Eni SpA (E)

Updated November 11th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$46.9 B
Fair Value Price:	$51	**5 Year Growth Estimate:**	-9.0%	**Ex-Dividend Date:**	11/19/2024
% Fair Value:	59%	**5 Year Valuation Multiple Estimate:**	11.3%	**Dividend Payment Date:**	12/6/2024
Dividend Yield:	7.0%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	4
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 $46.9 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, 2021, 2022 and 2023, this segment generated 92%, 93%, 89%, 80% and 69% 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 favorable price of oil, which has resulted from the sanctions of western countries on Russia and OPEC's production cuts.

In late October, Eni reported (10/25/24) results for the third quarter of 2024. Its production grew 2% over the prior year's quarter thanks to a ramp-up of projects. However, the average realized price of oil decreased and refining margins plunged vs. abnormally high levels. As a result, adjusted net profit decreased -30%. Thanks to its nearly pure upstream nature, Eni greatly benefited from the high prices of oil and gas and posted record earnings in 2022. However, natural gas prices have plunged this year, as the global gas market has absorbed the impact of the Ukrainian crisis, partly thanks to an abnormally warm winter. In addition, refining margins have normalized lately, after two years of sky-high levels amid the war in Ukraine. As a result, we have lowered our forecast for annual earnings-per-share from $4.30 to $4.10. We also reiterate that Eni is highly cyclical and hence its earnings in 2022 should not be viewed as sustainable.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.27	-$4.90	-$0.65	$2.12	$2.76	$1.79	-$0.51	$2.96	$8.01	$5.30	***$4.10***	***$2.56***
DPS	$2.61	$2.13	$1.79	$1.91	$1.89	$1.86	$1.23	$1.58	$1.80	$1.96	***$2.11***	***$2.16***
Shares[1]	1,805	1,801	1,801	1,801	1,794	1,820	1,789	1,778	1,689	1,653	***1,630***	***1,550***

Eni expects to grow its output by 3.5% per year until 2026. 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 above average price of oil, which has resulted from the sanctions of western countries on Russia. Before the sanctions, Russia was producing 10% of global oil and 31% of natural gas consumed in Europe. However, given the high comparison base formed this year, we expect a -9% average annual decline in earnings-per-share until 2029. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	27.0	---	---	15.8	13.0	17.9	---	8.4	3.4	5.7	***7.3***	***12.5***
Avg. Yld.	7.6%	5.7%	5.4%	5.7%	5.3%	5.8%	6.1%	6.3%	6.7%	6.4%	***7.0%***	***6.8%***

[1] In millions.

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Due to its above-average earnings expected this year, Eni is trading at a price-to-earnings ratio of only 7.3, 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 an 11.3% annualized gain in its returns, which will offset the expected -9% annual decline of earnings-per-share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	206%	---	---	90.1%	68.5%	104%	---	53.4%	22.5%	37.0%	***51.5%***	***84.6%***

