

ENI

Sector: Energy

NEUTRAL

Price: Eu12.80 - Target: Eu15.00

Acquisition of Neptune Energy

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Stock Rating

Rating: Unchanged

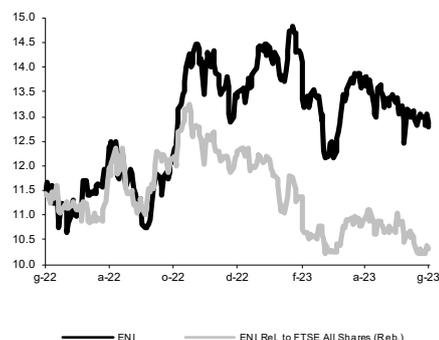
Target Price (Eu): Unchanged

	2023E	2024E	2025E
Chg in Adj EPS	0.0%	2.4%	3.5%

Next Event

2Q23 Results Out 28 July

ENI - 12M Performance



Stock Data

Reuters code: ENI.MI

Bloomberg code: ENI IM

Performance	1M	3M	12M
Absolute	-4.3%	2.7%	12.0%
Relative	-4.2%	0.6%	-11.9%
12M (H/L)		14.83/10.64	
3M Average Volume (th):		11,269.48	

Shareholder Data

No. of Ord shares (mn): 3,684

Total no. of shares (mn): 3,622

Mkt Cap Ord (Eu mn): 47,140

Total Mkt Cap (Eu mn): 47,140

Mkt Float - Ord (Eu mn): 32,857

Mkt Float (in %): 69.7%

Main Shareholder:

Government 30.3%

Balance Sheet Data

Book Value (Eu mn): 57,240

BVPS (Eu): 16.95

P/BV: 0.8

Net Financial Position (Eu mn): -11,312

Enterprise Value (Eu mn): 58,394

■ **Acquisition of Neptune Energy.** Eni and Vår Energi (Eni stake 63%) announced on Friday morning that they had sealed an accord for the acquisition of Neptune Energy. Eni will acquire all of Neptune's assets ("Neptune Global Business") other than Germany and Norway for an EV of US\$2.6bn; Vår Energi will acquire "Neptune Norway Business" for an EV of US\$2.3bn. The German businesses will be carved out before the Eni acquisition and the Norwegian business will be acquired by Vår Energi directly from Neptune under a separate share purchase agreement. As at 31 December 2022, net debt of the Neptune Global Business, pro forma for the sale of the Neptune Norway Business, was c. US\$0.5bn. The deal is expected to close in 1Q24.

■ **Neptune Energy: key figures and implied transaction multiples.** As at year-end 2022, Neptune had 2P reserves of c. 484mn boe, of which c. 386mn boe net in the Eni portfolio and of which c. 80% natural gas. Neptune total production was around 130 kboed (77% gas), of which around 70 kboed in the Global Business. In terms of financials, Neptune Energy closed 2022 with net debt of US\$1.69bn (vs US\$2.1bn as at the end of 2021), EBITDAX of US\$3.85bn (vs US2.11bn in 2021), of which c. US\$0.95bn for the Neptune Global Business. The transaction equates to a 2P acquisition cost of US\$10.1/boe. The implicit 2022 EV/EBITDA multiple of the overall transaction is 1.3x, while for the single Global Business it is 2.7x (vs. 2.4x Eni).

■ **Strategic rationale.** Eni sees high strategic and operational complementarity in the transaction, taking into account Eni's key areas of geographic focus. The deal supports Eni's objective of increasing the share of natural gas production to 60% and reaching net zero emissions (Scope 1+2) from the Upstream business by 2030. Eni expects the deal to provide further optimisation opportunities for its GGP (Global Gas & LNG Portfolio) operations, with an additional 4 Bcm of gas supplies for European consumers. In addition, the deal strengthens Eni's leading position in Algeria.

■ **Expected impact on financials.** Eni expects to generate G&A and industrial synergies worth over US\$0.5bn. This figure could double, considering potential additional cost synergies in both E&P and GGP. The transaction is expected to be immediately EPS accretive and enable > US\$0.9bn CFFO accretion in 2024 (under Eni's scenario of Brent US\$80/bl, gas TTF Eu50/MWh), as well as positive free cashflow. The acquisition is consistent with Eni's 2023-2026 Plan targets (a 2023-26 E&P production CAGR of 3-4%, a Eu1bn net positive contribution from portfolio activities, and Eu37bn of organic CapEx over the period). Neptune Energy's projected accretive cashflow is expected to support Eni's shareholder remuneration, based on a 25-30% CFFO distribution policy.

■ **Estimates and valuation.** We are fine tuning upward from 2024 onwards to reflect slightly higher E&P production, cost synergies, slightly higher CapEx, and the net M&A cash-out. Target price confirmed at Eu15.00ps.

■ **Investment conclusion.** We appreciate the highly complementary geographical fit of the acquired portfolio, leaving room for cost synergies, as well as the low-cost supply profile of the assets. We confirm our NEUTRAL recommendation on the stock due to earnings momentum expected to be quite 'soft' and recession risks.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	76,570	132,237	118,131	100,946	85,595
EBITDA Adj (Eu mn)	17,283	27,684	20,489	18,903	19,463
Net Profit Adj (Eu mn)	4,740	13,810	7,898	6,624	6,744
EPS New Adj (Eu)	1.304	3.727	2.338	1.962	1.997
EPS Old Adj (Eu)	1.304	3.727	2.338	1.916	1.929
DPS (Eu)	0.860	0.880	0.940	0.940	0.940
EV/EBITDA Adj	3.4	2.1	2.8	3.1	2.9
EV/EBIT Adj	6.1	2.9	4.7	5.4	5.0
P/E Adj	9.8	3.4	5.5	6.5	6.4
Div. Yield	6.7%	6.9%	7.3%	7.3%	7.3%
Net Debt/EBITDA Adj	0.8	0.4	0.6	0.6	0.5