Eni SpA (E)

Updated November 7th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	10.7%	**Volatility Percentile:**	54.1%
Fair Value Price:	$36	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	59.4%
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.3%	**Growth Percentile:**	30.3%
Dividend Yield:	5.4%	**5 Year Price Target**	$46	**Valuation Percentile:**	55.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	64.9%

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. Its upstream segment is *by far* the largest. In the first nine months of the year, this segment has generated 92% of total operating income. This is a major difference between Eni and the other energy super majors; Eni's business is much less diversified.

In late October, Eni reported (10/26/18) its financial results for the third quarter of fiscal 2018. The company increased its adjusted earnings 6-fold, from €229 million in Q3-2017 to €1,388 million in Q3-2018, thanks to high oil prices and a lower tax rate. The only negative point of the report was the flat production volume compared to last year. Management has reduced its guidance for production growth in the full year from 4% to 3%.

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	***$1.90***	***$2.40***
Shares	1,811	1,811	1,811	1,811	1,811	1,811	1,805	1,801	1,801	1,801	***1,792***	***1,780***

Thanks to the efforts of OPEC and Russia and supply disruptions in some key countries, the oil market has markedly tightened this year. As a result, the price of oil has enjoyed a strong rally and is likely to remain elevated in the years ahead. Thanks to its upstream nature, Eni is highly leveraged to the oil price and thus it is properly positioned to benefit from high oil prices.

Eni expects to grow its output by approximately 3.0% per year until 2025. Moreover, 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 thus reasonable to expect Eni to grow its earnings-per-share by at least 5.0% per year over the next five years. In such a case, the company will grow its earnings-per-share 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	***12.3***	***12.5***
Avg. Yld.	7.6%	5.8%	6.1%	6.6%	5.9%	6.5%	7.6%	5.7%	5.4%	5.7%	***5.4%***	***5.6%***

Eni is currently trading at a P/E ratio of 12.3, which is very close to its 10-year historical average of 12.5. If the stock reverts to its average valuation level over the next 5 years, it will enjoy a mild 0.3% annualized gain.

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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%	***10.0%***	***10.0%***
Debt/A	58.4%	57.4%	57.7%	57.8%	55.5%	55.9%	56.3%	58.7%	57.4%	58.2%	***59.0%***	***58.0%***
Int. Cov.	128.9	33.9	36.5	24.4	22.3	20.8	11.5	4.0	17.7	6.1	***13.0***	***15.0***
Payout	49.9%	68.7%	40.7%	52.6%	80.5%	69.8%	206%	---	---	90.1%	***66.7%***	***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%***

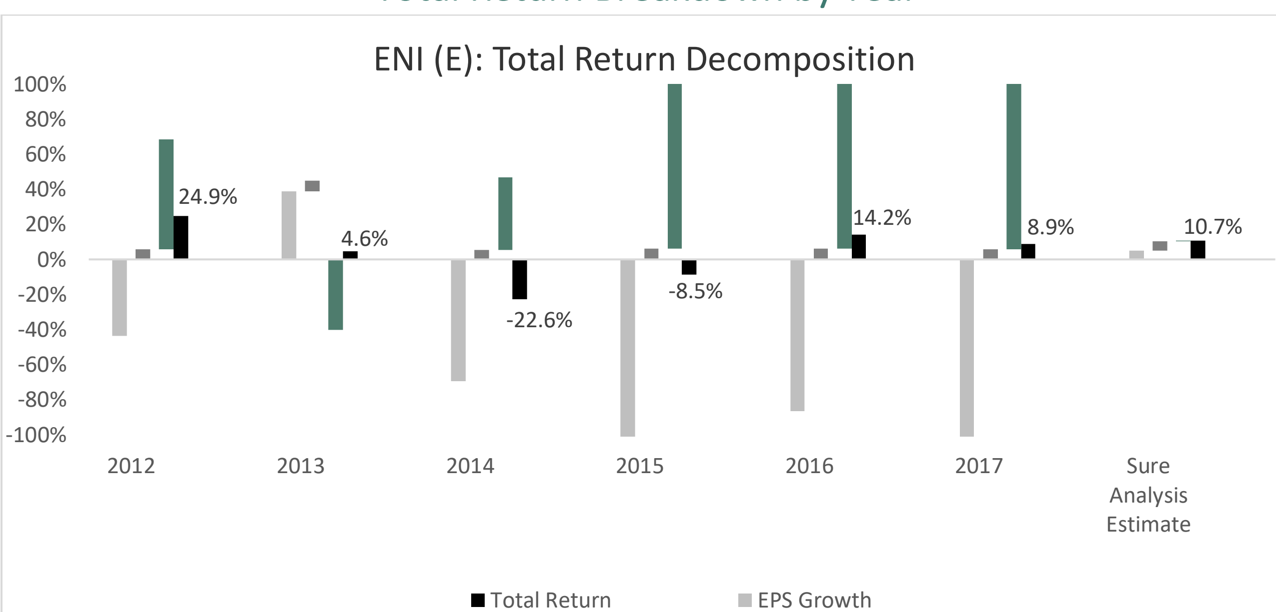
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the oil sector that began four years ago. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated oil majors, Exxon Mobil, Chevron, Royal Dutch Shell, Total and BP, saw their earnings plunge but none of them cut their dividend.

