

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

**EQUITY RESEARCH: Eni -
Aligning
energy industry challenges with
financial sustainability**

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A Project carried out on the Master in Finance Program, under the supervision of:

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20-12-2023

Abstract:

ENI S.p.A. (ENI.MI) stands out as a leading global energy enterprise with operations spanning the entire value chain. Engaged in activities ranging from natural gas and oil to co-generated electricity and renewables, ENI is involved in both traditional and bio refining, as well as chemical production.

Its sector is facing challenges of various kinds, first of all related to commodity prices, which have spiked since the outbreak of the Russia-Ukraine conflict, and then the increasingly rapid shift to renewable sources, in this respect Eni is very active despite high initial investments in order not to be found unprepared by confirming its commitment to sustainability. Therefore, this report focuses on the analysis of the company's liquidity, cash flow management and capital structure, before moving on to Revenues forecasts taking into account these fluctuations in prices, concluding with a valuation of the company at the end of 2024.

Keywords: Finance, Forecast, ENI, Valuation

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209)

This report is part of the Eni S.p.A. Equity Research report (annexed), developed by Francesco Campanella and Stefano Colasanti and should be read as an integral part of it.

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Introduction

In an era marked by dynamic market landscapes and ever-evolving economic conditions, the analysis of investment opportunities requires a meticulous examination of companies that exhibit resilience, innovation and strategic foresight. This equity research report presents a comprehensive assessment of Eni, an energy-focused entity engaged in a wide range of core activities across the entire energy value chain including Exploration & Production, Refining, Marketing & Chemical, Renewable & Power. This report delves into Eni's financial performance, industry specific factors and its outlook. The invasion of Ukraine by Russia in February 2022 led to a surge in oil and gas prices, resulting in record-level profits for the industry. Over the past 18 months, the focus has shifted towards ensuring the security of supply rather than prioritizing decarbonization. Understanding the fundamental strengths and potential risks associated with Eni is critical for investors to understand the Italian energy sector and how it approves of energy, and for those investors looking at returns through dividend payments.

This research aims to provide a strategic goal through which investors can make informed decisions in the pursuit of long-term value creation.

Company Overview

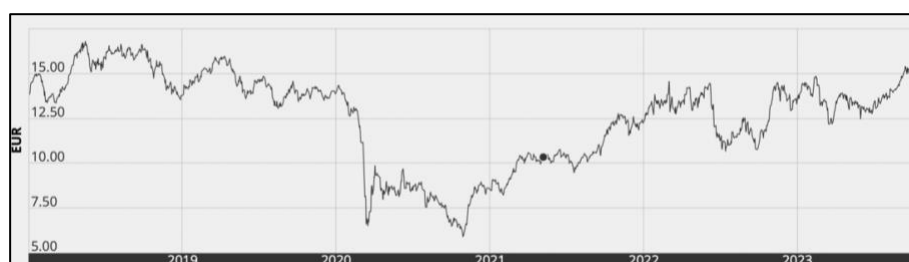
Share details

ENI DIVIDEND HISTORY AND SHARES POLICY

- 2018: €0.83
- 2019: €0.86
- 2020: €0.36
- 2021: €0.86
- 2022: €0.88

ENI S.p.A. is an Italian multinational energy company engaged in various aspects of the energy sector, including the exploration, production, refining, marketing and distribution of oil and gas products. Its strategic shift towards renewable energy is evidenced by the growth in installed capacity from renewables. Eni operates as a fully commercial global entity, and its financial performance is closely tied to worldwide oil and gas prices.

As of 17th October 2023, Eni has 3.35 billion shares outstanding with major shareholders including the Italian Ministry of Economy and Finance which owns 4,67% of Eni's shares, Cassa Depositi e Prestiti S.P.A. which is a State financial institution in the form of a joint stock company under public control (control exercised by the Italian Ministry of Economy and Finance), with 27,7% share capital, Eni S.P.A. (5,348%), The Vanguard Group (2,272%), Norges Bank Investment Management (1,666%)¹.



The share price of Eni has exhibited fluctuations over the last five years witnessing a decline in 2020 due to pandemic induced market conditions but showing recovery in recent years. In the appendix we attached the graphs with the stock performance of Eni and its peers over the past 5 years. We observed that these graphs exhibit the same trend pattern, which underscores the strong correlation between energy companies' stock values and oil and gas prices.

The company intends to distribute 25/30% of expected annual CFFO through a combination of dividends and share buybacks. For 2023, Eni has announced an annual dividend of €0.94 per share, representing a 7% increase compared to 2022 and a share buyback program of €2.2 billion,

ENI SHARE PRICE PERFORMANCE

- December 2018: €13.75
- December 2019: €14.00
- December 2020: €8.55
- December 2021: €12.22
- December 2022: €13.29

(Source: Google Finance)

¹ ENI.com – Shareholders, <https://www.eni.com/en-IT/about-us/governance/shareholders.html>

reflecting expectations and business performance².

In more favorable conditions, the company plans to allocate 35% of incremental cash flow to additional buybacks, while in less favorable scenarios, ENI commits to using balance sheet flexibility to uphold its shareholder return commitment.³

Despite paying high dividends, an analysis of recent revenues, CAPEX and ROIC suggests no concerns about a lack of profitable investments. Furthermore, in the five quarters from January 2022 to March 2023, ENI was not the only energy company to return record sums to investors in dividends and share repurchases. The boom was driven first by rebounding demand in late 2021 as economies eased covid-related restrictions, which was then exacerbated by the disruption in energy markets because of the war.

