

Scaroni defends debt
Eni chief says cash flow more than covers borrowings. Page 18

Scaroni defends Eni group's rising debt load

OPINION
By Vincent Boland in Milan

Paolo Scaroni, chief executive of Eni, has defended the Italian oil group's overall debt level after a rise of around 25 per cent in net borrowings in 2009.

The jump, to just over €23bn (\$31.3bn), was due in part to higher capital expenditure and in part represents Eni's exposure to the debt of Snam Rete Gas, Italy's domestic gas distribution network, and Saipem, an oil services company, in which it has stakes of 55 per cent and 43 per cent, respectively.

The rising debt pushed Eni's leverage – the ratio of net borrowings to total equity – to 46 per cent at the end of 2009, compared with 38 per cent a year earlier. Announcing fourth-quarter results on Friday, Eni said it wanted to maintain a level of leverage "which will adequately support a strong credit rating". It is rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service.

Mr Scaroni said the debt level was transparent and was comfortably covered by Eni's strong cash flow, and did not represent a problem for the company.

"Our cash generation is still a very healthy one. Our debt level is not any kind of black hole, and it [the composition of the debt] is very identifiable," he said in an interview with the Financial Times.

The rise in the debt level is sure to fuel the argument about whether Eni should separate its oil and gas

activities into two companies. Such a move has been proposed by Knight Vinke, a New York asset management group that owns a stake in Eni. It argues that a break-up of Eni would release up to €50bn of additional shareholder equity.

Eric Knight, chief executive of Knight Vinke, told the Financial Times that the rise in Eni's leverage "reinforces our view that the group is financially constrained by its inefficient corporate structure".

Eni has so far resisted the break-up argument. Mr Scaroni said he "does not have a dogmatic position" on keeping the stake in Snam in perpetuity.

But he said it would require the approval of both the government and the Italian parliament to divest its stake, and that no such approval was likely in the immediate future.

"Perhaps in 12 to 18 months from now, but I'm not in a hurry. I'm very relaxed about it," he said.

Mr Scaroni is expected to meet Mr Knight again next month on an investor roadshow after Eni unveils its 2010-13 four-year targets and strategic plan on March 12.

Mr Scaroni also criticised the government of Uganda for its handling of a dispute that resulted in Eni's withdrawal from the country despite investing heavily in oil exploration and infrastructure there.

"We didn't like very much the contradictory statements of the government and, since they didn't clarify them, we pulled out," he said.

