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BLOCKING THE PURCHASE OF PNM

## Veto to Iberdrola in the US: the danger of a market that 'discovers' the Villarejo case

The Spanish utility now faces the threat that its reputational problems will become a drag on its growth strategy abroad

By

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The United States has vetoed the purchase of PNM by [Iberdrola](#) (through its subsidiary Avangrid). The opposition of regulators in the state of New Mexico has ruined a movement valued at around 8,000 million dollars – including debt – that, with its strengths and other weaker, had been received as [a key step forward for the international growth strategy of the](#) company led by Ignacio Sánchez Galán. "This is negative for the history of the stock, given that this particular operation **had a very interesting strategic logic**, since it implied growing in the United States," observe analysts at Bestinver Securities.

Although the threat that the operation would not bear fruit [had become clear in recent weeks](#) – already leaving its mark on Iberdrola's share price – the confirmation of the derailment of the purchase of PNM **costs on Thursday morning a cut of more than 1%** to the shares of the Spanish electricity company, which contrasts with the slight increases registered by its rival Endesa.

However, among the experts, a constructive vision of this failure prevails. On the one hand, the limited size of PNM in Iberdrola's total business is highlighted and it is valued that the fiasco of the operation limits the pressure on a very stretched balance sheet. And, on the other, it is considered that it **keeps open many ways to continue growing abroad**. In fact, firms like Alantra do not even rule out the option that the group ends up finding a way to unlock the purchase of PNM. "Our base case continues to be Iberdrola

improving the conditions and the agreement finally approved by New Mexico," the firm said in a note published on Thursday.

Some firms still hope he will find a way to save the purchase of PNM

But the truth is that, regardless of how this specific case is interpreted, the message thrown by the New Mexico regulator extends **a blanket of doubts about Iberdrola's prospects** that should not be overlooked. Because the striking thing is that, to oppose the operation, the examiners have not fixed the risk in matters of competition, market power or similar, but focuses on the particular failures of the buyer, highlighting the deficiencies of Avangrid's service and the legal controversies surrounding the Spanish group for its involvement in the [Villarejo case](#).

For a long time, Iberdrola's business has given the feeling of being able to move forward without restrictions, indifferent to the judicial process that splashes its president, [Ignacio Sánchez Galán](#). But the PNM issue threatens to represent a before and after that forces us to rethink the risks facing Iberdrola. "Reputational and governance problems seem to **be beginning to have direct implications for the group's strategy and growth**", they observe in Bankinter, while in Bestinver they also refer to the reputational risks of this matter, showing that what has long remained on the sidelines threatens to become a more or less significant burden for the company's business.

"At first it seemed that the Galán issue was not going to have a significant impact, but **of course the refusal to buy PNM gives food for thought on the matter**," admits an analyst in the electricity sector.

It can be argued that all countries are not as strict as the United States in the evaluation of reputational issues – one only has to see how in Spain any type of censorship of the company and those responsible for their alleged responsibilities have been avoided to date. And, even more, that of the 24 organizations that had to pronounce on the operation, only one has **been the one that has put obstacles to the purchase of PNM by Avangrid**. It could even be considered that the argument of the Villarejo case could be more of a pretext to knock down an operation that did not interest other issues.

Iberdrola has difficulty separating itself from a Sánchez Galán directly splashed by the case

But this possibility does not offer an excessively benevolent scenario for Iberdrola, since it could be understood that in an environment of strong competition on a global scale, its **blemishes in the area of reputation or governance** can offer a sufficient justification that both regulators and rivals can wield to endanger its most controversial or contented projects.

In this situation, before Iberdrola the weakness represented by the **absence of relevant counterweights to the power accumulated over the years by its chairman**, Ignacio Sánchez Galán, a figure fully punctuated by the reputational crisis that surrounds the company, and from which the electricity group has very difficult to dissociate, as it has achieved, without going any further BBVA, which, affected by very similar issues, has managed to draw a certain barrier between its former president, Francisco González, and the current managers of the entity.

It is difficult to say whether what happened around PNM will end up in a one-off event or is **a harbinger of further difficulties for the group's plans**. But Iberdrola's shareholders would do well to take note of the warning: the market has finally discovered the Villarejo case, and nothing good can be expected from it.