ENI is therefore a highly recommended stock for those investors who are looking for high-yielding stocks based on their goals, risk tolerance and income needs.

So, we think that the company's commitment to enhancing shareholder returns through a combination of dividends and share buybacks is a positive sign. The announced 7% increase in the annual dividend for 2023 and the sizable share buyback program reflect confidence in Eni's financial position and strategic direction.

Company Analysis

Cash Flow Management

The **Cash Conversion Cycle (CCC)** is the average number of days it takes a business to complete its normal operating cycle. Ideally, a lower CCC is sought to mitigate risks associated with business operations and alleviate solvency pressures. Eni has shown, meaningless changes in its CCC over the past few years despite the challenges posed by COVID-19 pandemic with a negative CCC indicating improved self-financing capacity and reduced risks, in fact, the increase in ACP due to the drop in revenues was offset by the increase in APP due to an equal drop in the cost of revenues. This achievement not only reduces the company's risks, but also ensures less liquidity pressure, which speeds up payments generating positive cash

Average Holding Period						
	2017	2018	2019	2020	2021	2022
Inventories	4,621,000	4,651,000	4,734,000	3,893,000	6,072,000	7,769,000
Cost of Revenues (Product)	51,548,000	55,622,000	50,874,000	33,551,000	55,549,000	102,529,000
Average Holding Period	33	31	34	42	40	27

Average Collecting Period						
	2017	2018	2019	2020	2021	2022
Accounts Receivable	14,156,000	14,101,000	12,873,000	10,926,000	18,850,000	20,840,000
Revenues	79,977,000	76,938,000	71,041,000	44,947,000	77,771,000	133,687,000
Average Collecting Period	73	67	66	89	88	57

Average Payable Period						
	2017	2018	2019	2020	2021	2022
Accounts Payable	-15,305,000	-16,747,000	-15,545,000	-12,936,000	-21,720,000	-25,709,000
Cost of Revenues	-51,548,000	-55,622,000	-50,874,000	-33,551,000	-55,549,000	-102,529,000
Average Payable Period	108	110	112	141	143	92
Cash Conversion Cycle	-3	-12	-11	-10	-14	-7

PEERS	
Company	Cash Conversion Cycle (Set 2023)
ENX	6
TFE	2,57
SHEL	-7

Cash Conversion Cycle

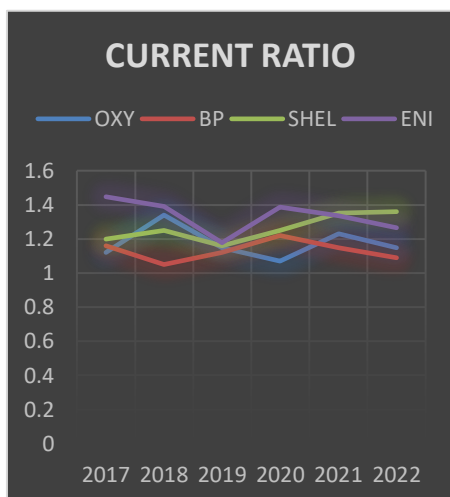
² Google Finance - <https://www.google.com/finance/quote/ENI:ETR>

³ ENI.com – Shareholders’ remuneration

flows to sustain company's operating needs, effectively, the suppliers are financing the operational activity of the company. Compared to peers like OXY, SHEL and TTE, Eni demonstrates a competitive advantage in cash flow generation, notably due to a favorable Average Payable Period (APP). The **Average Collection Period**, reflecting the time to collect payments, has seen a positive trend, decreasing from 89 to 57 days from 2020 to 2021, indicating that Eni is becoming more efficient in collecting payments from its customers. This improvement is likely attributed to the post-pandemic recovery, bolstered credit and collection policies, and/or improved customer relationships. Eni has now faster access to cash that can be reinvested in business operations, debt reduction and other strategic initiatives.

The **Average Holding Period**, measuring the days inventories remain unsold, has shown Eni's effort to optimize inventory management, reducing costs and improving cash flows. The **Average Payable Period** represents the average number of days that it takes for the company to pay its suppliers. It is worth noting that there was a significant worsening in APP in 2022, with a drop from 143 to 92 days, which means higher pressure on ENI's liquidity.

Liquidity Analysis



The most common ratio to assess a company's overall liquidity situation is the **current ratio**, and in the case of Eni, this ratio was higher than 1 throughout the analyzed period, indicating sufficient liquid assets to fulfill obligations entered during the fiscal year. The visual analysis underscores ENI's superior liquidity performance compared to industry peers, exception made for Shell, which has a better ratio in 2022 because they have doubled financial derivatives in their balance sheet which account for Current Assets⁴. We believe that considering the sharp rise in commodity prices in 2022, Shell wanted to hedge against any risks of their sharp and sudden fluctuations.

The **quick ratio**, derived by excluding the assumption that inventory can be liquidated quickly, aligns closely with the current ratio, since inventory does not have a significant impact on a company's total current assets. This suggests that the company is in a strong liquidity position as it can easily meet its short-term obligations. The decline in the quick ratio over

Current Ratio.
Source: Macrotrends

⁴ Shell – Annual Report 2022 - <https://reports.shell.com/annual-report/2022/>

the three years analyzed is explained by the fact that, in relative terms, current liabilities increased more than current assets.

