Eni SpA (E)

Updated May 9th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$29	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$50.8 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	-10.0%	**Ex-Dividend Date:**	5/23/2022[1]
% Fair Value:	45%	**5 Year Valuation Multiple Estimate:**	17.1%	**Dividend Payment Date:**	6/8/2022
Dividend Yield:	6.4%	**5 Year Price Target**	$38	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $50.8 billion. It operates in four segments: exploration & production, gas & LNG, refining & marketing and plenitude & power. Its upstream segment is by far the largest. In 2018, 2019 and 2021, this segment generated 92%, 93% and 89% 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 faced a downturn due to COVID-19 in 2020 and cut its dividend by -34%. However, it is thriving now thanks to the prices of oil and gas, which have rallied to 13-year highs thanks to the sanctions of western countries on Russia.

In late April, Eni reported (4/29/22) financial results for the first quarter of fiscal 2022. Its production dipped -5% sequentially due to the natural decline of fields. However, the aforementioned rally of oil and gas prices led Eni to nearly double its adjusted profit per share sequentially, from €0.47 to €0.91. Thanks to its nearly pure upstream nature, Eni outperformed its more diversified peers Exxon and Chevron, which grew their earnings modestly vs. the previous quarter. Eni posted a 10-year high profit in the quarter. Given the tailwind from the war in Ukraine, we have raised our forecast for the earnings-per-share of Eni this year from $3.20 (our forecast before the war) to $5.10.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.98	$4.14	$1.27	-$4.90	-$0.65	$2.12	$2.76	$1.79	-$0.51	$2.96	***$5.10***	***$3.01***
DPS	$2.40	$2.89	$2.61	$2.13	$1.79	$1.91	$1.89	$1.86	$1.23	$1.58	***$1.87***	***$1.97***
Shares[2]	1,811	1,811	1,805	1,801	1,801	1,801	1,794	1,820	1,789	1,778	***1,760***	***1,700***

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. Moreover, Eni is thriving thanks to the 13-year high prices of oil and gas, which have resulted primarily from the sanctions of western countries on Russia. Russia produces 10% of global oil and 31% of natural gas consumed in Europe. However, given the high comparison base formed by the high expected earnings this year, we expect a -10% average annual decline in earnings-per-share over the next five years. Notably natural gas comprises 52% of the 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.7	10.7	27.0	---	---	15.8	13.0	17.9	---	8.4	***5.7***	***12.5***
Avg. Yld.	5.9%	6.5%	7.6%	5.7%	5.4%	5.7%	5.3%	5.8%	6.1%	6.3%	***6.4%***	***5.2%***

[1] Semiannual dividend.
[2] 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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Due to its blowout earnings expected this year, Eni is trading at a price-to-earnings ratio of only 5.7, which is much lower than its 10-year historical average of 12.5. If the stock trades at its average valuation level in five years, it will enjoy a 17.1% annualized gain in its returns, which will partly offset the expected -10% annual decline of earnings-per-share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	80.5%	69.8%	206%	---	---	90.1%	68.5%	104%	---	53.4%	***36.7%***	***65.3%***

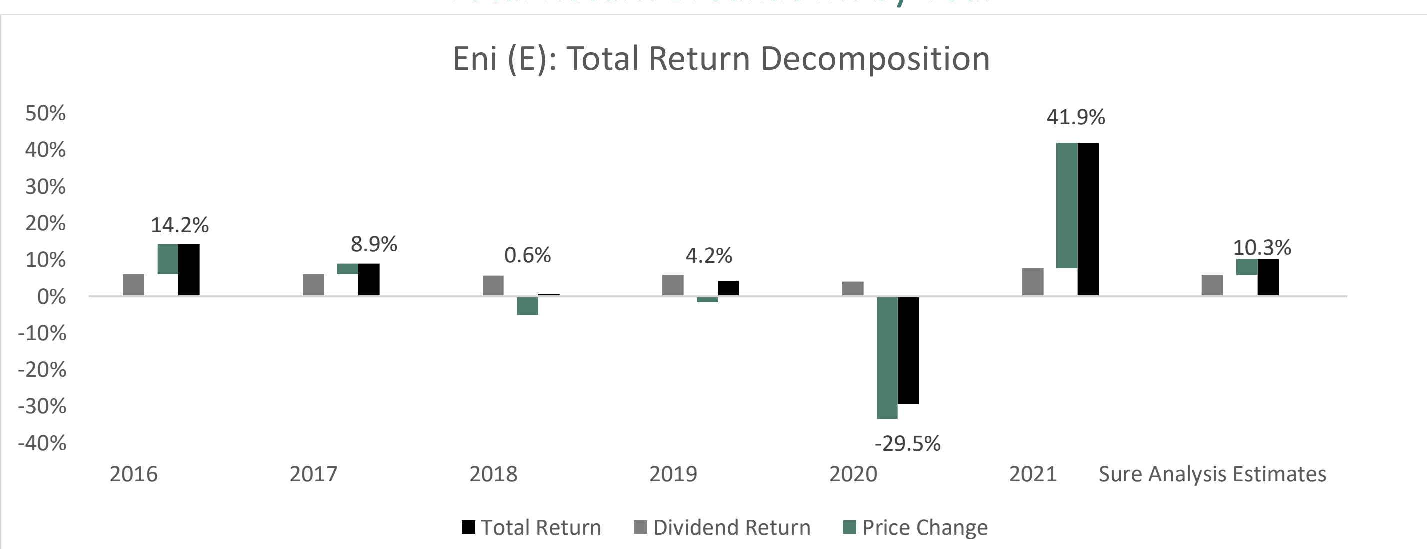
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the energy sector between 2014 and 2017. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated oil majors, Exxon Mobil, Chevron, Royal Dutch Shell, Total and BP, saw their earnings plunge but none of them cut their dividend. Although BP and Shell cut their dividends amid the COVID-19 pandemic in 2020, along with Eni.

