

Romania: Merger with EC Oltenia will reduce Hidroelectrica's performance

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Private investment fund Fondul Proprietatea, a minority shareholder in Romanian electricity producer Hidroelectrica, said that proposed merger of the company with coal-based electricity producer Energy Complex (EC) Oltenia would affect the company's performance, thus making its initial public offering (IPO) practically impossible.

FP claims that the legality of such a proposal is highly questionable. A business combination of this nature would present concerns regarding state aid and would also be anti-competitive in nature. Second, simply transferring the profits of Hidroelectrica to EC Oltenia does not represent a solution to redress the latter. EC Oltenia finds itself in an unfortunate situation, being unable to pay for the CO2 certificates, and what it needs is a thorough restructuring, which should begin rather sooner than later. Otherwise its future will be severely jeopardized.

From an economic perspective, it does not make sense to merge the two companies, as they are situated on completely different levels of profitability and efficiency. Therefore, a merger could only bring down Hidroelectrica's performance, effectively nullifying any chances for its listing on the stock exchange. No rational shareholder would ever endorse such value destruction. Furthermore, the contribution of Hidroelectrica to the state budget through corporate income tax and dividends would be greatly reduced, if not wiped out entirely, thus leaving an even bigger hole in the budget than is currently the case.

Earlier this week, State Secretary at the Ministry of Energy Doru Visan said that the Government is considering the merger of lignite-powered plants of EC Oltenia and the hard coal plants of EC Hunedoara with hydro-based electricity producer Hidroelectrica, in case the European Commission does not approve the state aid envisaged for EC Oltenia. Upon the merger, the resulted entity would supply some 50 % of the country's electricity.