At first glance, it appears that Eni’s **cash ratio** could be a cause for concern. If the company cannot rely on current assets other than cash, it will only have the immediate financial capacity to repay 21% of its current liabilities in 2022. However, this argument significantly underestimates the Italian company’s liquidity position, which, looking at current and cash ratio, is more than strong. In fact, there are no signs that Eni’s financial flexibility will be undermined in the coming years; on the contrary, in recent months it has had access to several sustainable linked credit lines which helps the company to pursue investment opportunities (installed renewable capacity) that arise suddenly, as well as always being a hedge against unforeseen short-term obligations or any economic downturn. In addition, the relationship with institutions discussed in "Share Details" facilitates access to financing for credibility issues, or "special" lines of credit due to state intervention.

Capital structure

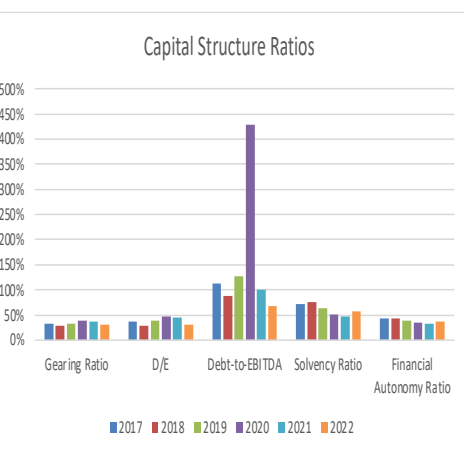
For making calculations pertaining to capital structure ratios, we used net debt, encompassing both long-term debt and short-term debt, and deducting cash and cash equivalents to reflect Eni’s actual debt load, considering its ability to pay off debts using its liquid assets.

The **Gearing Ratio** assessing debt relative to invested capital, has exhibited a decline in the past fiscal year, indicative of an enhanced capital structure. Specifically, Eni experienced a reduction in borrowings, coupled with an increase in invested capital.

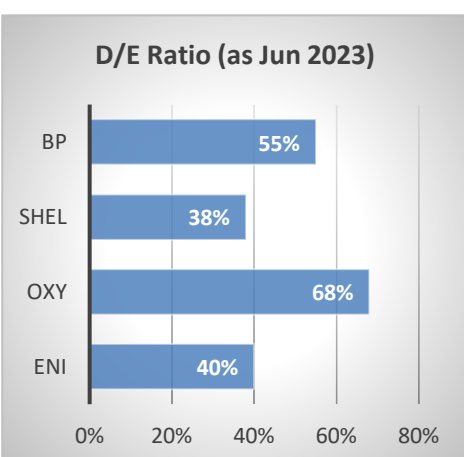
The **D/E ratio** is a measure of the leverage a company uses to finance its operations. This ratio has been declining from 2020 to 2022 (46% to 30%), which is desirable from a risk perspective. Another perspective to consider is the return perspective, which suggests a higher D/E ratio for better tax protection.

Eni has been able to lower **Debt-to-EBITDA** over the past three years. Of course, we’re talking about a special case here, as operating profits were very low in 2021 and 2020 due to the pandemic. Therefore, it is not surprising that this percentage drops significantly from 429% to 68%. Overall, the key figures point to an improving financial position.

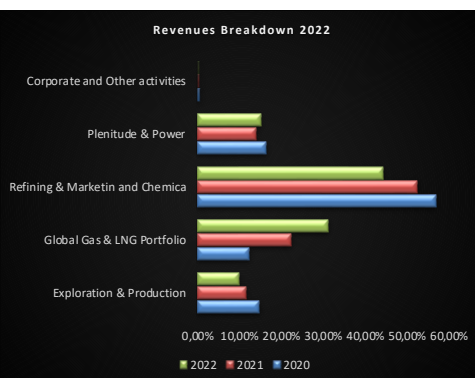
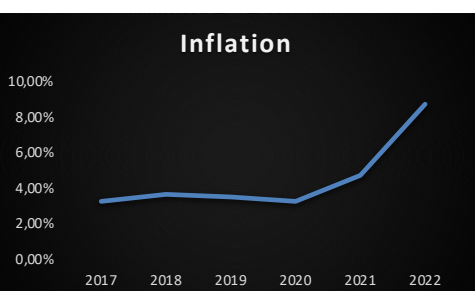
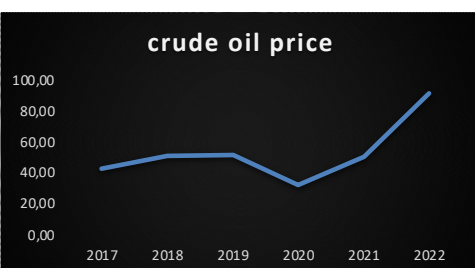
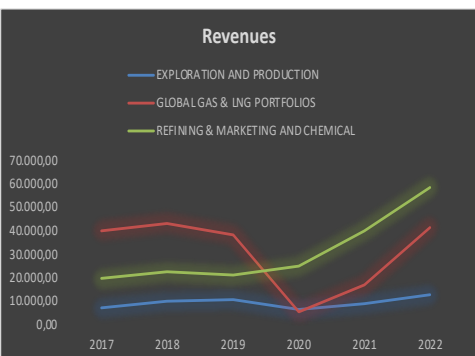
The **Solvency Ratio**, depicting a firm’s capacity to meet obligations with generated or invested capital, increased in 2022, affirming ENI’s success



Capital Structure Ratios



D/E Ratio. Source: Macrotrends



in enhancing financial health through sustainable growth.

