

MASTER THESIS

UTILITIES' STRATEGIES FOR SURVIVAL IN THE GERMAN ENERGY TRANSITION

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Submitted by

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Introduction

In this paper, we consider the reasons for major divestitures undertaken by the major German energy providers, E.ON, RWE and Vattenfall. A divestiture is the partial or full disposal of a business unit through sale, exchange, closure or bankruptcy. The purpose of our analysis is to consider potential strategic motivation for the divestiture activity throughout our observation period, 2005-2017, specifically focusing on the large-scale divestitures of Uniper, Innogy and Vattenfall's lignite portfolio. We seek to better understand the financial motivations of such divestitures, and how the energy providers differed in their approach to increasingly difficult circumstances. The energy sector within Germany is undergoing a period of transition, whereby regulatory, financial and environmental changes are placing pressure the major four utility providers. Many renewable energy technologies (RET's) are outperforming fossil fuel technologies as investments for new power generation in a Feed-in-Tariff environment(IEA, 2008). This in combination with the increased participation of renewable investment from citizen groups and investment trusts(Trend:research, 2018) has threatened the survival of the big four energy providers. They have resorted at least in part to divestitures and restructurings to mitigate these effects. The four large energy generators and distributors in Germany E.ON, Vattenfall, EnbW and RWE have gone from 73% of total power generation in 2010 to 69% in 2016 and the number of suppliers of electricity registered with the Bundesnetzagentur increased from 88 in 2010 to 332 in 2016(Bundesnetzagentur, 2017). Thus far, the big four have not invested as heavily in renewable energies as consumer and investment groups and have not capitalized on the increase in market share this entailed, going from 4.7% in 1998 to 31.7% in 2016 of gross electricity consumption in Germany (Bundesministerium für Energie und Wirtschaft). The energy giants have reacted by cutting jobs, cost-cutting programs as well as major divestitures. In addition, the incumbents were forced to dismantle many of their nuclear power plants due the "nuclear phase-out", an initiative brought on in response to the nuclear accident of Fukushima. Thus far, EON and RWE have reorganized greatly, both separating their renewables and customer solutions businesses (E.ON and Innogy) from their conventional power generation businesses (RWE and Uniper). Through this recent restructuring, they have solidified themselves as major players but with different roles in the energy market. Vattenfall recently divested most of its lignite operations in East Germany. The question we hope to answer is why the firms have done this. In order to divest non-performing segments, in order to restructure themselves in the market, or in order to support the large debt balances that were accruing on their balance sheets. We seek to assess which public announcement created shareholder value and what they can tell us about the motivation for these divestitures.