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. 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. At its current price, the stock can offer a 10.7% average annual return over the next five years. It thus earns a hold rating. There are better buys in the integrated large-cap energy sector at this time. For instance, ExxonMobil and BP offer higher expected total returns *and* a much better risk profile.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	159.71	117.62	128.07	150.15	163.42	130.88	130.61	80.22	61.72	75.79
Gross Profit	47643	36249	24935	28040	23730	12588	17471	7211	4514	7899
Gross Margin	29.8%	30.8%	19.5%	18.7%	14.5%	9.6%	13.4%	9.0%	7.3%	10.4%
SG&A Exp.	5877	5830	5869	6141	5965	3529	3895	3461	3314	3342
D&A Exp.	N/A	N/A	11059	10813	12400	11428	10208	9921	8366	8475
Operating Profit	27360	16734	20001	23055	18854	10052	14900	4630	2216	5429
Op. Margin	17.1%	14.2%	15.6%	15.4%	11.5%	7.7%	11.4%	5.8%	3.6%	7.2%
Net Profit	12953	6090	8375	9565	10015	6853	1733	-9741	-1620	3821
Net Margin	8.1%	5.2%	6.5%	6.4%	6.1%	5.2%	1.3%	-12.1%	-2.6%	5.0%
Free Cash Flow	28358	-3569	1092	1316	-1278	-2356	3817	385	-1668	1626
Income Tax	14225	9421	11374	13808	15015	12026	8599	3464	2143	3926

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	163.04	168.07	175.37	185.16	185.40	191.03	182.85	151.97	131.66	137.88
Cash & Equivalents	2710	2299	2060	1943	10495	7500	8043	5695	5998	8833
Acc. Receivable	31053	29098	31435	22938	26394	29291	34779	13793	11825	12215
Inventories	8499	7858	8763	9812	11344	10963	9187	5006	4902	5544
Goodwill & Int.	15398	16401	14858	14184	5934	5352	5375	3317	3456	3509
Total Liab. ($B)	95.25	96.49	101.25	106.93	102.86	106.73	103.03	89.20	75.54	80.20
Accounts Payable	28668	27419	30024	17404	19906	21519	28823	10501	11669	13065
Long-Term Debt	29118	35464	36950	38337	31994	35295	31484	30386	28796	29641
Total Equity	62095	65884	68102	71853	78107	80380	76835	60670	56069	57622
D/E Ratio	0.47	0.54	0.54	0.53	0.41	0.44	0.41	0.50	0.51	0.51

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.3%	3.7%	4.9%	5.3%	5.4%	3.6%	0.9%	-5.8%	-1.1%	2.8%
Return on Equity	21.4%	9.5%	12.5%	13.7%	13.4%	8.6%	2.2%	-14.2%	-2.8%	6.7%
ROIC	13.7%	6.0%	7.7%	8.4%	8.7%	5.9%	1.5%	-9.5%	-1.8%	4.4%
Shares Out.	1,811	1,811	1,811	1,811	1,811	1,811	1,805	1,801	1,801	1,801
Revenue/Share	88.18	64.94	70.71	82.90	90.22	72.25	72.35	44.55	34.28	42.09
FCF/Share	15.66	-1.97	0.60	0.73	-0.71	-1.30	2.11	0.21	-0.93	0.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.