lacklustre behaviour of the eurozone, particularly of the German economy, to the effects of Brexit, as well as to the trade dispute between the US and China, Schmidt Lino said.

Despite these risks, the Portuguese economy is expected to show resilience and to continue to grow slightly more than its eurozone counterparts, supported by the boost in investment (particularly public), private consumption and the tourism sector, Schmidt Lino said. The real estate industry will also remain a driving force of the Portuguese economy, he added.

While there are still global macro-economic risks, they are not having much of an impact on M&A activity yet, Linklater's Manchado said. "We are getting used to navigating through choppy waters."

Three general elections in two countries in one year had a strong impact on deal data for the year to date. At EUR 35.6bn, the total deal value for the region is the lowest in the last six years, although it is just off the 2015 figure of EUR 41.7bn, according to *Mergermarket* data.

The value is a long way off the EUR 95.9bn worth of deals in 2018's bumper year. However, this result was dominated by one deal, which was close to the total deal value for 2019. This was the EUR 32bn takeover of infrastructure company Abertis by ACS [BME:ACS], Atlantia [BIT:ATL] and Hochtief [FRA:HOT].

The number of deals in 2019 was more respectable, at 461, which is within the normal range of 437 to 558, between 2014 and 2017. There were 640 deals in 2018.

As usual, Spain was much more active than its smaller neighbour Portugal. There have been 400 Spanish deals worth EUR 32.7bn so far, with 61 Portuguese deals worth EUR 2.89bn.

Energy remained the most active sector for Iberia as a whole, with 22.5% of the total. Dealmakers are often comfortable buying and selling renewable energy companies in times of political gridlock, due to the lower risk of regulatory changes.

Large-cap pipeline of deals

Two of the largest potential Spanish deals in the pipeline for 2019 have failed to emerge yet due to large price gaps, as reported. These are the sale of Ferrovial's [BME:FER] services division and ACS' sale of a renewable energy vehicle called Zero-E.

There is a small chance that either deal could be announced before the end of the year, dealmakers said. A close next year or the cancellation of the auctions are also options, they added.

It is also unclear whether EDP [ELI: EDP] of Portugal will make a decision on the sale of a 1.7 GW hydroelectric portfolio by the end of the year. Binding bids were presented by Engie [EPA: ENGI], Statkraft and Iberdrola [BME:IBE], as reported. The assets on the block are valued around EUR 2bn.

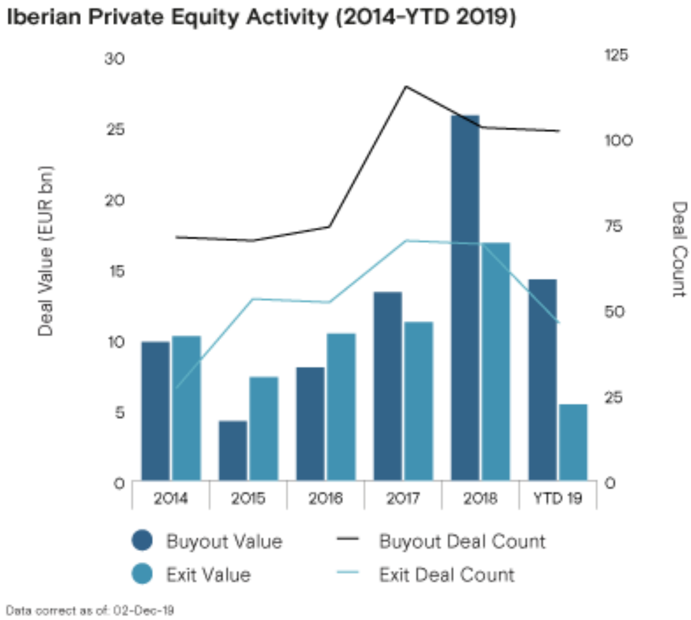
Another large deal in the pipeline for 2020 is the carve-out of Telefonica's [BME:TEF] Latin American phone business, excluding Brazil. The Madrid-based company has announced that it will explore options for the unit, including acquisitions or reducing its exposure to the region. Analysts have valued the unit around EUR 12bn.

