2019 9M Results

October 25th 2019

Presentation

Speaker:

Massimo Mondazzi – CFO

Good afternoon and welcome to Eni's nine months results.

Before turning to our results, I would like to highlight Eni's new mission. We are determined to contribute to the achievement of the UN's Sustainable Development Goals and bring about a just energy transition.

The new mission is the foundation of the company's business model, which focuses on long-term inclusive development for our company and its host countries considering all the Sustainable Development Goals.

In line with this mission we have already taken a number of commitments over the medium-long term including zero net carbon emissions for the Upstream by 2030.

At the next Strategy presentation in 2020 we will provide a further update on our targets and energy transition path.

In the first nine months of 2019 we continued to consolidate our strategy and enhance our cash generation.

We generated 9.4 Bln € of operating cash flow, 5% growth versus 2018 notwithstanding the lower oil and gas scenario. With capex at 5.6 Bln €, we generated an underlying organic free cash flow before working capital of 3.8 Bln € which more than covers the full year dividend and buyback.

Leverage was 25% at the end of September following the closing of the acquisition of the 20% stake in ADNOC Refining and the payment of the interim dividend in the quarter. The 2019 share buyback continues with purchases for two thirds of the planned 400 mln € target already completed.

Upstream production increased to 1.85 Mboed, up 2% at the same price and perimeter, thanks to our start-ups in Algeria, Egypt, Norway and the new field in Mexico and the ramp-up of Zohr.

Exploration continues to create new opportunities for future developments. During the 9 months we discovered 650 Mln boe of equity resources at an exploration cost of 1.1 $/boe. In the coming months we plan further exploration activities in Mexico, Egypt, Norway and Angola.

G&P performance was robust, notwithstanding the lower LNG price level, thanks to gas price volatility and the growth in the retail customer base.

In Downstream we posted strong marketing results of 450 mln € while refining has been impacted by the narrowing of crude differentials. Chemical results were impacted by weak product demand and by the worsening of elastomer and styrenic margins.

On renewables we have 150 MW under construction and we are targeting to have 190 MW of capacity by year end.

Before turning to the results, I would like to highlight our key strategic achievements this year.

Starting with Angola, a country which plays a key role in Eni's strategy for organic growth, our exploration team has discovered in the last 18 months around 2 billion barrels of oil in place in block 15/06, in five main fields.

In line with our fast-track development approach, we are planning to put into production Agogo by year end just 8 months from its discovery thanks to its proximity to the existing N'Goma FPSO.

The development strategy envisages a phased approach:

The Early Production's expected oil flowrate is 20 kbd (about 7 kbd equity) with wells connected via a subsea tie-back to the West Hub's existing subsea facilities.

We are planning a second phase for the early production, incorporating 2 producing wells and 2 injectors, whilst evaluating the Full Field Development.

Turning to Norway, Vår Energi, with the announced acquisition of Exxon's upstream assets, continues to expand its material and diversified portfolio of oil and gas producing assets, development projects and attractive exploration licenses.

Vår Energi will become the second largest E&P company in Norway, with total reserves and resources of around 1,9 billion boe. Total production is expected to be about 300,000 boepd at year end 2019, growing organically to more than 350,000 boepd in 2023 as the company invests about USD 7 billion in development projects such as Johan Castberg, Balder X and Grand in the 2020-23 period.

The new acquired portfolio is a strategic fit for Vår Energi and will add interests in more than 20 producing fields in the North Sea and Norwegian Sea allowing the extraction of commercial and logistical synergies.

The breakeven of the new acquired assets is around 24$/boe and brings Var Energi's overall breakeven down to around 27$/boe. Overall opex per barrel benefits for around $1 from the deal and will fall to $9.

The acquired portfolio also contains two projects for CO2 emission reduction of around 1,1 MTPA from a CCS plant in Sleipner and a wind farm in Snorre.

Finally, the carbon intensity of the acquired production is half of Eni's existing portfolio, averaging at around 10 ton CO2 equivalent per thousand boe in the next 10 years.

