Eni SpA (E)

Updated July 28th, 2018 by Ben Reynolds

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	8.9%	**Volatility Percentile:**	59.7%
Fair Value Price:	$36	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	77.9%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Valuation Percentile:**	51.8%
Dividend Yield:	5.1%	**5 Year Price Target**	$46	**Total Return Percentile:**	58.0%

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, its upstream segment is *by far* the company's largest. In its latest quarter, the exploration & production segment generated 93% of adjusted income. This is difference for Eni versus the other energy super majors; Eni's business is less diversified.

Eni posted excellent results on July 27th for the 2nd quarter of 2018. The company realized 62% adjusted earnings-per-share (EPS) growth (in Euros). Excellent results were driven by higher oil prices, which caused Eni's large exploration & production segment's adjusted profit to surge by 93% versus the same quarter a year ago. Eni also completed the sale of its 10% stake in the Zohr field (an offshore field near Egypt) to Mubadala (a United Arab Emirates investment company) for $934 million. These proceeds helped Eni to reduce its debt level below $12 billion – its lowest debt level in 11 years. Finally, Eni also reached an agreement to merge Norwegian company Point Resources AS into Eni's Eni Norge AS business to create a new business named Var Energy AS. Eni owns 69.6% of the new company, which helps strengthen its position in Norway.

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	***$2.85***	***$3.64***
DPS	$3.63	$2.37	$1.87	$2.78	$2.40	$2.89	$2.61	$2.13	$1.79	$1.91	***$1.94***	***$2.40***

Thanks to the drastic investment cuts of all the oil producers and the production cuts of OPEC and Russia, the price of oil has enjoyed a strong rally since last summer. Moreover, OPEC and Russia seem determined to continue to support the oil price, particularly amid the upcoming IPO of Saudi Aramco next year. Thanks to its upstream nature, Eni is highly leveraged to the oil price and thus it is properly positioned to benefit from its rally.

Thanks to strong performance in Eni's most recent quarter, we are raising our EPS estimate for 2018 from $2.66 to $2.85. 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. 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 $2.85 this year to $3.64 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	***13.3***	***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 is currently trading for a price-to-earnings ratio of 13.3 using expected 2018 EPS. The company's 10-year historical average price-to-earnings ratio is 12.5. We expect Eni to converge toward its historical average price-to-earnings ratio. If this occurs over the next 5 years, it will cause a 1.2% annualized drag on returns.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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%	***68.1%***	***65.9%***
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%***

Due to its almost pure upstream focus, Eni suffered more than its peers in the oil downturn that began four years ago. The company incurred the heaviest losses in its peer group in 2015 and a more tolerable loss in 2016. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. The dividend is expected to be €1.66 in 2018.

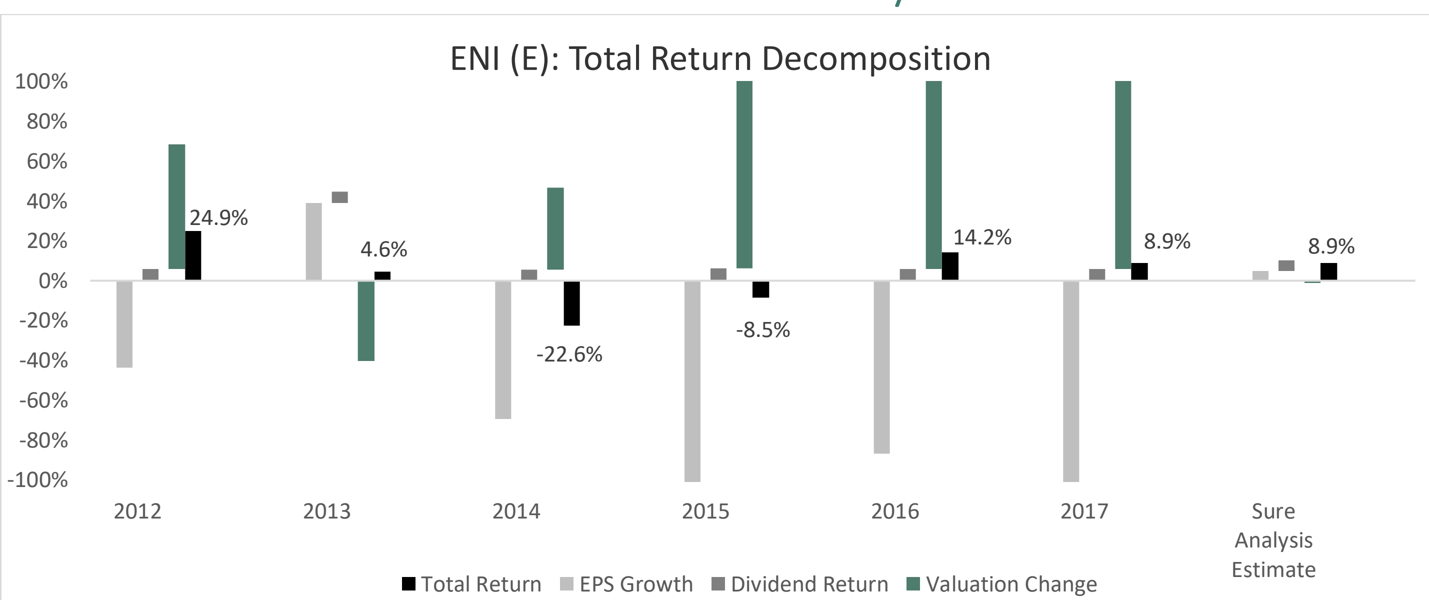
Eni has about 7.0 B barrels of oil equivalent in proved reserves, which are sufficient for almost 11 years of production given the current production rate of the company. The duration of its reserves is lower than the ~15-year duration of the reserves of its peers. In addition, Eni has a breakeven point of $55 per barrel. 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.

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 occurs, 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

Eni posted excellent results in its most recent quarter thanks to its exposure to oil prices. The company offers investors expected total returns of 8.9% per from growth (5.0%), dividends (5.1%), and partially offset by valuation multiple contraction (-1.2%). We view Eni as a hold at current prices. There are better buys in the integrated large-cap energy sector at this time. ExxonMobil, as an example, offers higher expected total returns *and* a much better risk profile.

Total Return Breakdown by Year



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