Meanwhile in Portugal, Brisa owners Jose de Mello and Arcus have set 19 December as the deadline for non-binding bids for 80% of the toll motorway operator, as reported. This deal is valued at EUR 2.2bn. This is likely to be one of the country's top deals for 2020, Schmidt Lino said.

PEs dominate mid-market

The Spanish private equity (PE) sector will continue to be in a good mood next year, according to Juan Luis Ramirez, partner at Portobello Capital, one of the region's most active PEs. Sellers are now more realistic with price expectations, which could lead to more deals, he added.

Defensive sectors such as health, food or education could have a key role next year, Ramirez said. Spanish funds will be again the main players in the middle market with occasional deals closed by international firms, he said.



The value of Iberian PE buyouts in 2019 has been the best in the last six years, excluding the bumper year of 2018, with EUR 14.23bn. The next-best year was 2017, with EUR 13.3bn, while numbers soared to EUR 25.7bn last year.

On the other hand, PE exits were slower than in previous years, due in part to sluggish ECM markets, with a value of just EUR 5.4bn. The previous-lowest figure in the last six years was EUR 7.3bn in 2015, while this soared to EUR 16.8bn last year.

There has been a slight slowdown in Spain's mid-market, along with reduced multiples, a Spain-based banker who focuses on this segment said. Food, health and energy will be hot sectors next year, he said, adding that PE will continue to be active.

Iberia's tech sector – based around start-up hubs in Barcelona, Lisbon and Madrid - will also continue to grow next year, a Madrid-based banker focus on venture capital (VC) and tech sector said. VC investment in Spain is at a record level, he said, adding that the emphasis is on growth capital rather than just early-stage companies. Fintech and marketplaces will be active sectors, the banker said.

Both Cabify and Glovo could be active next year, this banker said. Ride-sharing app Cabify is turning its focus to a private fundraising from an IPO, this news service reported last month. Meanwhile, delivery app Glovo is reported to be closing a large fundraising round that will give it unicorn status.

by Rupert Cocke, Nelson Rodrigues and Iñaki Miguel, with analytics by Thorsten Louie Pedersen

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Grade: Confirmed

TARGET

Applus Services, S.A.

VENDORS

Suez

OTHERS

Amber Capital LP

TARGET

Compania Espanola de Petroleos, S.A.U.

OTHERS

The Carlyle Group

TARGET

Countries

Portugal

Spain

Sectors

Computer services

Computer software

Computer: Hardware

Computer: Semiconductors

Construction

Consumer: Foods

Energy

Financial Services

Internet / ecommerce

Leisure

Medical

Real Estate

Services (other)

Telecommunications: Carriers

Ferrovial Servicios S.A.

VENDORS

Ferrovial S.A.

TARGET

Zero-E

VENDORS

ACS, Actividades de Construccion y Servicios, S.A.

BIDDERS

ENGIE SA

Iberdrola SA

Aquila Capital Partners

Statkraft Ventures GmbH

VENDORS

Energias de Portugal S.A.

VENDORS

Telefonica S.A.

TARGET

Brisa-Auto Estradas de Portugal SA

VENDORS

Jose de Mello Saude, S.G.P.S., S.A.

Arcus Infrastructure Partners LLP

TARGET

Maxi Mobility Spain,S.L.

TARGET

Glovoapp23, S.L.

Telecommunications: Hardware
Utilities (other)

Sub-Sectors

Accommodation
Alternative energy
Application software products
Baby food
Baked goods
Banking
Business support services
Cable telecom carriers
Construction services
Dairy products
Data processing
Electrical power generation
Fish/ meat/ poultry
Fixed line telecoms
Food ingredients
Food-others
Fresh produce
Frozen and chilled foods
Health institutions
Hospital management
Medical equipment & services
Mobile/satellite telecoms carriers
Oil and gas exploration and production
Operating systems and systems-related software
Other services
Real estate
Semiconductors
Software development
Sugar and confectionery
Travel/ holidays/tour operators
Water, sewage and other systems
e-retailing

Topics

Analysis
Auction/Privatization
Bolt on/Opportunistic
Cross Border
Infrastructure
IPO
Large/Transformational Acquisitions
Macro Drivers

Market Exit
Private equity related
Proprietary Research
Takeover situations

Intelligence ID: 2954808