Intermonte

Milan, 31 January 2024

Italian Equity Research – Company Update/4Q23 Preview

SAIPEM

OUTPERFORM

Sector: Energy

Price: Eu1.32 - **Target: Eu1.90**

Bad News Never Comes Alone

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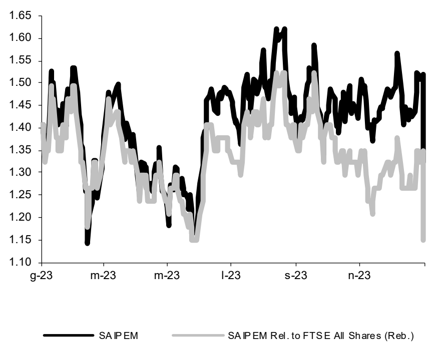
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 2.10 to 1.90
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event
4Q23 Results Out 28 February

SAIPEM - 12M Performance



Stock Data			
Reuters code:			SPMI.MI
Bloomberg code:			SPM IM
Performance	**1M**	**3M**	**12M**
Absolute	-9.9%	-7.5%	-5.9%
Relative	-10.8%	-20.2%	-20.9%
12M (H/L)			1.62/1.14
3M Average Volume (th):			39,248.78

Shareholder Data	
No. of Ord shares (mn):	1,996
Total no. of shares (mn):	1,996
Mkt Cap Ord (Eu mn):	2,643
Total Mkt Cap (Eu mn):	2,644
Mkt Float - Ord (Eu mn):	1,509
Mkt Float (in %):	57.1%
Main Shareholder:	
Eni - Cdp	43.0%

Balance Sheet Data	
Book Value (Eu mn):	2,404
BVPS (Eu):	1.20
P/BV:	1.1
Net Financial Position (Eu mn):	-3
Enterprise Value (Eu mn):	2,657

- **Saudi Aramco drops plan to boost oil output capacity.** Saudi Aramco announced yesterday that it will pause further expansion of its oil production capacity after receiving a Ministry of Energy directive to maintain its maximum sustainable capacity (MSC) at 12mbd and not to continue increasing MSC to 13mbd. Saudi Arabia is currently producing around 9mbd after it curbed output as part of OPEC+ efforts to prevent a surplus. Saudi Aramco will update its capital spending guidance in March.
- **Potential impact.** Saipem currently has Eu4.5bn of backlog in Saudi Arabia (Eu1.1bn Drilling Offshore, Eu1.4bn E&C Offshore, Eu2.0bn E&C Onshore) out of a total YE23E backlog of around Eu30.3bn (15%). Saipem does not expect any impact on its backlog execution from the decision. While offshore developments in the Kingdom that have a final investment decision (FID) in place might still proceed, others could be adversely affected, like the Safaniyah and Manifa developments. According to industry sources, the Kingdom's 1mbd production capacity expansion would have required around US$30bn of additional CapEx by Aramco over the next five years (potential additional orders for Saipem between US$2.0-3.0bn in coming quarters).
- **Woodside's Scarborough offshore gas trunkline accident.** Woodside announced yesterday it had halted installation of its Scarborough offshore gas trunkline after a serious incident on Monday night, when Saipem's Castorone vessel lost control of the pipeline. The Castorone had an earlier incident at the beginning of January. Saipem clarified that the incident did not cause injuries to personnel or major damage to the vessel, while localised damage to the trunkline will be made good. Although local media reported union claims that shortcuts were being taken on safety, Woodside confirmed its total support for Saipem.
- **Risks of extra costs.** Woodside's Scarborough contract (worth around Eu600mn) was awarded to Saipem in January 2022; offshore operations started in mid-2023. Last week, Woodside said the Scarborough project was 55% complete and on track to start exporting gas in 2026. The accident clearly has negative impacts in terms of extra costs for the trunkline repair and the potential for possible delays to project execution. Insurance coverage should give protection from relevant extra costs, provided that no violation of security protocols emerges.
- **4Q23 preview.** Results out on 28 February. We maintain our 4Q23 projections unchanged, with revenues seen at Eu3,059mn (+4% YoY, +1% QoQ), EBITDA at Eu237mn (+58% YoY, +3% QoQ) and net income at Eu26mn (vs. Eu-39mn in 4Q22 and Eu39mn in 3Q23). YE23 net debt (post IFRS16) seen at Eu336mn, backlog at Eu30.3bn.
- **Investment case. OUTPERFORM confirmed, TP moved to Eu1.9.** Unfortunately, bad news never comes alone. The Scarborough accident and lower Saudi Aramco investments put the spotlight back on execution risks and macro-outlook uncertainties (TP moved to Eu1.9). Despite likely lower order intake from Aramco in coming quarters, we continue to believe Saipem could benefit from the current Offshore CapEx cycle and proceed with its turnaround. We believe that any further potential stock weakness could amount to a buying opportunity.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	6,875	9,980	11,422	11,864	12,073
EBITDA Adj (Eu mn)	-1,192	595	877	1,072	1,186
Net Profit Adj (Eu mn)	-1,914	-139	105	231	326
EPS New Adj (Eu)	-1.893	-0.070	0.053	0.116	0.163
EPS Old Adj (Eu)	-1.893	-0.070	0.053	0.116	0.163
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	nm	9.4	3.6	2.5	1.9
EV/EBIT Adj	nm	37.4	7.6	4.4	3.2
P/E Adj	nm	nm	25.2	11.4	8.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-1.3	0.4	0.4	0.0	-0.4