This deal is self-financed, is Free Cash Flow accretive for Vår Energi and underpins a growing dividend to Var Energi's shareholders in the coming years.

The deal has an effective date of 1 January 2019 and is expected to be completed in Q4 2019.

In Abu Dhabi, we achieved another strategic result with the completion of the acquisition of a 20% stake in Adnoc Refining.

This deal increases our overall refining capacity by 35% and offers a number of advantages:

a state-of-the-art technology plant and the ambitious investment plan that will lead Ruwais to be the second largest refining complex in the world;

it is located near assets producing all types of crudes, along with low cost of the natural gas (1/3 of the European levels);

it is efficient and flexible and able to process crudes at a low cost. This will allow it to benefit from the application of IMO regulations.

it is in a geographically central position, ideal for trading activities

Additionally, it strengthens the relationship with ADNOC, along the value chain

Furthermore, the new developments are expected to be entirely self-financed by the revenues of the refineries.

These assets will be equity accounted and will contribute to our cash flow thanks to an attractive dividend distribution policy.

In the upstream Ghasha Concession, where Eni is currently involved as Technical Leader with a Participation Interest of 25%, we recently took the Final Investment Decision for the Dalma Gas Development that will start-up in 2022, with a peak gross production of about 50 kboed.

In upstream we recorded our highest ever production in a Q3. Our growth was 6% year on year adjusted for price and portfolio.

This impressive growth was driven by starts ups in Egypt, Algeria, Norway and Mexico and the continued ramp up of Zohr and projects in Libya and Ghana.

Production, in the 9 months reached 1.85 mln boed (+2%) thanks to the same effects.

Nine months EBIT declined by 17% mainly as a result of the weaker scenario, which accounted for 1.5 billion euro.

In particular, scenario affected the result as follows:

lower oil price for around 1.2 bln euro,

lower gas prices, mainly in Europe, for total of around 700 mln euro - of which more than 500 mln euro in the third quarter,

positive FX for around 400 mln euro.

On a comparable basis, upstream EBIT in the nine months grew by 7% thanks to the increased volumes and better mix supported by the quality of the new production.

Moving to Mid-Downstream,

G&P nine months EBIT was robust at 511 mln €, in particular:

GLP reached 349 mln € mainly thanks to an effective optimization of our portfolio of European gas assets which benefitted from a volatile market. The positive gas performance has offset the lower result from LNG, in a low global price scenario;

Retail delivered an EBIT of 162 mln €, almost 50% higher versus last year thanks to commercial initiatives and efficiency.

The Refining and marketing result grew:

due to Marketing, that was the driver of the result with a contribution of 452 mln €

whilst in Refining the narrow differential between Urals and Brent was only partially offset by the higher SERM.

Finally, the Gela Bio-plant is ramping up whilst the EST restart is now expected early next year.

Versalis was impacted by a depressed scenario for elastomers and styrenics that accounted for half of the nine months losses. As commented in Q2, the Priolo upset accounted for the remaining losses.

Coming to the financial results…

Cash Flow From Operations before working capital at 9.4 bln € was 5% higher than last year, driven by:

industrial performance improvements for €0.6 bln,

a weaker scenario for negative €0.9 bln [-€0.8 bln oil; -€0.5 bln gas; +€0.4 bln FX],

with the remaining positive contributions coming from IFRS16 and other one-off effects [+€0.8 bln].

This cash generation of 9.4 bln € more than covered:

The nine month capex of 5.6 bln €, and our

2019 shareholder remuneration, including both the full year dividend and the €400m buyback

Working capital, that increased in Q3 in line with our assumption, is expected to recover in the fourth quarter, confirming the full year guidance for cash absorption of a few hundred mln euro.

The group’s net adjusted result was 2.3 bln € in the nine months.

And finally a brief summary of our full year guidance.

We confirm our production guidance in the range of 1.87 to 1.88 Mboed and upgrade our exploration target to 700 mboe from 600 mboe previously.

