

Activist urges Eon to spin off power distribution division

An activist investor has renewed calls for German utility Eon to spin off its power distribution business, just months after the company floated its fossil fuel assets in one of Germany's biggest corporate restructurings.

Eric Knight, chief executive of Knight Vinke, said Eon's regional electricity and natural gas grids would be highly attractive if hived off into a standalone company.

"There is huge institutional [investor] demand for a pure network business, and the value of that would be substantially greater than that of [Eon] as a whole," he added. "For investors looking for [dividend] yield, it's exactly the kind of asset they'd want to own."

Knight Vinke, which owns about 1 per cent of Eon's shares, first demanded such a spin-off in a letter to its investors ahead of Eon's annual shareholder meeting last June, but this is the first time Mr Knight has spoken publicly about his proposal. He said he had first approached Eon's management and supervisory board with the idea last year but it gained little traction. He is now "looking forward" to raising it with them again in the coming months.

Eon has already split into two, pooling its coal and gas-fired power stations, energy trading and gas production into a separate company, called Uniper, which debuted on the Frankfurt stock exchange in September. Eon retained the cleaner parts of the business: renewables, energy distribution — which comprises more than 1m km of networks in Europe — and retail.

The restructuring was a response to Germany's green revolution, which has resulted in solar and wind power squeezing energy generated from coal and gas out of the market and depressing wholesale electricity prices, hurting the profitability of conventional power stations.

Eon has also been hit by a big bill for Germany's nuclear clean-up. In October, the government ordered the country's nuclear power plant operators to pay €23.6bn into a new state-run fund to cover the final storage of radioactive waste — about €6bn more than they had provisioned for. Eon said it would have to raise capital to cover a €2bn shortfall. Its share price has fallen about 16 per cent since the start of 2016.

Eon, which sees the power grids as critical to its new, more streamlined business, has given Knight Vinke's proposal a cool reception. A spokesman said almost 97 per cent of votes cast at the annual meeting in June backed the company's strategy to focus on all three of its business areas, and Eon was now implementing it. "A disposal of the networks would conflict with that," he added. However, he said Eon could sell some of its renewable assets "if value can be generated in that way".