Overall, ENI’s Capital Structure outperforms industry expectations maintaining a good balance between debt and equity which is important because too much reliance on debt can increase interest expenses and financial risk, while too much equity can dilute ownership and reduce returns for shareholders. In fact, comparing with the industry average D/E ratio of 58%, ENI’s capital structure positions mirror, if not surpass, these industry benchmarks which once again underlines how ENI has little exposure to financial risks despite the significant capital-intensive projects that are undertaken in this Industry.

In conclusion, we do not believe that any deterioration in the D/E ratio would be viewed with concern by the markets, given Eni’s good rating and its excellent ROIC above the industry average. The company’s strategic balance and financial performance instill confidence in its resilience to market dynamics.

Value Drivers

Revenues by Business Unit

ENI provides products and services around the world through four business areas: Exploration & Production, Global Gas & LNG Portfolio, Refining & Marketing and Chemical, Plenitude & Power and Corporate & Other Activities. The column chart on the left shows the relative weight of each business unit in total revenue from 2020 to 2022.

“Refining & Marketing and Chemicals” and “Global Gas and LNG Portfolio” are the business areas that generate the highest sales relative to total sales. However, from 2020 to 2022, not only we observed a significant downward trend in Refining & Marketing and Chemical, but also our forecasts, which we will discuss further, indicate that this revenue source will further decrease in line both with ENI’s plan and oil/gas price forecasts. Conversely, revenues from the “Global Gas & LNG Portfolio” have increased significantly, with Eni seeing this business segment as essential as showed in their Strategic Plan. In terms of Total Revenues as you might imagine, 78% of revenues come from Europe (including 55% from Italy). Revenues from all segments show a very strong correlation to crude oil and gas prices, as well as inflation.

Invested Capital Value Drivers

ENI’s **cash outflow** primarily comes from exploration and production activities. This represents 5% of Eni’s revenues.

Net Revenue	44.947,00 €	77.771,00 €	133.687,00 €
Core Invested capital drivers	2020	2021	2022
Operating Cash	2.247,35	3.888,55	6.684,35
% Net Revenue	5,00%	5,00%	5,00%
Inventories	3.893,00	6.072,00	7.709,00
Holding Period	41,32	41,53	27,89
% Net Revenue	8,66%	11,38%	7,64%
Accounts Receivable	10.926,00	18.850,00	20.840,00
Collection Period	88,73	88,47	56,90
% Net Revenue	24,31%	24,24%	15,59%
Accounts Payable	12.936,00	21.720,00	25.709,00
Payable Period	137,29	148,54	93,01
% COGS	37,61%	40,70%	25,48%
Intangible Assets	2.936,00	4.799,00	5.525,00
% Net Revenue	6,53%	6,17%	4,13%
Goodwill	1.297,00	2.862,00	3.138,00
Plenitude	1.046,00	2.446,00	2.927,00
Refining and Marketing	93,00	173,00	102,00
Exploration and Production	146,00	139,00	
Chemical	1,00	93,00	93,00
Corporate and other activities	11,00	11,00	16,00
Other	1.639,00	1.937,00	2.387,00
PP&E	53.943,00	56.299,00	56.332,00
Land and Buildings	1.128,00	1.071,00	1.088,00
% Net Revenue	2,51%	1,38%	0,81%
Plant and Equipment	39.648,00	42.342,00	40.492,00
% Net Revenue	88,21%	54,44%	30,29%
Other	13.167,00	12.886,00	14.752,00
% Net Revenue	29,29%	16,57%	11,03%
Displayed Items Invested Capital	61.009,35	68.188,55	71.381,35
Total Core Invested Capital	44.264,35	52.264,55	54.899,35

Invested Capital Value Drivers

Inventories represent 7% of Net Revenues in 2022 and have decreased from 11% of Net Revenues in 2021 even if, in absolute value, inventories increased from 2021 since Eni expanded its production capacity (especially renewable) to meet growing demand.

Account Receivables represent 15,5% of Net Revenues in 2022 but have significantly decreased from 24% in 2020 and 2021 despite, in absolute value, it has increased from €10bn in 2020 to €20bn in 2022. This scenario, combined with the reduction in Average Collection Period, is a great news for the company, which has improved its efficiency in collecting payments from customers.

As to what one might expect for an energy company, Intangible Assets represent a slight proportion of Total Revenues. Half of this value refers to **Goodwill**, which has increased by 65% from 2020 to 2021 because of several business combination completed by Eni. Noteworthy transactions, such as the Damietta plant acquisition, Aldro Energía Y Soluciones SLU acquisition, FRI-EL Biogas Holding acquisition and other strategic partnerships, contributed to this increase.

