



Equinor ASA (EQNR)

Updated November 1st, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$26.10	5 Year CAGR Estimate:	10.8%	Market Cap:	\$84.6 B
Fair Value Price:	\$34.80	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/10/2021
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	11/24/2021
Dividend Yield:	2.8%	5 Year Price Target	\$38	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

Equinor ASA, previously named Statoil, is one of the largest European publicly traded oil companies, with a market capitalization of around \$67.36 billion. The company is renowned for building up Norway's wealth, with the country having ownership of ~67% of the company. The ownership interest is managed by the Norwegian Ministry of Petroleum and Energy. While it is primarily a petroleum and gas company operating in 36 countries, Equinor has started diversifying its investments towards renewable energy. It is traded both on NYSE and the Oslo stock exchange.

On October 27th, 2021, Equinor reported its Q3-2021 results for the period ended September 30th, 2021. For the quarter, the company reported a net income of \$1.4 billion, compared to a loss of \$2.1 billion a year ago. Equinor took advantage of the higher commodity prices and ongoing recovery from the pandemic to deliver a solid operational performance and strong results. Total revenues for the quarter were \$24.1 billion, 121.2% higher than the same period's \$10.9 billion during last year, reflecting the rebounding demand for energy, previously depressed by the COVID-19 outbreak. The company's liquids and gas production was 1,996 mboe/day during Q3, flat compared to the 1,993 mboe/day a year ago. Production from a new field and increased production from Johan Sverdrup, and solid production efficiency and optimized gas production were partially offset by the divestment of Bakken and the shutdown of Hammerfest LNG.

Overall, Equinor's results were rather impressive, recovering very quickly from last year's disastrous energy environment. Based on Equinor's results over the first nine months of FY2021, we have updated our EPS expectations to \$2.90. Organic CAPEX guidance remains at USD 9-10 billion for 2021-2022, while management aims to keep the unit of production cost in the top quartile of its peer group. To reflect Equinor's strong return to profitability, the company increased the size of the second tranche of the share buy-back from an indicative level of USD 300 million to USD 1 billion, including shares to be redeemed from the Norwegian State.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.15	\$3.89	\$2.07	\$1.22	(\$1.63)	(\$0.91)	\$1.40	\$2.27	\$0.55	(\$1.69)	\$2.90	\$3.20
DPS	\$1.09	\$1.21	\$1.15	\$0.96	\$0.86	\$0.88	\$0.89	\$0.95	\$1.05	\$0.57	\$0.72	\$1.33
Shares¹	3,182	3,181	3,180	3,180	3,179	3,195	3,268	3,326	3,326	3,269	3,248	3,100

Equinor's EPS has been fluctuating along with the petroleum and gas prices. The company reported negative earnings, for example, during the 2015-16 oil crush. With the one-off write-offs out of the way and positive production growth moving forward, we expect the company's EPS to remain strong beyond FY2021, assuming decent oil prices. We retain our profitability growth estimates at 2%, close to the company's latest production growth guidance.

Following better-than-expected profitability levels and management's latest steep dividend hike, we retain high DPS growth recovery expectations at an annualized rate of 13% through 2026. There is enough available room for the dividend to grow back to its past levels while still retaining a comfortable payout ratio. Hence the confident estimates.

¹ Share count is 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	6.8	6.1	11.6	10.6	---	---	12.8	14.5	8.8	---	9.0	12.0
Avg. Yld.	4.9%	4.5%	5.0%	4.5%	5.1%	5.4%	3.4%	3.7%	5.6%	3.8%	2.8%	3.5%

Equinor's valuation has been historically hovering between the high single to low double-digits, in line with oil's price and future outlook. Currently, shares are trading at a forward P/E of around 9.0 based on our estimates. We expect the company's valuation to expand notably, in the low double-digits in the medium term, as international travel conditions should be fully restored by then. With a relatively consistent DPS, Equinor always had an attractive yield for a European company, averaging around 4.6%. The dividend slash in 2020 caused the yield to drop significantly. However, due to its recent increases and room for further growth, the figure is likely to appreciate in the medium term, offering higher income returns. Amid a lack of substantial yields in Europe, we see this as a strong catalyst to a valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

