# Eni SpA (E)

*Updated March 4th, 2019 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $34 | **5 Year CAGR Estimate:** | 12.3% | **Volatility Percentile:** | 43.5% |
| **Fair Value Price:** | $37 | **5 Year Growth Estimate:** | 5.0% | **Momentum Percentile:** | 60.0% |
| **% Fair Value:** | 92% | **5 Year Valuation Multiple Estimate:** | 1.7% | **Growth Percentile:** | 35.2% |
| **Dividend Yield:** | 5.6% | **5 Year Price Target** | $47 | **Valuation Percentile:** | 63.9% |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 72.6% |

## Overview & Current Events

Eni is a major oil and gas producer 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 2018, this segment 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 mid-February, Eni reported (2/15/19) financial results for the fourth quarter of fiscal 2018. In the year, the average price of Brent increased ~25% over prior year, and Eni essentially doubled its adjusted operating profit thanks to the strong performance of its upstream segment.

This performance simply reflects the high leverage of the company to the oil price. Thanks to ramp-ups in new upstream projects, Eni grew its production by 2.5% over prior year, to a record level of 2.85 million barrels per day. It also achieved a cash flow of $22.5 per barrel, thus reaching its 2022 goal four years earlier. Moreover, the company achieved a reserve replacement ratio above 100%, for a 3-year average of 131%.

## Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.45 | $4.59 | $5.29 | $2.98 | $4.14 | $1.27 | -$4.90 | -$0.65 | $2.12 | $2.76 | ***$2.95*** | ***$3.77*** |
| **DPS** | $2.37 | $1.87 | $2.78 | $2.40 | $2.89 | $2.61 | $2.13 | $1.79 | $1.91 | $1.89 | ***$1.91*** | ***$2.40*** |
| **Shares** | 1,811 | 1,811 | 1,811 | 1,811 | 1,811 | 1,805 | 1,801 | 1,801 | 1,801 | 1,794 | ***1,790*** | ***1,780*** |

The price of oil began to plunge in early October and has remained suppressed since then. However, thanks to continuing healthy demand growth for oil, the price of oil is likely to rise from its current level in the upcoming years. Thanks to its upstream reliance, 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. It is 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 an expected level of $2.95 this year to $3.77 in 2024.

## Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 11.8 | 6.7 | 8.0 | 13.7 | 10.7 | 27.0 | N/A | N/A | 15.8 | 13.0 | ***11.5*** | ***12.5*** |
| **Avg. Yld.** | 5.8% | 6.1% | 6.6% | 5.9% | 6.5% | 7.6% | 5.7% | 5.4% | 5.7% | 5.3% | ***5.6%*** | ***5.1%*** |

Eni is currently trading at a price-to-earnings ratio of 11.5, which is lower than its 10-year historical average of 12.5. If the stock reverts to its average valuation level over the next five years, it will enjoy a 1.7% annualized gain. Eni looks a bit undervalued at current prices.

*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.*

# Eni SpA (E)

*Updated March 4th, 2019 by Aristofanis Papadatos*

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 68.7% | 40.7% | 52.6% | 80.5% | 69.8% | 206% | --- | --- | 90.1% | 68.5% | ***64.7%*** | ***63.7%*** |