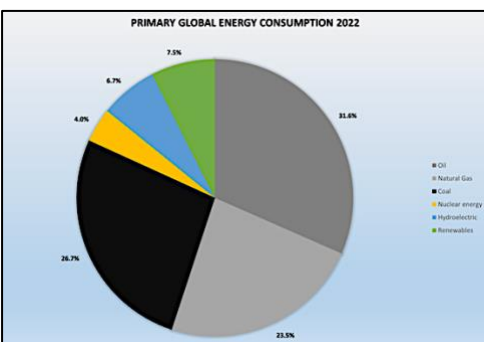
We asked ourselves what prompted Eni to undertake this series of transactions in such a close timeframe, and looking at the industry at that point in history and Eni's strategic plan that came out in late 2020 we believe the main reason was to respond to the ongoing risk in 2021 of unfavorable fluctuations in the price of Brent. Thus, the idea was to improve the company's profitability in view of a potentially complicated period. A further component could be that of having chosen acquisitions of renewable energy plants through strategic partnerships but the first motivation seems to us to be the most important one. To assess the effect of these transactions on Eni's value first of all we tried to understand whether there had been an increase in value for shareholders or not. From the data we collected and studied it appears that there was an increase in Total Shareholder Return between the quarter results prior to the start of the operations, and the quarter results where all the operations had been announced. Specifically, we report a 9.70% growth between the share price before operations and post operations and an increase in the dividend distributed. However, the increase in share price is a "minor" factor in this context, and it is not the right metric to use for Eni both because its share price tends to remain stable due to very high dividends and because industry peers also saw their share prices increasing (12% industry average). We also looked at the evolution of the financial ratios pre and

post announcement of the deals noting increases in Gross Margin (from 24.94% Jan 2021 to 29.82% Jul 2021), operating profit margin (from 2.30% to 11.99%, showing very likely cost synergies), and net profit margin (went from being between zero and negative to 1.51%) showing that the operations were value-adding.

PP&E is the largest value driver. They have been constant over the last 3 years. As for the Non-Core business, Equity investments are the key driver. Having increased excess of cash and short-term investments, Eni mainly use equity investments for capital preservation goals. Specifically, they have soundly grown by 105% from 2021 to 2022, meaning that Eni has been increasing its equity exposure.

Industry Analysis

Industry Trends



According to the Statistical Review of World Energy, the global energy landscape remains heavily reliant on fossil fuels for energy needs, maintaining 82% share of energy consumption.

Nonetheless, despite facing challenges such as power grid limitations, energy price fluctuations, inflation, supply chain disruption, regulatory complexities, the noteworthy growth of renewable should not be underestimated, and according to IEA in the coming years the world will add as much renewable power capacity in the next five years as it has in the past two decades rising more than 60% from 2020 levels.

Eni’s overarching objective is to create value while decarbonizing its operations, aligning with the imperative of maintaining global warming within the 1.5°C threshold by the end of the century. Since 2014, ENI has undertaken a strategic industrial transformation, navigating a landscape characterized by volatility and uncertainty. Remarkably in 2023, ENI reaffirmed its unwavering commitment to decarbonization and its key medium-to-long-term emission reduction and business objectives.

ENI has already submitted CCS plans, which are in the approval process, for the construction of carbon dioxide storage hubs in Ravenna, the United Kingdom and Libya, with the goal of storing 50 million tons of CO2 per year. However, the substantial costs associated with this endeavor, estimated at 30 billion euros until 2050 (largely borne by governments), have led the IEA to reject this technology.

*Global Energy Consumption 2022
Source: Statistical Review of World Energy*

Eni is also very active on the short-term front, in fact, according to its capital markets update for 2023-2026, the company will invest approximately €13.8 billion in zero and low carbon activities over this period, aiming for environmental impact reduction and positive free cash flow generation.

Turning to global energy demand, 2022 saw a 1,1% growth in energy demand, notable increases in coal and oil demand. In the realm of oil, demand exhibited a substantial growth of 3.1% in 2022 attributed to the ongoing economic recovery post covid, although oil consumption remained 0.7% below the levels observed in 2019. On the other hand, global natural gas demand experienced a decline of 3% in 2022 due to record price levels in Europe and Asia.

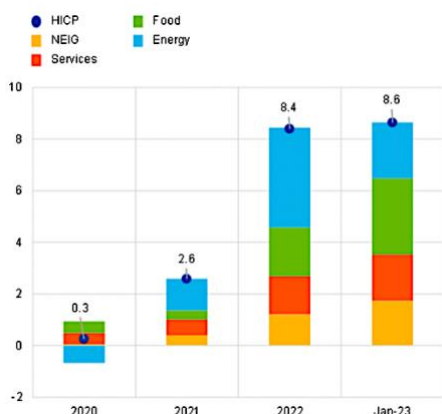
Competition and Macroeconomic Outlook

The global economy has started to improve, but the recovery remains weak, suggesting that investors and businesses should be cautious, according to the latest economic outlook from the OECD. Headline inflation in the OECD is expected to fall from 9.4% in 2022 to 6.6% in 2023 and 4.3% in 2024⁵.

According to the Energy Agency (IEA), the increase in oil demand due to the post-pandemic recovery is expected to end this year, with a slowing economy and the transition to cleaner fuels sapping growth from 2024, so ENI’s peers will continue diversifying into cleaner energy sources as the transition away from fossil fuels continues.

The recovery desired by IEA is already clear at the beginning of 2023 according to European Central Bank inflation data, in fact, in the graph on the left we have inflation from 2020 to early 2023 with related drivers. Energy prices have been the main inflation driver in 2022, especially gas price, but looking at prices on futures markets, there are signals of moderation of them, which should reflect on consumers’ energy costs.