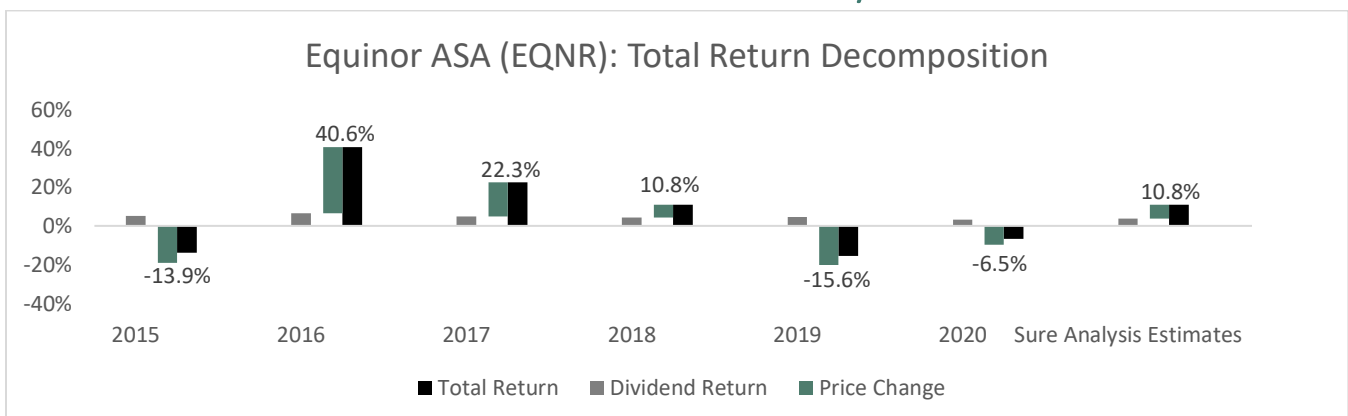
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	31%	56%	79%	---	---	64%	42%	191%	---	25%	41%

Equinor has been one of Europe's highest-quality companies. Owned and controlled by the Norwegian government, the company has not only been a productive investment for commercial investors but also made Norway one of the richest countries in Europe in the 20th century. Its quality of assets is highlighted by suffering significantly fewer losses in its share price than the other oil majors since the pandemic's begging. On the one hand, the energy sector has not fully recovered, with the pandemic still affecting international transportations. On the other hand, management's DPS increase and robust CAPEX outlook point towards a brighter future. Hence, Equinor's investment case remains promising but not without risks. Still, we can't ignore that Equinor has one of the most robust portfolios of assets in the Energy sector, contributing to lower costs than its competitors. The company remains very recession-sensitive, nonetheless.

Final Thoughts & Recommendation

Equinor's Q3 results came in very strong. The buy-back program expansion was also quite welcome. We believe that shares are currently undervalued, offering the potential for a multiple expansion. We anticipate annualized returns of around 10.8% in the medium term, driven by such a multiple expansion, slight earnings growth, and rapid dividend growth. However, due to the stock's volatile nature, our estimates are likely to fluctuate over time as well. Most European equities are priced for low returns, as investors take advantage of the slightest yield surplus out there. Hence, it's quite surprising to see Equinor currently offering double-digit returns ahead. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	125467	101387	96708	57900	45688	60971	78555	62911	45750
Gross Profit	49757	39019	32803	14931	12633	24115	30790	20175	9532
Gross Margin	39.7%	38.5%	33.9%	25.8%	27.7%	39.6%	39.2%	32.1%	20.8%
SG&A Exp.	1791	1283	1159	921	762	738	758	809	706
D&A Exp.	10836	11905	15925	16715	11550	8644	9249	13204	15240
Operating Profit	36162	24993	17314	915	-222	13169	19384	9135	-3476
Operating Margin	28.8%	24.7%	17.9%	1.6%	-0.5%	21.6%	24.7%	14.5%	-7.6%
Net Profit	12341	6561	3871	-5192	-2922	4590	7535	1843	-5510
Net Margin	9.8%	6.5%	4.0%	-9.0%	-6.4%	7.5%	9.6%	2.9%	-12.0%
Free Cash Flow	2669	-2236	708	-1890	-3373	4047	8327	3545	1910
Income Tax	24574	16311	14011	5225	2724	8822	11335	7441	1237

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	140494	145619	132673	109742	104530	111100	112508	118063	121970
Cash & Equiv.	11266	13664	10787	8082	4555	3953	7053	4626	5757
Accounts Rec.	11750	11691	9065	5301	6269	8514	6777	6483	6543
Inventories	4531	4867	3188	2502	3227	3398	2144	3363	3084
Goodwill etc.	15690	15062	11460	9451	9242	8621	9672	10738	8148
Total Liabilities	83197	87082	81401	69435	69431	71215	69518	76904	88080
Accounts Pay.	4639	4653	2932	2052	2358	3181	2532	3047	2748
Long-Term Debt	21386	30025	31151	32291	31673	28274	25727	29032	33710
Book Value	57172	58455	51218	40271	35072	39861	42970	41139	33870
D/E Ratio	0.37	0.51	0.61	0.80	0.90	0.71	0.60	0.71	1.0

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.2%	4.6%	2.8%	-4.3%	-2.7%	4.3%	6.7%	1.6%	-4.6%
Return on Equity	23.8%	11.3%	7.1%	-11.4%	-7.8%	12.3%	18.2%	4.4%	-14.7%
ROIC	16.6%	7.8%	4.5%	-6.7%	-4.2%	6.8%	11.0%	2.7%	-8.3%
Shares Out.	3190	3189	3189	3189	3207	3288	3335	3334	3277
Revenue/Share	\$39.33	\$31.79	\$30.33	\$18.16	\$14.25	\$18.54	\$23.55	\$18.87	13.96
FCF/Share	\$0.84	-\$0.70	\$0.22	-\$0.59	-\$1.05	\$1.23	\$2.50	\$1.06	0.58

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

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