Following the solid results of G&P so far we are also upgrading FY EBIT guidance by €100m to €600m.

In R&M, the crude differential in 2019 has been lower than our budget expectations and determines a revision of this year's pro-forma EBIT guidance to 400 mln euro.

Cash Flow From Operations is growing in line with our 2019 guidance of 12.8 bln euro at budget scenario. The main difference between the budget and current scenario is the lower gas price which will impact the FY for around minus €800m.

In terms of CAPEX, we confirm that we expect to be below our initial target of €8bn.

Finally, leverage at 25% at the end of September is expected to return towards 20% in the coming quarters.

I am now ready, together with my colleagues, to answer your questions.

Q3 2019 Q&A Transcript

Eni SpA Earnings Call

CORPORATE PARTICIPANTS

Massimo Mondazzi - Eni S.p.A.,CFO

Alessandro Puliti - Eni S.p.A.,Chief Upstream Officer

Cristian Signoretto - Eni S.p.A.,Chief Gas & Lng Marketing & Power Officer

Giuseppe Ricci - Eni S.p.A.,Chief Refining & Marketing Officer

CONFERENCE CALL PARTICIPANTS

Alessandro Pozzi - Mediobanca

Biraj Borkhataria - RBC Capital Markets

Christyan Fawzi Malek - JP Morgan Chase & Co

Irene Himona - Societe Generale

Jason Gammel - Jefferies

Martijn Rats - Morgan Stanley

Massimo Bonisoli - Equita

Thomas Yoichi Adolff - Crédit Suisse

Alessandro Pozzi - Mediobanca

QUESTIONS AND ANSWERS

OPERATOR: (Operator Instructions) The first question is from Mr. Alessandro Pozzi of Mediobanca.

ALESSANDRO POZZI, MEDIOBANCA: The first question is on the R&M. I believe the new guidance includes a contribution from ADNOC. I was wondering if you can maybe talk about how much you have there for ADNOC. The second one, I believe, the DD&A went a little bit up in Q3. I was wondering, even on a per barrel-adjusted basis, if that is the right number to use going forward. That's all for me.

MASSIMO MONDAZZI, CFO, ENI S.P.A.: Okay. So I confirm that in the guidance, we are already including the first contribution from ADNOC that it is expecting the range of EUR 50 million. And as far as the DD&A, our DD&A in the range of $10, $11 per barrel, we expect this number to remain steady in the future.

ALESSANDRO POZZI: On ADNOC, the EUR 50 million is mainly in Q4, I guess?

MASSIMO MONDAZZI: Yes,

OPERATOR: Next question is from Biraj Borkhataria of Royal Bank of Canada.

BIRAJ BORKHATARIA, ANALYST, RBC CAPITAL MARKETS: I just wanted to clarify on your cash flow guidance. Did you say that as we mark-to-market for European gas prices, we should take EUR 800 million of the EUR 12.8 billion cash flow guidance? That would be the first question. Just a bit of clarity on that. And then on Var Energi, could you say anything about the CapEx associated with the new assets acquired? Because I think previously, you've talked about EUR 8 billion spend over a 5- year period for the previous portfolio. But what do the new assets add?

MASSIMO MONDAZZI: Okay. So talking about the CapEx of Var Energi, I don't have the breakdown per asset. But what we expect 100% is an expenditure in the range of $7 billion to develop the final stage of Johan Castberg, Balder X and Grand. So this is the order of magnitude. And in term of cash flow from operation guidance, yes, I said that the EUR 12.8 billion was based on the budget scenario. And the current scenario is more or less in line as far as the oil, while the gas, mainly the European gas, so I'm talking about the PSV and TTF as well as the NBP is much lower as you have seen from the numbers. And we expect that using the current scenario, we are going to lose EUR 800 million out of the cash flow from operations. So all in all, today, with the current scenario, we expect, as a cash flow from operation, something in the range of EUR 12 billion, slightly lower than EUR 12 billion.

BIRAJ BORKHATARIA: That's very clear. Just a quick follow-up on the CapEx, that $7 billion, is that on the same period that you show in the slide, i.e., out to 2023?

