The Economist
28-NOV-2009
Diffusione: n.d. Lettori: n.d. Direttore: John Micklethwait da pag. 72

Eni defies its critics

Another Roman empire

ROME

Italy's energy giant grows when some want it to shrink

ENI, a state-controlled oil-and-gas group established in 1953 to help Italy escape dependence on foreign firms, is growing. On November 23rd it announced the purchase of a share in several Ugandan oilfields from Heritage Oil, a small exploration firm. In October it announced the discovery of a big offshore gasfield in Venezuela and the award of a licence to develop a giant oilfield in Iraq. It is already developing one of the world's biggest recent discoveries, Kashagan, beneath the Caspian Sea. By 2012 Eni expects to produce the equivalent of more than 2.1m barrels a day (b/d) of oil, up from 1.8m b/d last year.

There are signs of strain. The development of Kashagan has suffered from cost overruns, delays and a change in terms forced upon it by the government of Kazakhstan. Eni's debts amount to over 40% of its equity, a higher level than most of its peers. It cut its dividend earlier this year. Profits were down by 59% in the first nine months of the year compared with the same period last year, to €4 billion ($6 billion), on sales that were down only 27% to €61 billion. Lower energy prices and falling demand have naturally hit Eni's profits from production, refining, marketing and petrochemicals.

One bit of the firm that has not suffered is Eni's huge gas and power division, which is highly regulated. Its main asset is half of Snam Rete Gas (SRG), which is Italy's largest distributor of gas, in addition to owning the country's biggest gas-storage facilities and the pipelines that transport gas into and around Italy. Last year, despite the buoyant oil price, the gas and power division brought in more revenue than exploration and production.

Paolo Scaroni, Eni's boss, sees the firm's peculiar mix of swashbuckling exploration and plodding distribution as a virtue. "SRG has made significant returns for shareholders and keeping it within the group helps us upstream," he says.

But others, including regulators and Knight Vinke, an activist asset manager which holds about 1% of Eni's stock, are not so sure. Glen Suarez, managing director of Knight Vinke, says that utilities and energy companies are very different businesses: "Investors seek steady dividends from utilities, which requires stable profits. They accept the volatility of energy companies in exchange for share-price growth." He argues that melding the two at Eni has saddled the oil division with heavy debts more befitting a utility and befuddled investors. Splitting the firm into three separate entities—in oil, gas supply and pipelines—would increase its overall value by €50 billion, he says.

That proposal would sit well with Italy's energy regulator, which noted in September that Eni controls 67% of the gas Italians consume and most of the infrastructure for supply. It recommended the separation of ownership of SRG's storage and transport units. Regulators in Brussels, meanwhile, are investigating whether Eni has abused its dominant position.

Mr Scaroni says piously, "We do not have a monopoly of ideas and our contacts with Knight Vinke have been useful." But he is unlikely to have to do anything he does not want to. The government owns 30% of Eni, and seems happy with its strategy. Of Eni's current board of nine, six are government appointees, described as independent; three of them are directors of companies in the business empire of Silvio Berlusconi, Italy's prime minister, and a fourth is a politician of the Northern League, a partner in Italy's governing coalition. Mr Scaroni, in turn, is a longstanding shareholder of Mr Berlusconi's AC Milan football club. ■