MARKET DIGEST

ENI 2017 Q1 RESULTS, BUY

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ENI reported this morning solid Q1 results, with net income at EURO 744mn, above expectations by 26%, but mainly driven by a lower tax rate. Adjusted operating profit of EURO 1,834bn was in line with consensus with a miss in upstream business offset by beats elsewhere. Cash Flow ex working capital was very strong at EURO 2.6bn and largely above expectations.

Upstream production of 1,795kboe/d was up 2% YoY but down 3% Q/Q. Upstream operating profit of EURO 1,422bn was EURO 128mn below consensus. Gas & Power operating profit of EURO 338mn was EURO 108mn above consensus. Downstream operating profit of EURO 189mn was EURO 49mn above consensus.

Flagship upstream projects, such as Jangkrik in Indonesia and OCTP in Ghana, are all about to come on stream, while Zohr in Egypt is progressing ahead of schedule. The disposal of assets in Egypt and Mozambique, which are expected to close before the end of the year, will contribute to a further ENI's balance sheet strengthening.

ENI confirmed 2017 production target of 1.84mn boe/d (up by 5% from 2016) leveraging on new project start-ups and ramp-ups of fields entered into operations in 2016, mainly in Egypt, Kazakhstan, Angola, Indonesia and Norway.

On Gas and Power ENIs' guidance are unchanged i.e. break-even in 2017. Refinery intakes are expected to slightly decrease YoY due to the lack of availability of certain assets at the Sannazzaro Refinery, partially offset by higher volumes at Livorno and Milazzo refineries. In the Chemical business, sales are expected to trend up, due to higher production supplies.

Despite weaker Oil and Gas prices Ytd, ENI achieved solid results in executing its strategy of organic growth, capital expenditure optimization and efficiency enhancement.

Valuation is still attractive with an EV/EBITDA 2018e of 3.7x (vs 5.2 for the sector which is cheap). We are confirming the buy rating and the 12m price target of EURO 20.

This document has been prepared by
Marc Vifian
Head of Swiss and European Research
Banque Morval