



Eni SpA (E)

Updated August 23rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	43.3%
Fair Value Price:	\$29	5 Year Growth Estimate:	5.0%	Momentum Percentile:	23.1%
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Growth Percentile:	38.3%
Dividend Yield:	6.6%	5 Year Price Target	\$37	Valuation Percentile:	51.0%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	62.6%

Overview & Current Events

Eni is a major oil and gas producer based in Italy. It has exploration activity in more than 40 countries and trades with a market capitalization of \$51 billion. 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 late July, Eni reported (7/26/19) financial results for the second quarter of fiscal 2019. The average price of Brent fell 7% over last year's quarter while the output of Eni decreased 2%, primarily due to the termination of a production contract in Libya in Q3-2018. Results were also affected by the poor refining margins in the quarter and a higher tax rate. Consequently, adjusted earnings-per-share decreased 24%.

Thanks to ramp-ups in upstream projects that came online in 2018, Eni continues to expect 2.0%-2.5% production growth this year, with output expected to accelerate in the second half of the year. Nevertheless, the poor results in the second quarter are a stern reminder of the high sensitivity of Eni's performance to oil prices. Due to the poor performance in the second quarter and somewhat suppressed oil prices, we have lowered our earnings-per-share estimate for this year from \$2.90 to \$2.30.

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	\$2.30	\$2.94
DPS	\$2.37	\$1.87	\$2.78	\$2.40	\$2.89	\$2.61	\$2.13	\$1.79	\$1.91	\$1.89	\$1.92	\$2.40
Shares¹	1,811	1,811	1,811	1,811	1,811	1,805	1,801	1,801	1,801	1,794	1,760	1,700

The rebound of oil prices in the first quarter lost steam and thus prices have remained suppressed since the beginning of the second quarter. This headwind is likely to continue to weigh on the results of Eni this year.

Eni expects to grow its output by approximately 3.0% per year on average until 2025. A major growth driver will be the Zohr field in Egypt, the largest gas field in the Mediterranean, which holds about 30 trillion cf of gas. Eni has a 50% stake in this field. We thus 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 \$2.30 this year to \$2.94 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	---	---	15.8	13.0	12.6	12.5
Avg. Yld.	5.8%	6.1%	6.6%	5.9%	6.5%	7.6%	5.7%	5.4%	5.7%	5.3%	6.6%	6.5%

Eni is currently trading at a price-to-earnings ratio of 12.6, which is almost equal to its 10-year historical average of 12.5. If the stock trades at its average valuation level in five years from now, it will incur a mild -0.2% annualized drag. Eni seems fairly valued at current prices.

1. In millions.

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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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%	83.5%	81.6%

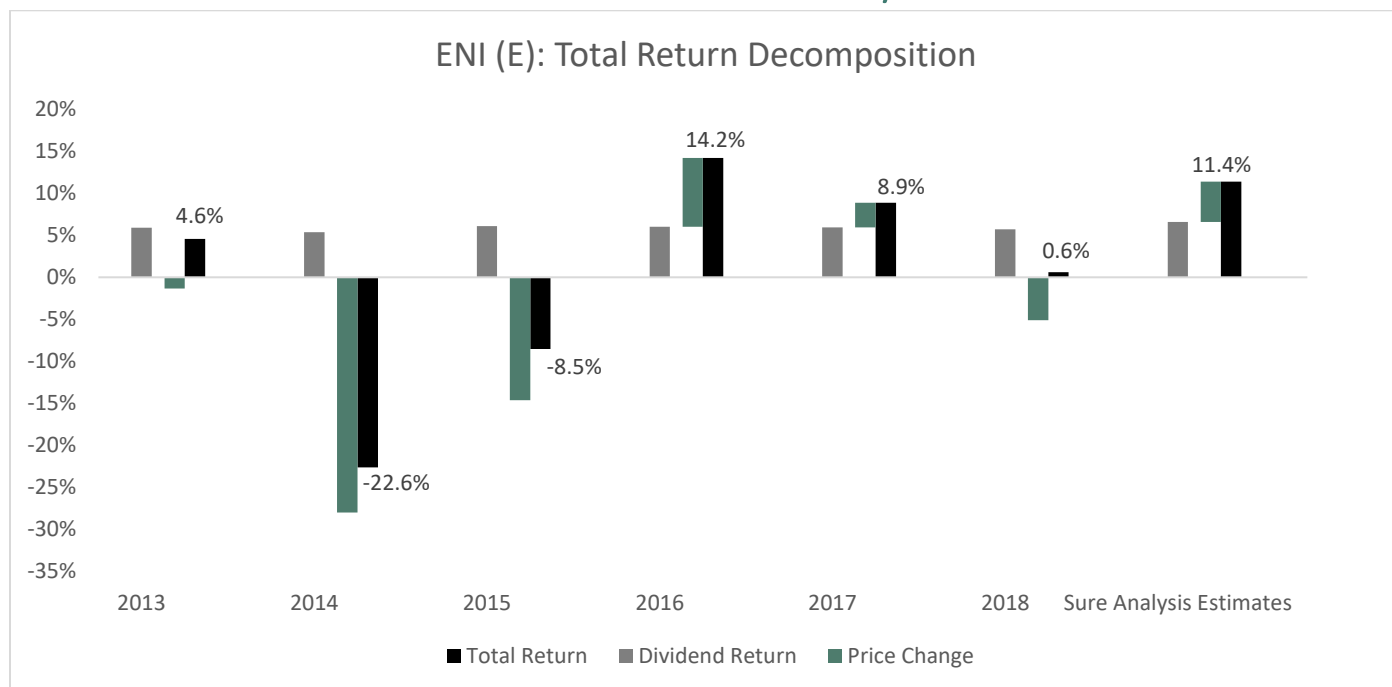
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the oil sector between 2014 and 2017. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated 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 about \$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 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

Due to its lackluster performance in the first half of the year, Eni is trading at a 2-year low level. At its current price, the stock could offer an 11.4% average annual return over the next five years. It thus earns a buy rating. However, there are better buys in the integrated large-cap energy sector at this time, in our view. For instance, ExxonMobil, Total and BP offer double-digit expected total returns *and* a much better risk profile.

Total Return Breakdown by Year



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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.

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