MASSIMO MONDAZZI: Yes, $7 billion, 2023.

OPERATOR: The next question is from Irene Himona of SocGen.

IRENE HIMONA, EQUITY ANALYST, SOCIETE GENERALE: Just first one to clarify, if you can, please. You mentioned the ADNOC contribution this year is EUR 50 million. Would that be the dividend you expect or a share of net income as an active affiliate? And secondly, on Var Energi, is there some guidance you can provide on full year 2019 dividend receipts, please?

MASSIMO MONDAZZI: Okay. As far as the Var Energi dividend received in 2019, so in 2019, Var Energi distributed $1.7 billion. So 70% (69.6%) is our share. And as far as the ADNOC contribution, I said EUR 50 million mainly in the fourth quarter, but due to the fact that the overall result is expected to be negative for ADNOC Refining this year because of the restart of the FCC that took place this year, definitely there will be no dividend. That remains [to be] expected starting from 2020.

OPERATOR: Next question is from Jason Gammel of Jefferies. please go ahead.

JASON GAMMEL, JEFFERIES: I also have questions on Var Energi. I believe that the Exxon transaction was fully funded with debt. Please correct me if I'm wrong on that. So can you talk a little bit about what the balance sheet leverage now looks like for Var, anything related to net debt-to-capital or the debt relative to cash from operations. And then the second question, are you able to speak to who retained the abandonment liability on the Exxon assets in that transaction?

MASSIMO MONDAZZI: So in term of liability, I would say, the amount of liability is not a big number, and there's not a big issue on the evaluation. If I remember correctly, we expect to start to spend a material amount of money from 2033 on. So definitely in the next 10 years, we don't have any kind of significant material expenditure in our radar screen.

And the other question, I don't have with me the detailed balance sheet structure, but definitely I can confirm that the acquisition is fully funded by the company throughout an RBL. So I would say more than, if it could help you, more than measuring the effect in term of balance sheet, definitely it should be measured. The amount of debt should be measured on the relevance of the reserves underlying the financing that definitely are enough to justify the full finance of the purchase price. But anyway, I'll let you know the composition of the balance sheet later on.

OPERATOR: Next question is from Thomas Adolff from Crédit Suisse.

THOMAS YOICHI ADOLFF, CREDIT SUISSE: I've got 3 questions, please. Just firstly on Var as well, could you perhaps comment how much Var contributed to the bottom line in the third quarter as well as in the first 9 months of the year? And once the Exxon deal is completed, perhaps since you're doubling the business, you can also comment on what sort of a dividend we can expect from Var next year. We did see a special dividend in 2019.

Secondly, just on Zohr, on a gross basis, the 2.7 Bcf per day of production you are seeing at the moment, is that the ceiling for the domestic market? And what does it take to get you to the 3.2? Do you need to have the Damietta liquefaction facility available for exports?

And then finally, just a question on the Green Refinery in Gela. 750,000 tonnes of biodiesel, perhaps you can comment a bit on the potential profitability of this facility because 750,000 is quite substantial if we take Neste's profitability, but presumably, you're not processing as much second-generation feedstock as Neste. Any color on that would be great.

MASSIMO MONDAZZI: Okay, Thomas. So I give you the answer to the first question, and then I leave the room to my colleagues to answer the following one. So in term of contribution from Var Energi to our cash flow in the third quarter, the answer is zero because all the dividend, you remember that we -- the way we consolidate such a participation is throughout the equity account. So cash flow to the dividend. So the contribution in the third quarter is zero because the company distributed the full dividend in the first and second quarter. And the amount in our share in euro we received is 540 first quarter and the same amount in the second quarter.

In term of how the Exxon asset acquisition, could be accretive in the dividend distribution in the following year, we expect that the additional contribution could be, starting from 2020, in the range of 100 million, growing up later on in line with the production growth. And then I leave the floor to Alessandro Puliti to answer, maybe together with Cristian Signoretto, talking about Damietta to answer the Zohr question. And then I leave the floor to Ricci to answer your question about the Green Refinery.

