

National Grid to Acquire Niagara Mohawk for \$8.9 Bln

London, Sept. 5 (Bloomberg) -- National Grid Group Plc, owner of the power-transmission network in England and Wales, agreed to buy Niagara Mohawk Holdings Inc. for \$8.9 billion in cash, stock and assumed debt, more than doubling its U.S. customers.

National Grid will pay \$19 a share for the New York utility owner, 47 percent more than Thursday's closing price, in the second-biggest purchase of a U.S. utility by a U.K. company. It will pay about \$1 billion in cash, sell \$2 billion in stock and assume \$5.9 billion in debt.

U.K. power producers, suffering from government-imposed price cuts at home, have spent about \$25 billion on U.S. purchases in the last two years. National Grid, which in 1998 was one of the first foreigners to enter the U.S., will make half its operating profit in the region after buying Niagara.

"In the long term it looks like a good deal," said Tony Zucker, who helps manage about 500 million euros (\$446 million) at Thames River Capital Ltd. "They've got a reasonably good record at expanding in the U.S."

National Grid and rivals like ScottishPower Plc are seeking higher margins in the U.S. National Grid's U.S. businesses have a pretax return on sales of 10.5 percent compared with about 7 percent in the U.K., Chief Executive David Jones said in an interview.

Shares Drop

National Grid shares dropped as much as 22 pence, or 3.9 percent, to 538p (\$7.8), on concern the sale of new stock will dilute earnings per share. Niagara Mohawk's shares rose 7.6 percent Friday on speculation of the takeover. U.S. markets were closed for the Labor Day holiday yesterday.

The total purchase price values Niagara at three times its book value, in line with the average paid for other U.S. electric utilities, Bloomberg Analytics show. Niagara's shareholders will receive a mixture of cash and shares in New National Grid, a holding company formed to acquire Niagara Mohawk.

The purchase will boost National Grid's electric and gas customers in the northeastern U.S. to about 3.2 million and give it the second-largest distribution network in the region. The U.K. utility, which also supplies energy in Massachusetts, Rhode Island and New Hampshire, expects to save \$90 million a year by integrating Niagara Mohawk with its other U.S. subsidiaries.

Niagara Mohawk will become part of National Grid's National Grid USA subsidiary, along with New England Electric System, after the acquisition, which it expects to complete by late 2001.

Niagara made earnings before interest, tax and depreciation of \$1.3 billion in 1999 on sales of \$4.1 billion.

U.S. Acquisitions

National Grid said it planned to spend more than \$3 billion on a U.S. acquisition after completing its \$3.2 billion purchase of New England Electric System of Westborough, Massachusetts, in March. Niagara Mohawk, which has lost money in four out of the past six quarters, is too small to remain competitive in the deregulating U.S. power market, analysts said.

Niagara Mohawk almost declared bankruptcy three years ago because of state-mandated contracts that forced it to buy electricity from independent power plants at above-market rates. New York regulators allowed the company to refinance or buy out \$6 billion of these contracts in 1998.

Other U.K. utilities, such as ScottishPower and PowerGen Plc, have sought expansion in the U.S. to offset tariff cuts. ScottishPower's \$10.7 billion acquisition of Pacificorp in 1998 is the biggest U.S. acquisition so far by a U.K. utility. PowerGen agreed to buy LG&E Energy for \$5.4 billion in February.

Taking on \$5.9 billion in Niagara's debt may put National Grid's credit ratings under pressure, analysts said. Standard & Poor's reduced its rating on National Grid's debt to "A+" from "AA" after the company completed its \$3.2 billion purchase of New England Electric Systems and associate companies.

Investors currently demand a yield premium of 101 basis points to buy National Grid's 8 percent bonds maturing in 2006. The gap widened by 5 basis points today.

Overhead Lines

National Grid owns and operates the overhead lines and underground cables that transmit electricity across England and Wales. It was formed in 1990 as part of the U.K. government's plans to sell the electricity industry to the public.

Niagara Mohawk is selling its power plants to concentrate on the business of delivering electricity over its 24,000-square-mile power network, the largest in New York state.

National Grid is being advised by N.M. Rothschild & Sons and Donaldson, Lufkin & Jenrette is advising Niagara Mohawk.

--Catarina Aleixo in the London newsroom