More than a half of energy investment is going to clean energy while global upstream investments in oil and gas exploration, extraction, and production this year are due to reach \$528 billion, the highest level since 2015, and are on course to keep the world adequately supplied through 2028, the IEA said. Demand for oil from combustible fossil fuels, excluding biofuels, petrochemical feedstocks and other non-energy uses, is estimated to reach 81.6 million bpd in 2028, it said, adding that oil demand for transport



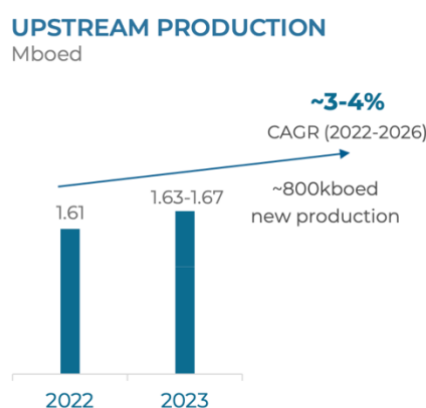
OECD Inflation
Source: OECD Economic Outlook

⁵ OECD - Global economic outlook improving, albeit to a low growth recovery, 2023

is due to peak in 2026. Uncertainty regarding the development of Russia’s war with Ukraine and its global impact remains a major concern.

Forecasting

Revenues



Oil and Gas Production
Source: Eni Capital Market
Updates

Eni’s Net Revenues are divided in four main different segments: Exploration & Production, Global Gas & LNG Portfolio, Refining & Marketing and Chemical, Plenitude & Power. We used regression as methodology for the Revenues’ forecasting.

Exploration & Production revenue segment primarily focuses on the upstream activities in the energy value chain, including the critical tasks of resource discovering, extracting, and hydrocarbon production, including both oil and natural gas. As part of its strategic growth plan, Eni is strategically positioning itself for the future by intensifying its exploration and production efforts, with a particular focus on the expanding of its natural gas portfolio. Specifically, following the discovery of new resources and some planned gas initiatives in Congo, Libya, Egypt, Italy and Middle East, ENI expects a CAGR of around 4% in oil and gas production.

For our regression, in addition to the two drivers just mentioned, we considered commodity prices, in fact, there is a very strong correlation between revenue trends between 2017-2022 and oil price trends (correlation: 0,92), the argument does not change for what concerns sales of natural gas. Our projections involve predicting the future price of Brent crude oil by referencing the prices provided by the Energy International Agency (EIA) for 2024. We adjust these prices by either increasing or decreasing them by a proportionate amount, corresponding to the changes in the futures contract for crude oil available on the market. For the natural gas price forecast, the procedure has been more intricate, primarily because Eni relies on the Spot Gas price at Italian PSV as the reference commodity. Pricing this commodity has proven challenging due to a lack of reliable data and forecasts. Hence, we initiated the analysis based on the projected commodity prices outlined in Eni's reports for 2024 and 2025. Subsequently, we identified the US Henry Hub gas price as a suitable benchmark, given its historical proportional movement to the Italian PSV gas price. Consequently, we examined futures contracts associated with the US Henry Hub gas price, using the fluctuations in their contract prices

to adjust the Spot Gas price at Italian PSV, either increasing or decreasing accordingly. Given this analysis, we expect these revenues to remain stable until 2028, with a small increase in 2029-2030 due to bullish expectations for oil price.

Global gas & LNG Portfolio sector encompasses sales of global gas and LNG globally. ENI operates in multiple international market, including Europe, Africa, Asia and the Americas. Revenues associated with this segment have increased dramatically in the last year, primarily attributed to an escalation in energy prices driven by geopolitical developments, particularly the conflict in Ukraine. Eni's forward-looking strategic plan underscores a proactive approach to reduce dependence on Russian imported gas with its own resources, with the ambitious objective of achieving complete self-sufficiency in the Gas & LNG Portfolio segment by 2025. This strategic vision is underpinned by robust partnerships with producing countries. The drivers we considered for this segment are the Spot Gas price at Italian PSV and the gas sales volumes. We have already discussed the forecast of the first driver, while for sales volumes we used as a proxy the growth rate between 2022 and 2030 provided by a study conducted by the Oxford Institute for Energy Studies⁶ which assumes that in 2030 Europe will have completely replaced Russian gas. Revenues will drop dramatically, of course this is related to the forecasted drop in Spot Gas Price at Italian PSV (-66% by 2027).

Refining, Marketing & Chemical sector includes activities at the end of the energy value chain. This segment includes the refining of crude oil into various petroleum products, the marketing and distribution of these products, and the production of petrochemical products. The sharp drop in oil and gas prices, together with the reduction in SERM (Standard Eni Refining Margin) will lead to a sharp drop in revenues in the coming years. In addition, Eni is shifting the focus of this segment to clean energy production through investments in biorefining & biochemicals through its subsidiary Versalis. Our assumption in this regard is that the investments we will see in the coming years for this transition will not lead to immediate returns, impacting profitability at least until the end of the forecasted period. Eni's commitment to the energy transition is commendable. It has an ambitious plan to reach 60 gigawatts of installed renewable energy

