

# FINANCIAL TIMES

## THE LEX COLUMN

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### COMMENT

## Eni thing considered

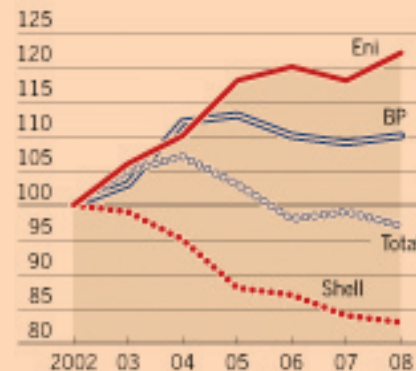
Eni is a strange beast, as befits a company with a six-legged dog for a logo. Half of the Italian energy company is a fast-growing oil and gas exploration outfit; the other a classic dividend-paying utility. This structure is anomalous. Elsewhere in Europe, companies such as Total, Shell and Repsol pump oil and gas. Downstream utilities such as Gaz de France, Eon or Enagas distribute it. There is little reason for Italy to be different. Eni's recent dividend cut also shows the model has reached its limits. Eni should be broken up.

Huge amounts of value would be released. Analysts' sum-of-the-parts calculations routinely value Eni at one and a half times its current €65bn market capitalisation. Yet even more could lie inside. Since the break-up of British Gas, shares in National Grid, BG Group and Centrica have risen tenfold.

But breaking up Eni is more than a corporate finance daydream, as Knight Vinke Asset Management points out. It would address public interest issues as well. Top of the list is the indebted Italian state, which owns 30 per cent of Eni and needs to wring every penny it can from its assets. Then there is energy security.

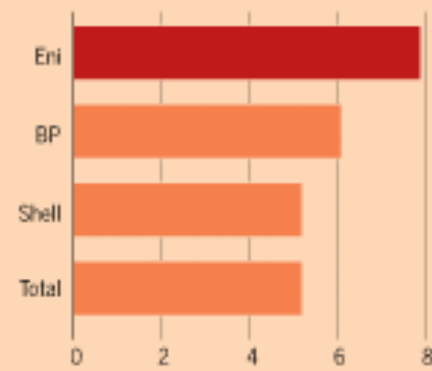
### The two sides of Eni

Production index  
(barrels of oil equivalent)



Sources: ENI; BP; FT research; CSFB

Dividend yield, 2008 (%)



It is often said European companies need scale to negotiate effectively with bullies such as Gazprom. But if split Eni was worth more than twice what Eni is now, that problem would be solved. Finally there is regulation. Brussels increasingly wants to see energy supply and transport separated from distribution. Better for Eni to get ahead of that curve than have solutions forced on it.

Breaking up a totemic national champion would doubtless create waves.

Yet it could proceed in tiny steps. Indeed, Paolo Scaroni, chief executive, has already taken the first. He recently sold Eni's gas storage and distribution businesses to Snam Rete Gas, the regulated utility in which Eni has a 51 per cent stake. Moving more assets across would complete the functional rejig. Deconsolidating the two sides' accounts would then split their finances. A full spin-off, with Rome's blessing, could come last.