Eni SpA (E)

Updated August 17th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$34.6 B
Fair Value Price:	$15	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	9/21/2020[1]
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	10/8/2020
Dividend Yield:	4.5%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 $34.6 billion. It operates in three segments: exploration & production, gas & power, and refining & marketing. Its upstream segment is *by far* the largest. In 2018 and 2019, this segment generated 92% and 93% of total operating income, respectively. This is a major difference between Eni and the other energy super majors; Eni's business is much less diversified.

Eni is currently facing a fierce downturn due to the pandemic and the resultant suppressed oil prices. Due to its almost pure upstream nature, Eni is much more vulnerable to the downturn of the energy market than the well-known oil majors, such as Exxon Mobil and Chevron. Its vulnerability was clearly reflected in its poor earnings in the three quarters that preceded the pandemic due to lackluster oil and gas prices.

In late July, Eni reported (7/30/20) financial results for the second quarter of fiscal 2020. Its average realized oil price plunged -58% over last year's quarter while its production fell -6.6% due to the pandemic and the resultant OPEC+ production cuts. As a result, Eni switched from an adjusted profit per share of €0.32 to an adjusted loss of -€0.40. Eni more than halved its dividend this year due to the impact of the pandemic on its business. On the other hand, thanks to its decent results and improved oil prices, we now expect Eni to lose only -$0.60 per share this year (instead of -$1.80).

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$4.59	$5.29	$2.98	$4.14	$1.27	-$4.90	-$0.65	$2.12	$2.76	$1.79	***-$0.60***	***$1.61***
DPS	$1.87	$2.78	$2.40	$2.89	$2.61	$2.13	$1.79	$1.91	$1.89	$1.86	***$0.85***	***$1.14***
Shares[2]	1,811	1,811	1,811	1,811	1,805	1,801	1,801	1,801	1,794	1,820	***1,837***	***1,840***

In order to calculate the future total return of Eni, we have assumed mid-cycle earnings-per-share of $1.20, which is the average of the last eight years. While the ongoing downturn is fierce, we expect the energy market to begin to recover from next year. Eni expects to grow its output by approximately 3.5% 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 expect Eni to grow its earnings-per-share by 6.0% per year on average over the next five years. Notably natural gas comprises 52% of total production of Eni, which aims to raise this metric to 60% by 2030. As a result, Eni is more sensitive to the price of natural gas than the other oil majors, which produce more oil than gas.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	6.7	8.0	13.7	10.7	27.0	---	---	15.8	13.0	17.9	***15.8***	***12.5***
Avg. Yld.	6.1%	6.6%	5.9%	6.5%	7.6%	5.7%	5.4%	5.7%	5.3%	5.8%	***4.5%***	***5.7%***

[1] Estimated date.
[2] In millions.

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Based on its mid-cycle earnings-per-share of $1.20, Eni is currently trading at a price-to-earnings ratio of 15.8, which is higher than its 10-year historical average of 12.5. If the stock trades at its average valuation level in five years, it will incur a -4.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40.7%	52.6%	80.5%	69.8%	206%	---	---	90.1%	68.5%	104%	***70.8%***	***70.8%***

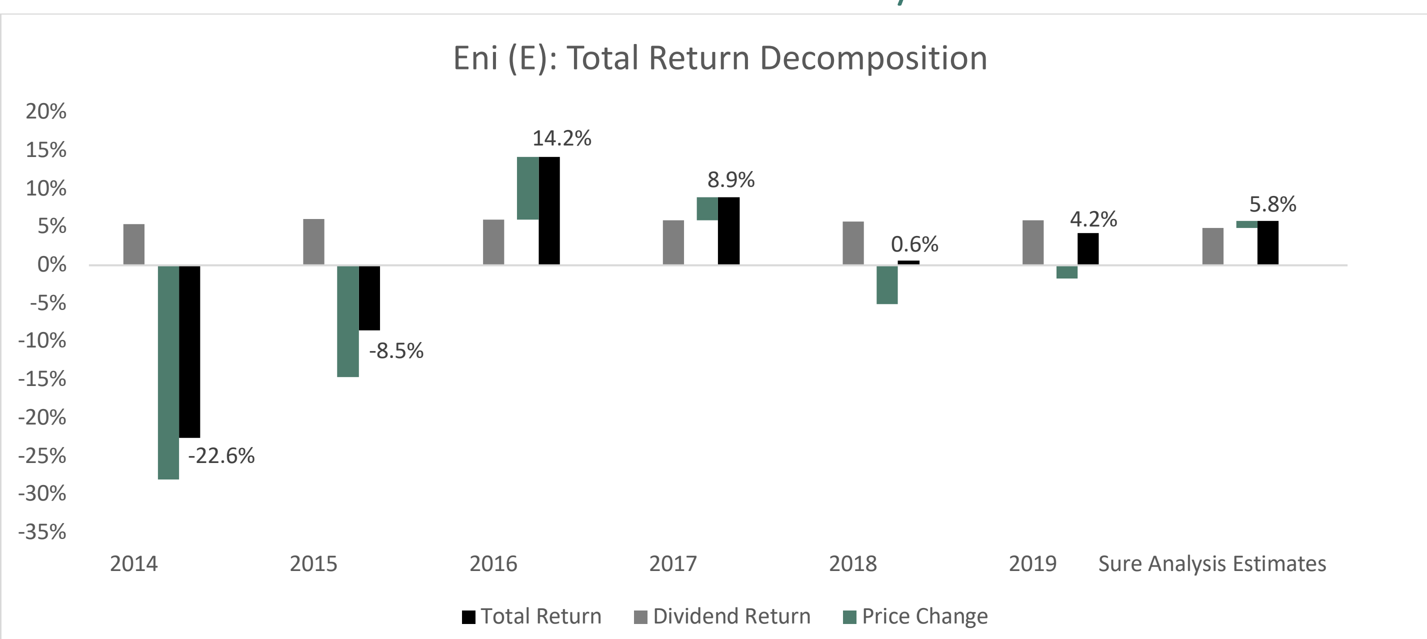
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the energy sector between 2014 and 2017. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated 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 10.4 years of production given the current production rate of the company. The duration of its reserves is lower than the ~12-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. For perspective, BP has already driven its breakeven point below $50 and aims to reduce it to $35-$40 by 2021. All the above help explain why the dividend of Eni is much more vulnerable than the dividends of its peers.

Final Thoughts & Recommendation

Due to its almost pure upstream business model, Eni is much more vulnerable to the impact of the pandemic than the other oil majors. As a result, the stock has been punished more than its peers and is now trading at a 10-year low. We expect the global economy to begin to recover from next year. We thus expect Eni to offer a 5.8% average annual return over the next five years. If the recovery is strong, Eni could outperform its peers thanks to its leverage to commodity prices. However, there are better opportunities in the integrated large-cap energy sector at this time, in our view. For instance, ExxonMobil, Total and BP offer higher expected total returns and a better risk profile. We rate Eni as a hold.

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.