⁶ <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2023/07/NG-184-A-New-Global-Gas-Order-Part-1.pdf>

capacity by 2050. Eni's integration of its retail and renewable power business, Plenitude, reflects its strong focus on capitalizing on the mounting demand for renewables and green energy products. This sector is dedicated to the technological innovation with the goal of supplying 100% decarbonized products. Portfolio transactions related mainly to acquisitions have accelerated the growth of Plenitude in the last year, in fact, revenues for this business unit have almost doubled from 2021 to 2022. Eni's Strategic Plan 2023-2026 states that Plenitude and Power EDITDA is expected to rise by 3 times by the date versus 2022. Since the previous plan regarding this revenue stream have always been reflected in subsequent years, we expect that this growth is reliable. However, in light of the growth in revenues in this segment in recent years, it is difficult to think that EBITDA growth will be supported by a 3 times increase in Revenues; it seems more likely that this will happen through a cost cut. To forecast these revenues, we did a breakdown of Plenitude & Power's revenues into the two types of sales that fall under this segment, sales of gas and sales of power. For sales of natural gas, we used as a reference driver the Spot Price of Italian PSV, forecasted in exactly the way seen in the previous segments. The weight of these revenues on total revenues was 50 percent in the first year of Plenitude & Power's operation, and from there it began to account for less and less and this trend is expected to continue according to Eni strategic plan. Regarding sales of power the drivers used were power price and renewable installed capacity (present in Italy, Australia, France, USA, Kazakhstan, and Spain) forecasted according to expectations provided directly by Eni.

After running the regression, the results we had were according to expectations, in fact we forecast an increase in Revenues from power sales close to 50% (in line with the growth forecasts of a study by Precedence Research on the market size of this segment).

Power prices are expected to decrease, but not to the extent we have seen for oil and gas. In fact, looking at the Electricity Spot Price forecasts for 2030, we noted that the drop from 2022 is slower. We have tried to understand the reasons for this and looking at the investments in increasing renewable installed capacity of both Eni and the other biggest peers, surging demand is expected in the coming years, which then counterbalances the inflationary drop and keeps power prices still at fairly high levels.

Costs

Our primary focus pertains to the expenditures associated with the company's revenue-generating activities, as categorized in the company's Income Statement under the label 'purchases, services, and other.' These expenditures encompass production costs, which include raw materials, ancillary and consumable goods, costs related to services, lease expenses, net provisions for contingencies, and other expenses.

Among these components, the predominant cost category is obviously production costs, which, in the year 2022, accounted for approximately 80% of the total cost of revenues. Over the last years (2017 – 2021), cost figures have closely mirrored the trajectory of revenue, maintaining a consistent ratio of around 73% of total revenues, without considering 2022, since the energy prices dump has also severely impacted exploration and production costs (+22% per boe).

Considering the backdrop of market recalibration in the post-pandemic and post-conflict period, we have not factored in earlier years, as they were characterized by extraordinary circumstances. Looking ahead, our outlook remains aligned with historical trends. We anticipate that the introduction of new revenues stemming from the expansion of Eni's natural gas portfolio and the intensified operations in the 'plenitude' sector will not exert disproportionate pressure on costs. Thus, over the forecasted period, we expect costs to continue to be around 75% of total revenues.

Depreciation & Amortization is expected to remain at historical percentage of the previous year's PP&E, and we expect that percentage to remain at historical average.

Given our assumptions, we expect our net margin to be around 11% for the following years, which is a positive sign for the profitability of the company, which is recovering from previous years, being efficient in controlling its operating costs, furthermore it will be viewed as attractive to investors and shareholders.

Valuation

Discounted Cash Flows

Before to proceed in the discounting of the Free-Cash Flow we calculate the appropriate discounting rate (WACC).

First, considering the global footprint of Eni S.p.A., its corporate domicile in Italy, and its listing on the European stock market, specifically the “Borsa Italiana”, we have employed a European-centric framework for establishing the risk-free rate. Given the temporal scope of our business case spanning approximately 10 years, the German 10-year bond with an average from 01/01/2017 of 0.48% (higher number due to the interest rates increased at the beginning of 2022) emerges as a pertinent and fitting reference rate for risk-free assessment. Similarly, incorporating geographical considerations, the Stoxx600 index, which encompasses 600 large, mid, and small-sized European companies, can be employed as a representative proxy for the market. The index had an average return of 4.6%, from 2017, as well influenced by the Covid-19 drawback consequences. From the data, we derived the Market Risk Premium (MRP) as 4.12% (4.6% - 0.48%).

Following this, we conducted a regression analysis on historical data of excess market returns and excess stock returns to obtain the Beta equity. The result was a Beta equity of 1.224 with a confidence level of 95%.

Moreover, employing values of 19% for the Tax Rate, €16.762 million for Debt, and €55.230 million for Equity, we computed the Unlevered beta as 0.99 using the formula
$$\frac{\text{Beta Equity}}{(1 - \frac{\text{tax rate} * \text{Debt}}{\text{Equity}})}$$

Additionally, the Beta debt was computed as 0.239 using the formula
$$\beta u = \frac{\text{Equity}}{\text{Equity} + \text{Debt}} * \beta e + \frac{\text{Debt}}{\text{Equity} + \text{Debt}} \beta d,$$
 and extracting the value for βd .

Subsequently, with these parameters, we determined the Cost of Debt by adding the Risk-free rate to the product of the Market Risk Premium (MRP) and βd , resulting in a value of 3.8%. Similarly, by adding the Risk-free rate to the product of MRP and βe , we arrived at a Cost of Equity of 7.9%.

Once we achieved these numbers, and considering a marginal tax rate of 19%, we can obtain the Weighted Average Cost of Capital. The value calculated is 6.75%. Subsequently, this return was used to discount Free Cash-Flows of Eni. We have estimated cash- flows for 2023 and then forecasted the ones until 2030.