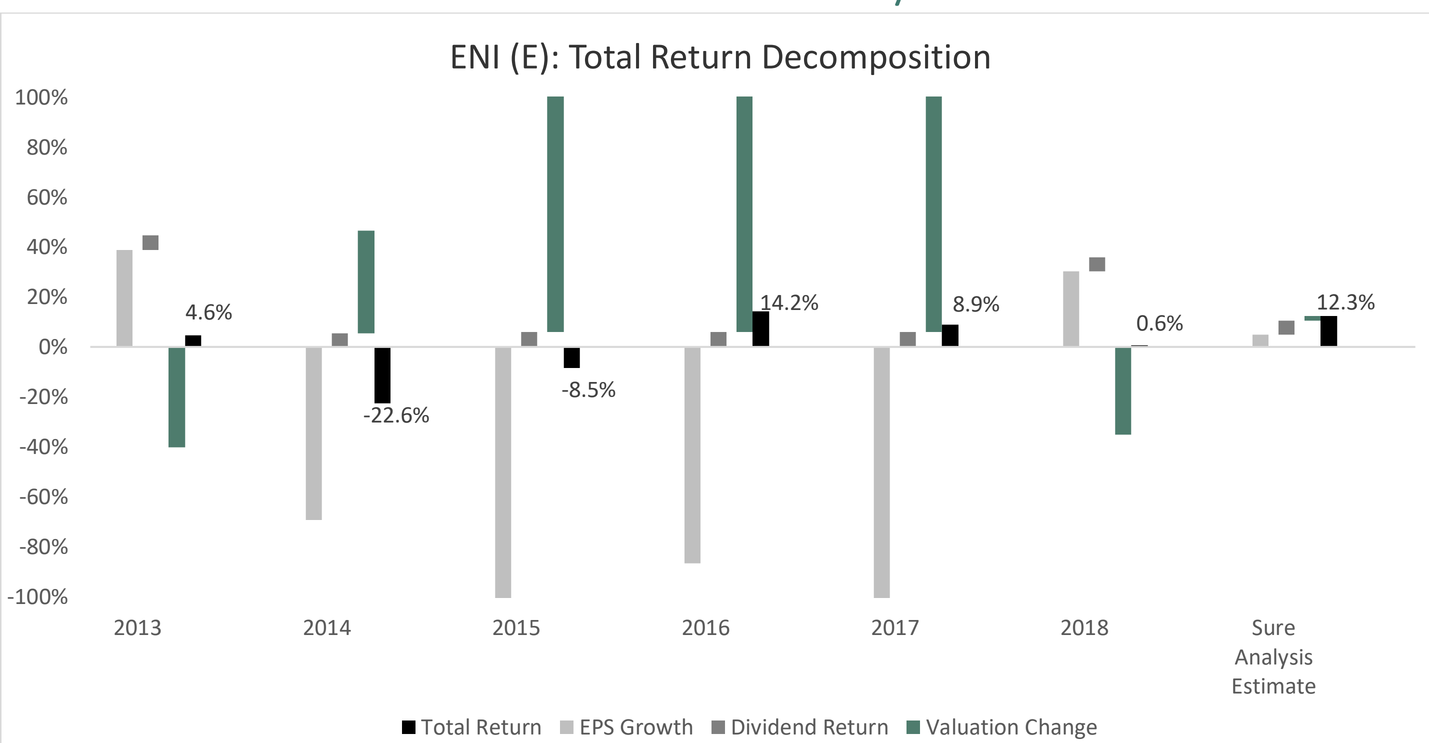
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the oil sector between 2014 and 2017. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated 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 7.2 billion barrels of oil equivalent in proved reserves, which are sufficient for 10.6 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 $52 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 perspective, BP has already driven its breakeven point below $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 last year thanks to its exposure to oil prices. At its current price, the stock can offer a 12.3% average annual return over the next five years. It thus earns a hold rating due to its higher-than-average risk. However, there are better buys in the integrated large-cap energy sector at this time. For instance, ExxonMobil, Total and BP offer double-digit expected total returns *and* a much better risk profile.

## Total Return Breakdown by Year




Click here to rate and review this research report. Your feedback is important to us.

