

PORTUGUESE OPPORTUNITIES

IS PORTUGUESE ENERGY CONGLOMERATE, EDP, IN PLAY?

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EDP, S.A. (EDP) is Portugal's leading energy provider. Originally a state monopoly, EDP is now listed on the Euronext Lisbon stock exchange under ticker "EDP".

According to Portuguese media, the Spanish utility company Naturgy, backed by its major shareholder CriteriaCaixa, is exploring the possibility of acquiring EDP and had been in contact with EDP's key stakeholders to discuss a potential acquisition or merger.

By way of background, EDP, originally Electricidade de Portugal, E.P., was established by the Portuguese government in 1976 bringing together 14 nationalised energy companies. In 1991, EDP's legal status changed from a public company to a public limited liability company with public capital fully owned by the Republic of Portugal. EDP underwent a series of privatisation phases, starting in 1997 and ending in 2012, with the sale of a 21.35% stake to China Three Gorges Corporation (CTG). The remaining 79% are owned by private investors.

Since the nineties, EDP went through a major transformation as Portugal opened up the electricity market to private investors, which led to the separation of EDP's network distribution activities, the breakup of REN, the national power grid operator, and the split of the distribution and generation businesses within EDP.

In March 2007, EDP acquired the U.S. wind power company, Horizon Wind Energy, for \$3 billion, the largest renewable energy deal at the time, making EDP the fourth-largest wind power producer globally. Presently, over 85% of EDP's energy is generated from renewable sources. EDP has committed to achieving net zero by 2040.

The EDP Group includes EDP Comercial, SU Eletricidade, EDP Produção, EDP Renováveis and E-REDES, all incorporated in Portugal, and EDP Renováveis, incorporated in Spain, EDP's holding company for its renewables business with EDP holding a 71,3% stake, which is listed on Euronext Lisbon under the ticker "EDPR".

In 2023, EDP reported a net consolidated profit of €952 million and an EBITDA of €5.020 million, while its net debt amounted to €15.3 billion, resulting mainly from investments in renewables and electricity grids, as well as the acquisition of EDP Brazil. EDP has made significant investments in the energy transition, allocating 96% of its total 2023 investments to renewable energy projects and the development of electricity networks in Portugal, Spain, and Brazil. The company's strategic plan for 2023-2026 emphasises its commitment to energy transition, pledging to invest €21 billion in renewable energies and €4 billion in electricity networks, with an annual gross investment of approximately €6.2 billion.

According to the press, EDP is experiencing a period of instability, with falling stock prices and significant financial losses, with EDPR closing 2024 with substantial losses due to failed operations in Colombia.

There is speculation about a possible takeover bid for EDP or a move to delist EDP Renováveis to protect it during turbulent times. The interest from Naturgy is not new, as similar discussions have occurred in the past.

However, an acquisition of EDP would face several obstacles, starting with the need for a qualified majority vote to change EDP's statutes that currently cap voting rights at 25%. This cap blocked CTG's takeover attempt in 2018. A two thirds majority is needed to remove the cap allowing a single shareholder to take control. In addition, the sale of strategic assets, which includes EDP as an utility provider in Portugal, requires government approval. Although the Portuguese government has not exercised its power to block transactions in the past, it is not assured that it would not do so if EDP's Portuguese leadership is not maintained in Portugal, as EDP is one of the few Portuguese companies with an international dimension being run from Portugal. CTG's ownership may deter investors, as the sentiment for Europe to decouple from China is not as strong today as it was before the recent political changes in the U.S. and CTG may chose to remain in EDP, whatever the circumstances, as its position in EDP provides China a foothold on an asset with strategic importance.

We believe it would be unlikely for Naturgy to be successful in its attempt, but the time may be ripe for some form of more unconventional thinking to prompt significant changes to EDP's shareholder base and balance of power.

KEY INFORMATION

Main Shareholders

- **China Three Gorges Corporation**, a Chinese state-owned power company, is EDP's largest shareholder with 21.08%.
- **Oppidum Capital, S.L.**, a company primarily operating in the Electric Power, Oil, and Gas sectors, owns 6.82% of EDP's shares.
- **BlackRock, Inc.**, an American multinational investment company, holds 6.13% of EDP's shares.
- **The Canada Pension Plan Investment Board**, a Canadian Crown corporation established under the 1997 Canada Pension Plan Investment Board Act to manage and invest funds contributed to the Canada Pension Plan, which holds 5.47% of EDP's shares.
- **Norges Bank**, the central bank of Norway, responsible for managing the Government Pension Fund of Norway, the world's largest sovereign wealth fund, along with its own foreign exchange reserves, which holds 5.62% of EDP's shares.

Main Subsidiaries

EDP's subsidiaries include:

- EDP Comercial – Comercialização de Energia, S.A., which is responsible for supplying electricity and natural gas on the free market.
- SU Eletricidade, S.A. on the regulated market.

- EDP Produção - Bioelétrica, S.A., which is responsible for hydroelectric and thermal generation.
- EDP Renováveis, S.A., one of the largest global players in renewable energy, including wind and solar power.
- E-REDES – Distribuição de Eletricidade, S.A., which is responsible for the electricity distribution network in mainland Portugal.

Key Financial Data

- Highest share price (2024): €4.609
- Lowest share price (2024): €3.053
- EBITDA: €5.020 million
- Net debt: €15.3 billion
- Operating profit: €952 million
- Capex: €5.850 million

Investments

EDP has a €25 billion investment plan until 2026: €21 billion focused on renewable energies and €4 billion on electrical grids, representing an annual gross investment of approximately €6.2 billion, 30% more compared to the previous business plan.

Key projects in Portugal include:

- **BigBATT Project:** EDP is developing one of Europe's largest battery storage systems, with a capacity of 150 MW, connected to the Ribatejo combined cycle power plant. This project has received funding from the European Commission's Innovation Fund.
- **Sobreira Photovoltaic Plant (€115 million):** The project aims to expand EDP's renewable energy portfolio by installing Europe's largest solar power plant in the Alentejo region. With an installed capacity of 242 MWp and an average annual production of 418 GWh, the plant will supply electricity to around 138,000 households per year.

EDP's international projects include:

- **Offshore Wind Projects:** EDP plans to invest €1.5 billion in developing offshore wind projects by 2025, reinforcing its commitment to accelerating the energy transition through offshore wind.
- **Hydrogen Production in Aboño:** EDP is advancing the conversion of the Aboño thermal power plant in Asturias, Spain, into a green hydrogen production facility. The project, named Asturias H2 Valley, aims to have an electrolysis capacity of 150 MW and is part of a broader initiative to reach 1,000 MW of electrolysis capacity in Asturias by 2030.

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