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Acquisition of Thyssengas, Germany

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Dutch fund manager DIF and the investment arm of French utility EDF have completed the acquisition of German gas transmission company Thyssengas from Macquarie. It is the first gas sector investment for DIF and the first in a potential second wave of gas transmission sales in Germany.

Germany's independent gas transmission market

In 2010 German utilities began an unbundling process, compelled by a new package of European energy market requirements to separate the gas transmission networks from the utilities generating or selling energy. Furthermore lower gas prices post-recession were putting pressure on the large utilities to raise cash through non-core disposals.

Thyssengas owns and operates a 4,200km natural gas transmission grid in the state of North Rhine Westphalia, along with its compressor stations and gas blending and metering stations. It transports the gas to import points for the distribution network, industrial plants and municipal clients.

In 2011, a Macquarie fund – Macquarie European Infrastructure Fund 3 (MEIF3) – purchased Thyssengas from utility RWE.

Dr. Anselm Raddatz, corporate M&A partner at Clifford Chance, says, “Traditionally the independent transmission operators [ITOs] belonged to the large utilities like E.ON and RWE. In 2010, 2011, 2012 there was a wave of transactions, when RWE sold Thyssengas to Macquarie and also E.ON sold Open Grid Europe to a Macquarie-led consortium.”

The sale by financial investor Macquarie, flipping it over to a second group of financial investors, is a new format of deal in this sector in Germany.

Raddatz adds: “This latest sale of Thyssengas is the first on-sale of an ITO to a new owner. At this level there haven’t been any transactions for the past couple of years.”

For MEIF3, the time it would have become necessary to sell is approaching. The fund is a 2008 vintage, with a 10-year life expiring in 2018, though there is some scope for small extensions. The sale therefore is comfortably ahead of the fund’s maturity.

The year 2018 will also bring a new regulatory period for Thyssengas, when the German Federal Network Agency (Bundesnetzagentur) will approve the cost base and stipulate allowed equity return rates. Bundesnetzagentur makes its determinations for the 2018-2022 third regulatory period for the German gas market based on the financial results of 2015, so investors bidding this year were able to take a view of what the regulator would approve for the next period, while they have almost half of the current period remaining.

DIF diversifies

With the Thyssengas acquisition, DIF has diversified from its typical investments. Allard Ruijs, a partner at DIF comments: "We wanted to invest in other core infrastructure with a similar risk profile to PPPs and renewables, and we have a mandate for investing in regulated assets. Given the robustness of the regulatory framework and the German market, and [Thyssengas'] strong cash flows, this is a well performing asset."

This is not the first regulated asset DIF has invested in. Last year it invested in the UK regulated project company/utility Tideway which is responsible for building a new super sewer in London.

DIF has invested in 50% of the equity of Thyssengas through its DIF Infrastructure IV fund, a €1.15 billion ($1.27 billion) fund which reached financial close last year and is already over half committed. It targets PPPs, core infrastructure and renewable energy investments in Europe, North America and Australia.

Co-investor EDF Invest seeks to invest in assets with stable returns to support the utility's nuclear decommissioning commitments in France. Its other investments include an electricity transmission company and a gas distribution network.

Acquisition financing

The DIF/EDF Invest consortium paid a purchase price of 1.3x the regulated asset value of Thyssengas, or an amount in the range of €600 million to €700 million including debt and equity. Financial close was on 5 October 2016.

The consortium emerged as preferred bidder in mid-June 2016, is understood to have beaten competition from First State, Fluxys, Enovos/Swiss Life and an unknown Chinese bidder.

The buyers raised a €120 million three-year term loan from three commercial banks – ING, RBC and SEB – priced with a margin a little over 100bp above Euribor a source said.

Thyssengas already has debt which will remain in place – a €320 million note issued 2013 maturing 2023 placed to Allianz Global Investors, and at the operating company level a €50 million seven-year revolving credit facility from UniCredit and Commerzbank signed in 2013.

A rapid refinancing

The Allianz notes are due to remain in place, but two sources have confirmed to *IJGlobal* that the three-year acquisition bank debt is due to be refinanced soon with a private placement to achieve a longer tenor. AXA is rumoured to be due to provide the notes.

In addition the bank club of ING, RBC and SEB are due to refinance the €50 million revolver which they could not do until the acquisition reached financial close due to it being at Thyssengas' operating company level. A source said the notes and acquisition debt are at a holding company level.

Advisers

The buyers DIF and EDF Invest were advised by Clifford Chance (legal), RBC (financial), PwC (tax, audit, regulatory), Poyry (technical) and Willis (insurance). Herbert Smith Freehills was lenders' legal adviser. For the seller Macquarie, Bank of America Merrill Lynch was financial adviser and Linklaters legal.