

Uniper to hit jittery market and E.ON's balance sheet - Reuters News

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- Uniper shares to start trading Sept. 12
- About a quarter of E.ON shares held by index trackers
- JP Morgan, Morgan Stanley, Citigroup to handle flowback

By Christoph Steitz

FRANKFURT, Sept 8 (Reuters) - When Germany's top utility E.ON [EONGn.DE](#) lists its power generation and energy trading business Uniper next Monday, investors known as index trackers with about a quarter of the shares will sell, that much is clear.

What is less clear is whether others will be lining up to buy Uniper if the price falls as expected, or if the stock will languish and force E.ON to take an even bigger balance sheet hit when it writes down the value of the business.

The uncertainty hanging over the listing of 53.35 percent of Uniper is worrying E.ON management and other investors who get the stock automatically under the terms of the spin-off, which is part of a strategic overhaul by the German utility.

"We will see jittery investors on the first day that will seek to sell Uniper, that's quite clear," E.ON Chief Executive Johannes Teyssen said last weekend. "That reaction will be significant."

Teyssen will be hoping there are enough existing or new investors prepared to bet Uniper's assets, which include stakes in gas pipelines and profitable hydroelectric plants as well as conventional coal and gas plants, can turn a steady profit.

"We would advise existing E.ON investors to hold on to Uniper stock for now and not sell into the expected volatility," Bernstein senior analyst Deepa Venkateswaran said.

"The market is beginning to understand that Uniper is not just about struggling power plants," she said.

NERVOUS

The investors who will be selling Uniper are known as index trackers who buy shares in companies that make up stock market indexes such as Germany's DAX

[.GDAXI](#), which includes E.ON, so their holdings replicate movements in the overall index.

As E.ON shareholders, they automatically get Uniper shares, but the stock will only be listed on the DAX for a day before being relegated to an index for firms with lower market values.

So anyone tracking the DAX, or other stock market indexes including E.ON, will be looking to sell their Uniper shares, of which they will get one for every 10 E.ON shares they own.

"Management is really nervous about this," a person familiar with the matter told Reuters. "Will you find enough people willing to buy the large amount of stock to be sold? Now that's the big uncertainty here."

To help cushion the expected sell off, E.ON has hired banks JP Morgan, Morgan Stanley and Citigroup to manage the so-called flowback, which effectively means they have to try to find buyers for the shares set to hit the market.

Thomas Deser, senior fund manager at Union Investment and holder of about 62 million euros (\$70 million) of E.ON stock, is an existing shareholder who will decide whether to hang on to Uniper based on the extent of any sell off.

"The market can also over punish shares, which can create an attractive buy opportunity," Deser said.

Historically, spin-offs have outperformed the broader market in the first two years following their listing, according to a study by Capitel Vermoegens-Management and Source For Alpha that looked at 316 examples since 1990.

But there is no real consensus among investors and analysts about the value of Uniper, and hence at what price the shares would become an attractive investment.

WHOLESALE PRICES

E.ON is spinning-off the assets contained in Uniper in response to years of falling wholesale prices and losses in conventional power generation, which have forced it to book a series of writedowns over recent years.

It hopes a long-term need for baseload power such as coal- and gas-fired plants, even as renewable sources account for a greater proportion of overall capacity, will attract investors betting on a recovery of wholesale power prices. ([Full Story](#)) ([Full Story](#))

It's a scenario that most analysts consider uncertain, and that uncertainty is reflected in the wide range of values analysts have pencilled in for Uniper.

Estimates for the share price range from 5.5 euros to 13 euros, implying valuations for Uniper ranging from 2 billion euros to 5 billion - well below the 12 billion valuation on E.ON's own books.

For example, Kepler Cheuvreux reckons Uniper shares are worth 12 euros each. "Below that price an investment could be attractive," Ingo Becker, its head of utilities, said.

Investment bank Bryan, Garnier & Co expects a price of 9.5 euros, while Bernstein analysts think 5.5 euros would be a hard floor for the shares.

While E.ON is expected to write down the value of Uniper on its books, the lower the shares go the bigger the hit will be to a balance sheet already battered by more than 18 billion euros in writedowns taken since 2014.

These concerns are reflected in a raft of bearish sell-side reports that all point to the Uniper listing as a risk for E.ON. ([Full Story](#)) ([Full Story](#)) ([Full Story](#))

For the utility, the fallout from further large writedowns is that it would have fewer resources to invest in its remaining network, energy retailing and renewables businesses. A lower value for Uniper would also reduce the value of the remaining stake E.ON plans to sell over time. ([Full Story](#))

"Uniper's good start is at the expense of the parent," UBS analysts said. "E.ON now must raise capital and pay a lower dividend going forward."

(Additional reporting by Alexander Huebner, Vera Eckert and Anneli Palmen; editing by David Clarke)

((christoph.steitz@thomsonreuters.com ; +49 69 7565 1269; Reuters Messaging: christoph.steitz.thomsonreuters.com@reuters.net))

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