*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.*

# Eni SpA (E)

*Updated March 4th, 2019 by Aristofanis Papadatos*

## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue ($B) | 117.62 | 128.07 | 150.15 | 163.42 | 130.88 | 130.61 | 80.22 | 61.72 | 75.79 | 90.84 |
| Gross Profit | 36249 | 24935 | 28040 | 23730 | 12588 | 17471 | 7211 | 4514 | 7899 | 16923 |
| Gross Margin | 30.8% | 19.5% | 18.7% | 14.5% | 9.6% | 13.4% | 9.0% | 7.3% | 10.4% | 18.6% |
| SG&A Exp. | 5830 | 5869 | 6141 | 5965 | 3529 | 3895 | 3461 | 3314 | 3342 | 3652 |
| D&A Exp. | N/A | 11059 | 10813 | 12400 | 11428 | 10208 | 9921 | 8366 | 8475 | 8252 |
| Operating Profit | 16734 | 19891 | 22921 | 18732 | 9941 | 14777 | 4535 | 2126 | 5334 | 13423 |
| Op. Margin | 14.2% | 15.5% | 15.3% | 11.5% | 7.6% | 11.3% | 5.7% | 3.4% | 7.0% | 14.8% |
| Net Profit | 6090 | 8375 | 9565 | 10015 | 6853 | 1733 | -9741 | -1620 | 3821 | 4990 |
| Net Margin | 5.2% | 6.5% | 6.4% | 6.1% | 5.2% | 1.3% | -12.1% | -2.6% | 5.0% | 5.5% |
| Free Cash Flow | -3569 | 1092 | 1316 | -1278 | -2356 | 3817 | 385 | -1668 | 1626 | 5349 |
| Income Tax | 9421 | 11374 | 13808 | 15015 | 12026 | 8599 | 3464 | 2143 | 3926 | 7042 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets ($B) | 168.07 | 175.37 | 185.16 | 185.40 | 191.03 | 182.85 | 151.97 | 131.66 | 137.88 | 135.50 |
| Cash & Equivalents | 2299 | 2060 | 1943 | 10495 | 7500 | 8043 | 5695 | 5998 | 8833 | 12395 |
| Acc. Receivable | 29098 | 31435 | 22938 | 26394 | 29291 | 34779 | 13793 | 11825 | 12215 | 16123 |
| Inventories | 7858 | 8763 | 9812 | 11344 | 10963 | 9187 | 5006 | 4902 | 5544 | 5320 |
| Goodwill & Int. | 16401 | 14858 | 14184 | 5934 | 5352 | 5375 | 3317 | 3456 | 3509 | 3626 |
| Total Liab. ($B) | 96.49 | 101.25 | 106.93 | 102.86 | 106.73 | 103.03 | 89.20 | 75.54 | 80.20 | 76.95 |
| Accounts Payable | 27419 | 30024 | 17404 | 19906 | 21519 | 28823 | 10501 | 11669 | 13065 | 19149 |
| Long-Term Debt | 35464 | 36950 | 38337 | 31994 | 35295 | 31484 | 30386 | 28796 | 29641 | 29587 |
| Total Equity | 65884 | 68102 | 71853 | 78107 | 80380 | 76835 | 60670 | 56069 | 57622 | 58486 |
| D/E Ratio | 0.54 | 0.54 | 0.53 | 0.41 | 0.44 | 0.41 | 0.50 | 0.51 | 0.51 | 0.51 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 3.7% | 4.9% | 5.3% | 5.4% | 3.6% | 0.9% | -5.8% | -1.1% | 2.8% | 3.7% |
| Return on Equity | 9.5% | 12.5% | 13.7% | 13.4% | 8.6% | 2.2% | -14.2% | -2.8% | 6.7% | 8.6% |
| ROIC | 6.0% | 7.7% | 8.4% | 8.7% | 5.9% | 1.5% | -9.5% | -1.8% | 4.4% | 5.7% |
| Shares Out. | 1,811 | 1,811 | 1,811 | 1,811 | 1,811 | 1,805 | 1,801 | 1,801 | 1,801 | 1,794 |
| Revenue/Share | 64.94 | 70.71 | 82.90 | 90.22 | 72.25 | 72.35 | 44.55 | 34.28 | 42.09 | 50.30 |
| FCF/Share | -1.97 | 0.60 | 0.73 | -0.71 | -1.30 | 2.11 | 0.21 | -0.93 | 0.90 | 2.96 |

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