Eni posted a daunting 55% reserve replacement ratio in 2021 and thus it now has about 6.6 billion barrels of oil equivalent in proved reserves, which are sufficient for 10.8 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, TotalEnergies and BP have driven their breakeven points below $50. All the above help explain why the dividend of Eni is much more vulnerable than the dividends of its peers.

Final Thoughts & Recommendation

Thanks to its nearly pure upstream nature, Eni is thriving in the current environment of 13-year high prices of oil and gas. We expect favorable prices to remain in place this year but they will probably deflate in the upcoming years, given their cyclical nature. The stock of Eni is markedly cheap right now and hence we expect it to offer a 10.3% average annual return over the next five years. However, due to the highly cyclical nature of the upstream business, we are somewhat cautious over the long-term potential of Eni. We thus rate the stock as a hold. Those who want to benefit from high oil and gas prices might prefer TotalEnergies, which is equally cheap and more defensive than Eni.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($B)	163.42	130.88	130.61	80.22	61.72	75.79	89.5	78.2	50.2	90.6
Gross Profit	23730	12588	17471	7211	4514	7899	15,601	12,204	3,591	16,521
Gross Margin	14.5%	9.6%	13.4%	9.0%	7.3%	10.4%	17.4%	15.6%	7.1%	18.2%
SG&A Exp.	5965	3529	3895	3461	3314	3342	3,652	3,354	3,270	3,417
D&A Exp.	12400	11428	10208	9921	8366	8475	8,252	9,075	8,341	8,357
Operating Profit	18732	9941	14777	4535	2126	5334	12,730	9,978	542	13,104
Op. Margin	11.5%	7.6%	11.3%	5.7%	3.4%	7.0%	14.2%	12.8%	1.1%	14.5%
Net Profit	10015	6853	1733	-9741	-1620	3821	4,872	166	-9,779	6,887
Net Margin	6.1%	5.2%	1.3%	-12.1%	-2.6%	5.0%	5.4%	0.2%	-19.5%	7.6%
Free Cash Flow	-1278	-2356	3817	385	-1668	1626	5,347	4,496	203	9,022
Income Tax	15015	12026	8599	3464	2143	3926	7,049	6,259	2,981	5,733

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	185.40	191.03	182.85	151.97	131.66	137.88	135.5	138.3	134.9	156.0
Cash & Equivalents	10495	7500	8043	5695	5998	8833	12,395	6,714	11,578	9,345
Acc. Receivable	26394	29291	34779	13793	11825	12215	14,349	12,497	13,366	17,577
Inventories	11344	10963	9187	5006	4902	5544	5,320	5,303	4,788	6,875
Goodwill & Int.	5934	5352	5375	3317	3456	3509	2,390	2,272	4,162	4,400
Total Liab. ($B)	102.86	106.73	103.03	89.20	75.54	80.20	77.0	84.6	88.7	105.6
Accounts Payable	19906	21519	28823	10501	11669	13065	13,321	11,739	15,831	19,016
Long-Term Debt	31994	35295	31484	30386	28796	29641	29,587	27,464	32,823	31,469
Total Equity	78107	80380	76835	60670	56069	57622	58,357	53,588	46,096	50,312
LTD/E Ratio	0.41	0.44	0.41	0.50	0.51	0.51	0.51	0.51	0.71	0.63

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.4%	3.6%	0.9%	-5.8%	-1.1%	2.8%	3.6%	0.1%	-7.2%	4.7%
Return on Equity	13.4%	8.6%	2.2%	-14.2%	-2.8%	6.7%	8.4%	0.3%	-19.6%	14.3%
ROIC	8.7%	5.9%	1.5%	-9.5%	-1.8%	4.4%	5.5%	0.2%	-12.2%	8.6%
Shares Out.	1,811	1,811	1,805	1,801	1,801	1,801	1,794	1,820	1,789	1,778
Revenue/Share	90.22	72.25	72.35	44.55	34.28	42.09	49.69	43.53	28.07	50.71
FCF/Share	-0.71	-1.30	2.11	0.21	-0.93	0.90	2.97	2.50	0.11	5.05

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