Eni SpA (E)

Updated May 21st, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	6.9%	**Quality Percentile:**	N/A
Fair Value Price:	$33	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Total Return Percentile:**	N/A
Dividend Yield:	5.1%	**5 Year Price Target**	$43	**Valuation Percentile:**	N/A

Overview & Current Events

Eni is a major oil and gas producer, which is based in Italy and has exploration activity in more than 40 countries. It operates in three segments: exploration & production, gas & power and refining & marketing. However, as its upstream segment generates 88% of its total operating profit, Eni can be considered an almost pure upstream stock. This is a major differentiation from the well-known oil majors, which are much more integrated.

Due to its almost pure upstream character, Eni suffered much more than the other oil majors in the downturn of the oil market, which began four years ago and lasted until recently. The company incurred the heaviest losses in its peer group in 2015 and a more tolerable loss in 2016. However, thanks to the drastic investment cuts of all the oil producers and the production cuts of OPEC and Russia, the oil market has become more balanced lately. That's why the price of oil has enjoyed a strong rally since last summer and is now trading at a 3.5-year high. Moreover, OPEC and Russia seem determined to continue to support the oil price, particularly amid the upcoming IPO of Saudi Aramco next year. Therefore, the worse is behind the company. In addition, thanks to its upstream nature, Eni is highly leveraged to the oil price and thus it is properly positioned to benefit from its rally.

The bright prospects of the company were prominent in its Q1 earnings report. Thanks to the 24% rally of Brent since Q1-2017, the upstream segment posted a 47% increase in its operating profit while the total earnings jumped 31% (in Euros). Eni grew its production by 4% in Q1. Even better, it raised its guidance for its production growth from 3% to 4% thanks to the ramp-up of a series of major fields, which started up last year. Moreover, the management expects to grow the output by 3.5% per year until 2021 and by 3.0% per year during 2021-2025.

Finally, Eni has about 7.0 B barrels of oil equivalent in proved reserves, which are sufficient for almost 11 years of production given the current production rate of the company. The duration of its reserves is lower than the approximate 15-year duration of the reserves of its peers. In addition, Eni has a breakeven point of $57 per barrel and aims to reduce it to $55 this year. This is much higher than the breakeven point of most oil majors, which have cut their expenses and reshaped their portfolios more drastically than Eni. To provide a perspective, BP has already lower its breakeven point to $50 and aims to reduce it to $35-$40 by 2021.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$7.27	$3.45	$4.59	$5.29	$2.98	$4.14	$1.27	-$4.90	-$0.65	$2.12	***$2.66***	***$3.40***
DPS	$3.63	$2.37	$1.87	$2.78	$2.40	$2.89	$2.61	$2.13	$1.79	$1.91	***$1.99***	***$2.40***

Thanks to the rally of the oil price and the 4.0% output growth of Eni this year, the analysts expect its EPS to rise from $2.12 to $2.66 this year. Moreover, Eni expects to grow its output by 3.5% per year until 2021 and by 3.0% per year in the following four years. Furthermore, thanks to the favorable underlying conditions in the oil market, the price of oil is likely to continue to rise in the upcoming years, albeit at a slower pace. Therefore, it is reasonable to expect Eni to grow its EPS by at least 5.0% per year over the next five years. In such a case, the company will grow its EPS from $2.66 this year to $3.40 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	6.6	11.8	6.7	8.0	13.7	10.7	27.0	N/A	N/A	15.8	***14.7***	***12.5***
Avg. Yld.	7.6%	5.8%	6.1%	6.6%	5.9%	6.5%	7.6%	5.7%	5.4%	5.7%	***5.1%***	***5.6%***

Eni has rallied 50% during the last one and a half year. As a result, it is now trading at a P/E of 14.7, which is higher than its 10-year average P/E of 12.5. As the upcycle of its business unwinds in the upcoming years, it is only natural to expect its P/E to revert towards its average level. If this occurs within the next five years, the stock will incur a 3.2% annualized drag due to the contraction of its P/E ratio over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.2%	21.6%	14.2%	15.1%	12.8%	6.6%	9.6%	4.7%	3.4%	5.7%	***6.0%***	***10.0%***
Debt/A	58.4%	57.4%	57.7%	57.8%	55.5%	55.9%	56.3%	58.7%	57.4%	58.2%	***58.0%***	***58.0%***
Int. Cov.	128.9	33.9	36.5	24.4	22.3	20.8	11.5	4.0	17.7	6.1	***6.5***	***10.0***
Payout	49.9%	68.7%	40.7%	52.6%	80.5%	69.8%	206%	---	---	90.1%	***74.8%***	***70.6%***
Std. Dev.	40.1%	34.8%	28.1%	35.0%	20.9%	21.4%	22.6%	23.3%	26.2%	15.7%	***19.7%***	***21.0%***

During the downturn of the oil market between 2014 and 2017, the integrated oil majors, Exxon Mobil, Chevron, Royal Dutch Shell, Total and BP, saw their earnings plunge but none of them cut its dividend. On the contrary, Eni slashed its dividend by 29% in Euros, as it is much more leveraged to the oil price than its peers and thus suffered much more from the plunge of the oil price. Therefore, investors should keep in mind that Eni is probably the most sensitive stock to the fluctuations of the oil price in its peer group. As a result, its management has stated that its dividend will greatly depend on its earnings. Consequently, whenever the next downturn shows up, the dividend of Eni will not be as safe as the dividends of its peers, which can absorb a downturn without cutting their dividend for a considerable period.

Final Thoughts & Recommendation

Thanks to the rally of the oil price and its production growth, Eni has rallied 50% in the last one and a half year. Nevertheless, the stock can still offer a 6.9% average annual return over the next five years, thanks to 5.0% EPS growth and its 5.1% dividend, which will be partly offset by a 3.2% annualized P/E contraction. With that said, we prefer other energy stocks to Eni at current prices.

Total Return Breakdown by Year