TENARIS

NEUTRAL

Sector: Energy

Price: Eu14.63 - **Target: Eu15.00**

Results Better, but Weak 2H23 Guidance

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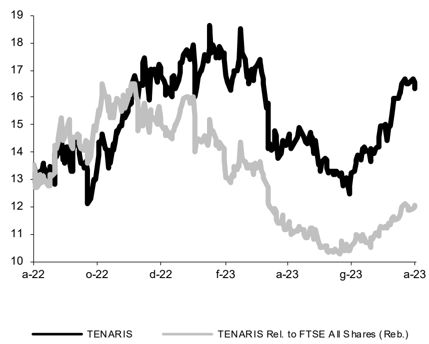
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	8.1%	1.4%	0.3%

TENARIS - 12M Performance



Stock Data			
Reuters code:			TENR.MI
Bloomberg code:			TEN IM
Performance	**1M**	**3M**	**12M**
Absolute	9.1%	20.4%	20.7%
Relative	6.8%	12.7%	-6.1%
12M (H/L)			17.34/11.67
3M Average Volume (th):			3,594.29

Shareholder Data	
No. of Ord shares (mn):	1,181
Total no. of shares (mn):	1,181
Mkt Cap Ord (Eu mn):	17,643
Total Mkt Cap (Eu mn):	17,643
Mkt Float - Ord (Eu mn):	6,840
Mkt Float (in %):	38.8%
Main Shareholder:	
Techint	61.2%

Balance Sheet Data	
Book Value ($ mn):	16,681
BVPS ($):	14.27
P/BV:	1.1
Net Financial Position ($ mn):	2,885
Enterprise Value ($ mn):	15,157

- **2Q23 results.** Tenaris reported better-than-expected results in 2Q23, with revenues and EBITDA supported by higher volumes, better prices and stronger margins. The bottom line benefitted once again from higher financial income, a strong contribution from Ternium and a lower tax rate. In detail: revenues closed at US$4,075mn (+46% YoY, -2% QoQ, vs. exp. US$3,835mn), EBITDA at US$1,409mn (+75% YoY, -5% QoQ, vs. exp. US$1,298mn), and net income at US$1,123mn (+76% YoY, -1% QoQ, vs. exp. US$928mn). Tube volumes closed at 1,099k tons (+23% YoY, -2% QoQ, vs. exp. 1,058k tons); average sale prices increased 1% QoQ. The net financial position closed cash positive at US$2.3bn (vs. exp. US$2.1bn) from US$1.7bn as at the end of March, also benefitting from a US$294mn working capital reduction in the quarter.
- **Market outlook.** In the US, the decline in drilling activity seen in 1H23 should bottom out before YE or at the beginning of 2024. This decline, together with the accumulation of excess OCTG inventories following a surge in imports in 1H23, is being reflected in pipe prices (Pipelogix down 27% from the peak recorded in late 2022), which will affect Tenaris' results in 2H23. In Canada, while drilling activity has held up so far this year, some of the operators are reducing activity as they face cash-flow restrictions. In Latin America, offshore drilling in Brazil and Guyana is expected to remain at a high level, but onshore drilling is being affected by political uncertainty in Colombia (50 rigs served by Tenaris in 2022, today just 28), Ecuador and Argentina. In the Eastern Hemisphere, activity continues to increase, particularly in the Middle East and offshore.
- **2023 guidance.** Tenaris expects that its sales and margins will be significantly lower in 2H23. Tenaris anticipates declining sales in North and South America due to lower selling prices, declining activity and lower pipeline shipments, only partly offset by higher sales in the Middle East (led by Saudi Arabia), and to offshore projects. In more detail: for 3Q23, Tenaris projects EBITDA below US$1.0bn, with the EBITDA margin close to/slightly below 30%. Looking at 4Q23, Tenaris preferred not to give guidance, merely saying that EBITDA in the US could further slightly decline in 4Q23 due primarily to lower selling prices. The slight reduction in raw material costs in recent months will only be visible on the P&L over time, likely starting from 1Q24. On the financial front, Tenaris' free cash flow is expected to remain at a good level with a further reduction in working capital. A potential increase in shareholder remuneration policy could be discussed at the next BoD in November.
- **Estimates and valuation.** Following 2Q23 results, we have updated our 2023 projections (EBITDA +2%, net income +8%), while leaving numbers for 2024 and the following years broadly unchanged. In terms of the valuation, we confirm our Eu15.00ps target price for the stock.
- **Action on the stock**. 2Q23 results showed very robust figures, while the guidance for 2H23 was more conservative than the indications released alongside 1Q23 results. While we see limited room for a downward revision of FY23 consensus numbers, we believe nevertheless that unfavourable earnings momentum could put pressure on the stock, also considering the share price recovery recorded in the last two months.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales ($ mn)	6,522	11,763	14,436	12,545	11,381
EBITDA Adj ($ mn)	1,355	3,648	4,703	3,620	3,062
Net Profit Adj ($ mn)	1,100	2,553	3,413	2,371	1,923
EPS New Adj ($)	0.932	2.163	2.891	2.009	1.629
EPS Old Adj ($)	0.932	2.163	2.675	1.980	1.624
DPS ($)	0.410	0.510	0.600	0.600	0.600
EV/EBITDA Adj	7.7	4.1	3.2	3.8	4.0
EV/EBIT Adj	13.7	5.0	3.7	4.6	5.0
P/E Adj	17.5	7.6	5.6	8.1	10.0
Div. Yield	2.5%	3.1%	3.7%	3.7%	3.7%
Net Debt/EBITDA Adj	-0.5	-0.3	-0.6	-1.2	-2.0