After having discounted the Free Cash Flow of the Group (Core + noncore), we obtained the Enterprise Value as of Dec.2024, summing these values, amounting to € 13.339 million. To this value, we added the Cash and cash equivalents totalling €9.790 million, subtracted Net Debt €17.609 million, the Non-controlling Interest €471 million, and added the Terminal Value derived at €56.631 million. The terminal value was calculated assuming perpetuity, with a CAGR of 2.31%, obtained as the

average of OECD’s global growth expectations for the period 2030-2060. Subsequently, after dividing the Equity Value by the estimated number of outstanding shares in 2023 (3.482,6 million common shares), we arrived at a per-share value of €17.71. This assessment, accounting for the transaction with shareholders, culminates in a total shareholders' return (TSR) of 45%, leading to a recommendation to consider a Buy.

Multiple Valuation

To value Eni using comparables, we first need to set a list of comparable firms. By comparable firms we mean from the same or similar industry with same or similar size.

We have assumed the following list of comparable firms: Exxon Mobil Corporation (XOM), Shell plc (SHEL), TotalEnergies SE (TTE), BP PLC ADR (BP), Repsol, S.A. (REP.MC), Petróleo Brasileiro S.A. – Petrobras (PBR), Tenaris S.A. (TS) and Occidental Petroleum Corporation (OXY). Furthermore, we have made the comparison according to Market Capitalization, Debt-to-Value ratio, Unlevered Beta, Earnings per Share growth. We got our data directly from Yahoo Finance, which uses a different definition of Net Debt than the one we used in our DCF model, so, in order to compare multiples in a consistent way, we used the used Yahoo Finance’s Net Debt definition also for ENI. Furthermore, we assumed that Beta Debt is equal to 0.

As we can see from the table on the Appendix, the most similar company to Eni, in terms of market capitalization, is OXY (48.550mln the former, 56.381 the latter). Additionally, looking to D/V ratio, we can see that OXY is the most similar company even under these terms of analysis. With regards to the Unlevered Beta, REP.MC has a Beta of 0,798 which is the closer to Eni’s Beta of 0,817. Finally, according to EPS growth, we can conclude that the most similar is SHEL, with an EPS growth of 230%, compared to Eni’s 246%.

Consequentially, we have calculated the different price targets according to different valuations: EV/EBITDA valuation, PE valuation, EV/Revenues valuation.

For each of these valuations, we calculated two different price targets, the first one considering all the comparable firms, the second one only with the firm we have considered as “similar” previously.

Regarding EV/EBITDA Valuation, using the multiple we got a price target

of 15.82, while considering only the “similar” firms we got a price target of 15.65. This means that Eni’s Current Price matches perfectly with this valuation. As far as PE valuation is our concern, the price target considering all companies is 19.58, while taking just the “similar” firms the price is 19.81. In both scenarios Eni’s Current Price is lower than the Price Target, which means it is undervalued According to EV/Revenues valuation, the conclusion that we can take are different compared to what we have seen so far, more precisely, comparing Eni’s Current Price with the price target of “all” firms scenario, the former is overvalued, while, comparing it with the price target of “similar” firm scenario, we got the opposite result. Finally, in relation to the PB Valuation, the Price Target in the case of “all firms” is 21.86, and in the case of “similar” firms it is 22.08, which means that, again, Eni’s Current Price is undervalued. Overall, Multiple Valuation suggests that the share is undervalued which will reinforce our recommendation of Buy.

Ticker	Name	Market Cap (USD B)	Net Debt (B)	EV (B)	Equity	D/V	beta_e	beta_u	ROIC	EPS growth (past 5y)
XOM	Exxon Mobil Corporation	422.694	21.966	444.660	422.694	4,94%	0,950	0,903	16,08%	210%
SHEL	Shell plc	203.430	43.550	246.980	203.430	17,63%	1,300	1,071	8,73%	230%
TTE	TotalEnergies SE	151.487	23.723	175.210	151.487	13,54%	0,290	0,251	8,36%	175%
BP	BP PLC ADR	104.593	30.817	135.410	104.593	22,76%	1,290	0,996	9,99%	515%
REP.MC	Repsol, S.A.	18.059	951	19.010	18.059	5,00%	0,840	0,798	8,56%	97%
TS	Tenaris S.A.	19.432	-1.612	17.820	19.432	-9,05%	0,870	0,949	24,04%	456%
OXY	Occidental Petroleum Corporation	56.381	28.819	85.200	56.381	33,83%	0,840	0,556	10,98%	263%
ENI.MI	ENI.MI	48.550	23.442	71.992	55.230	32,56%	1,005	0,817	7%	246%

	All	"Similiars"
Multiple	3,09	3,07
ENI.MI EBITDA	24.715	24.715
ENI.MI EV	76.369	75.793
ENI.MI Net Debt	16.762	16.762
ENI.MI Equity	59.607	59.031
ENI.MI #Shares	3.345	3.345
Price Target	17,82	17,65

EV/EBITDA Valuation

	All	"Similiars"
Multiple	5,28	5,34
ENI.MI EPS (ttm)	3,71	3,71
Price Target	19,58	19,81

PE Valuation

	All	"Similiars"
Multiple	0,93	1,06
ENI.MI Revenues	77.616	77.616
ENI.MI EV	72.474	82.014
ENI.MI Net Debt	16.762	16.762
ENI.MI Equity	55.712	65.252
ENI.MI #Shares	3.345	3.345
Price Target	16,66	19,51

EV/Revenues Valuation

	All	"Similiars"
Multiple	1,34	1,36
ENI.MI Book Value Per Share	15,72	15,72
Price Target	21,11	21,44

PB Valuation