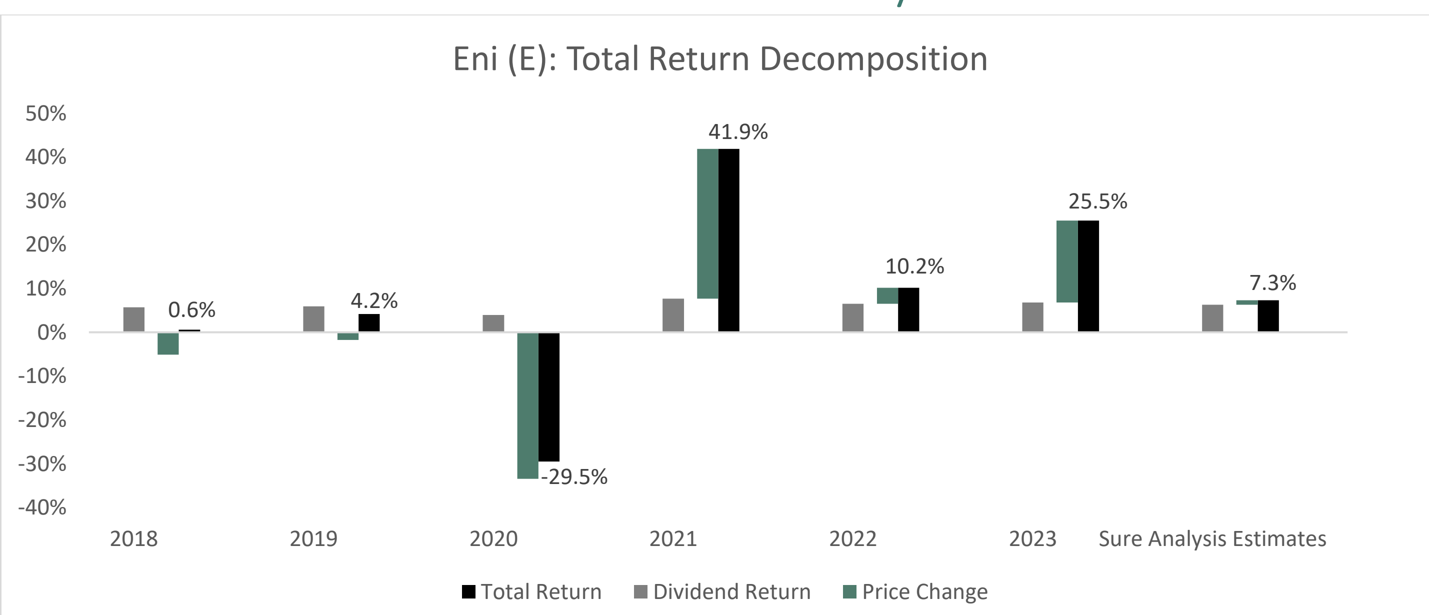
Due to its almost pure upstream focus, Eni suffered more than its peers in the downturn of the energy sector between 2014 and 2017. As a result, it reduced its dividend per ADR from €2.24 in 2014 to €1.60 in 2015. For comparison, during the downturn of the oil market between 2014 and 2017, the integrated oil majors, Exxon Mobil, Chevron, Shell, TotalEnergies 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 poor reserve replacement ratio of 55% in 2021, 90% in 2022 and 67% in 2023 and thus it now has 6.4 billion barrels of oil equivalent in proved reserves, which are sufficient for 10.3 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 $50 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 to about $25 and $40, respectively. 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 above average price of oil but we expect the price of oil to deflate in the upcoming years due to its cyclical nature. The stock of Eni could offer a 7.3% average annual return over the next five years thanks to its 7.0% dividend and an 11.3% valuation tailwind, partly offset by a -9% annual decline of earnings-per-share. Due to the highly cyclical nature of the upstream business, we are cautious over the long-term potential of Eni and rate it 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue ($B)	130.61	80.22	61.72	75.79	89.5	78.2	50.2	90.6	139.5	101.5
Gross Profit	17471	7211	4514	7899	15,601	12,204	3,591	16,521	24,019	13,371
Gross Margin	13.4%	9.0%	7.3%	10.4%	17.4%	15.6%	7.1%	18.2%	17.2%	13.2%
SG&A Exp.	3895	3461	3314	3342	3,652	3,354	3,270	3,417	3,180	3,395
D&A Exp.	10208	9921	8366	8475	8,252	9,075	8,341	8,357	7.598	8,097
Operating Profit	14777	4535	2126	5334	12,730	9,978	542	13,104	19,009	10,494
Op. Margin	11.3%	5.7%	3.4%	7.0%	14.2%	12.8%	1.1%	14.5%	13.6%	10.3%
Net Profit	1733	-9741	-1620	3821	4,872	166	-9,779	6,887	14,564	5,139
Net Margin	1.3%	-12.1%	-2.6%	5.0%	5.4%	0.2%	-19.5%	7.6%	10.4%	5.1%
Free Cash Flow	3817	385	-1668	1626	5,347	4,496	203	9,022	9,914	6,392
Income Tax	8599	3464	2143	3926	7,049	6,259	2,981	5,733	8,629	5,814

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	182.85	151.97	131.66	137.88	135.5	138.3	134.9	156.0	162.7	157.7
Cash & Equivalents	8043	5695	5998	8833	12,395	6,714	11,578	9,345	10,890	11,267
Acc. Receivable	34779	13793	11825	12215	14,349	12,497	13,366	17,577	22,439	18,475
Inventories	9187	5006	4902	5544	5,320	5,303	4,788	6,875	8,314	6,838
Goodwill & Int.	5375	3317	3456	3509	2,390	2,272	4,162	4,400	5,925	7,051
Total Liab. ($B)	103.03	89.20	75.54	80.20	77.0	84.6	88.7	105.6	103.6	98,433
Accounts Payable	28823	10501	11669	13065	13,321	11,739	15,831	19,016	27,665	22,919
Long-Term Debt	31484	30386	28796	29641	29,587	27,464	32,823	31,469	28,866	31,757
Total Equity	76835	60670	56069	57622	58,357	53,588	46,096	50,312	58,590	58,761
LTD/E Ratio	0.41	0.50	0.51	0.51	0.51	0.51	0.71	0.63	0.49	0.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	-5.8%	-1.1%	2.8%	3.6%	0.1%	-7.2%	4.7%	9.1%	3.2%
Return on Equity	2.2%	-14.2%	-2.8%	6.7%	8.4%	0.3%	-19.6%	14.3%	26.7%	8.7%
ROIC	1.5%	-9.5%	-1.8%	4.4%	5.5%	0.2%	-12.2%	8.6%	17.2%	5.7%
Shares Out.	1,805	1,801	1,801	1,801	1,794	1,820	1,789	1,778	1,745	1664
Revenue/Share	72.35	44.55	34.28	42.09	49.69	43.53	28.07	50.71	79.92	60.99
FCF/Share	2.11	0.21	-0.93	0.90	2.97	2.50	0.11	5.05	5.68	3.84

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