

## Croatia: Power utility HEP market value analysis

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We do not even know if MOL wants to sell its stake in INA, while we already prepare to sell a quarter of HEP, a company that does not own its hydropower plants and thermal power plants have no worth. What is the purpose of this unrealistic plan?

For the past few weeks a lot has been written about INA and HEP and there are a lot of speculations without basic information, such as whether MOL actually wants to sell its stake in INA and how much it will cost. In that sense, the PR statement of the Prime Minister Plenkovic that the State has made a political decision to buy stake from MOL was impetuous and even harmful.

Thus, Hungarians have received a message that Croatia will give as much money as needed to acquire their shares, even though the whole process of INA return under Croatian jurisdiction could probably have been done in a lot cheaper and a less painful way, especially having in mind that MOL rule in INA has cost a lot so far. Now it will cost even more. Upon arrival of Orban, Hungary has imposed impossible conditions to large foreign energy companies, forcing them to leave the country. It was much easier and cheaper to buy stakes in energy companies at that time. We have not heard that any of the ruling parties, nor the opposition, is thinking in that direction. Now it is evident that Croatia did not have good scenario especially if arbitration ends badly for the state. A plan for the sale of 25-1% of HEP shares was developed promptly, which is the only remaining moneymaker for energy in the country (except Janaf), although it is unclear whether it will be enough money to pay MOL. At the same time, it is said that HEP should raise the value, and realistically the value has been decreased by political moves in this decade, so it no longer makes sense to mention HEP asset value of EUR 2.5 billion as it was estimated in 2014. In 2015, as a preparation for privatization still current Supervisory Board of HEP wrote off thermal power plants worth EUR 320 million overnight and today no one mentions that.

It was advised that such a huge write-off is not performed in one year, but in vain, as usual, politics has decided ... It was suggested at that time that many unprofitable distribution and district heating systems should be written off, but fortunately it has not been done so far. In addition, 80% of shares of all hydro power plants was deprived to HEP by the Water Act in 2011, which have been transferred to state ownership without any compensation of the company that has become the concessionaire. Namely, all water structures for electricity generation (dams, reservoirs, supply and drainage canals, tunnels and other structures and equipment) were transferred by that Act into the ownership of the state, and HEP as a company has not been compensated at all even though it invested billions in these power plants. HEP sent a request to the Constitutional Court to review the constitutionality of the Act due to violation of the Constitution, which guarantees the right of ownership. Namely, the rights acquired through capital investments cannot be reduced or subtracted without fair compensation of market value, regardless of the fact that HEP is owned by the state, because it is a violation of the Companies Act. To date, there is no arbitral award from the

Constitutional Court. Therefore, if the Constitutional Court does not declare soon or the State urgently does not amend the Water Act and return HEP assets, it will turn out that in fact the state does not sell energy infrastructure by the initial public offering of shares, but the concessionary right, with the possibility that the new owner would ask for a huge compensation for expropriated property! This could turn into a huge problem, and the government of SDP-HNS was aware of this, which is why it gave up on the IPO. In addition, to sell HEP which owns HOPS and its infrastructure at high voltage is a pure suicide. When the Croatian Telecom was sold to Deutsche Telecom all telecommunications infrastructure was sold as well, which is why we still have headache, because if this had not been done valuable telecommunications highways would remain in the ownership of the state, and would bring great profit. Now the politics is already preparing to sell energy routes, because if HOPS is separated from HEP what is left? Hydropower plants are not state-owned, with the exception of TPP Plomin, thermal power plants worth nothing on paper, as well as five distribution companies and six CHP that HEP Supervisory Board has not written off yet. If the high voltage infrastructure is separated (and it should be) we should ask ourselves whether such HEP is worth more than a billion euros?!

And what is the purpose of this entire potentially very damaging plan? No one has explained so far! No one has provided a convincing argument what INA in Croatian hands means for Croatia, which does not have enough money to invest in the devastated company and why there is already a hint about finding a new strategic partner. If the new strategic partner is inevitable, and it probably is, what are the chances that it will do exactly the opposite of what MOL wanted? Why don't we directly involve "the foreigner on a white horse", but we risk HEP in order to sell INA? A lot of questions and no answers.