ALESSANDRO PULITI, CHIEF UPSTREAM OFFICER, ENI S.P.A.: Okay. So current production potential from Zohr is 2.7 Bcf per day, and by the end of the year, with the completion of the 14th and the 15th producer well, we will reach a potential of around 3 billion standard cubic feet per day in terms of potential. And at the beginning of 2020, we will then be ready to produce even 3.2 billion standard cubic feet per day. This is the situation regarding production capacity from the Zohr field. Then I leave the floor to Cristian.

CRISTIAN SIGNORETTO, CHIEF GAS & LNG MARKETING & POWER OFFICER, ENI S.P.A.: Well, on the Damietta, I mean, I think we have said it many times, so we are actively engaged with all the party involved. So the government and Naturgy to get the plant up and running and solve the long-standing issues on the arbitration. And to answer your question, clearly, I mean, adding Damietta, let's say, in production, would surely, let's say, reduce the risk of oversupply in the country even if the demand is robust, and the export to neighbor countries has restarted. But surely, Damietta will reduce that risk.

MASSIMO MONDAZZI: Just to complete the answer about the production. So the one that has been mentioned by Alessandro is the capacity. Up to now, we got a contribution in 100% that has been in the range of 2.3, 2.4. And we expect that even in the fourth quarter, the production will remain slightly the same because of the oversupply that we see today in the market. We see a growing demand domestically speaking, and we see, by definition, a positive effect from the Damietta restart that we since we expect not so long in time. And then I leave the floor to Ricci to answer your question about Gela.

GIUSEPPE RICCI, CHIEF REFINING & MARKETING OFFICER, ENI S.P.A.: We expect a significant contribution by the Green Refinery of Gela. And because mainly we are seeing an increase in the market of HVO in parallel with the increasing of the obligation due to the RED Directive, European RED Directive, and mainly for the RED II starting from 2021. And just in this week in the European government, they are discussing for a possible further improvement of the obligation of a green fuels in parallel with the ambition to anticipate the decarbonization to 2030. So we expect a good market. And so the high production of Gela refinery, that is 750 kilotons per year, the feedstock, the HVO is 70%, 75% of the yields, but there is a market.

THOMAS YOICHI ADOLFF: Just can I go back to the first question on Var? Just to clarify the answer you gave. So as far as the dividend is concerned, you received EUR 1 billion in 2019. What can we expect from Var Energi in 2020 now that the business is substantially bigger following the acquisition of Exxon's assets?

MASSIMO MONDAZZI: The expectation would be to receive a dividend that should be in the range of 100%, 900 million/950 million (US$). So 70% of that number is the reasonable expectation in 2020. And as I said, especially because of the production increase from Johan Castberg, the starting up of Balder X, we expect a growing production from 2020 to 2023. So we see the additional contribution coming from this additional production. We see an increase in such amount of dividend later on.

OPERATOR: The next question is from Martjin Rats of Morgan Stanley.

MARTIJN RATS, MORGAN STANLEY: I've got two small ones, if I may. In the production guidance, there's a reference to Venezuela and you say that some of the uncertainty range of the production guidance is due to some uncertainty in the country. And I was wondering if you could give an update and perhaps some commentary about what you're seeing in Venezuela and anything you can say to shine some light on what the production outlook could be there. And also, in the result, there is a reference to a EUR 330 million payment, a one-off payment related to the settlement of an arbitration. I was wondering what that is. And also whether that number is in the cash flow statement included in the working capital changes that you mentioned. I just want to make sure that we don't correct for it twice.

MASSIMO MONDAZZI: Yes, the arbitration what is the Pascagoula arbitration, is a part of the working capital change. And as far as Venezuela, so we just -- we said that in our production guidance, we embedded a production in the range of 40,000 BOE per day that correspond, more or less to 370, 380 million cubic feet per day. Today we are running a bit lower than this. So instead of 40, we are 36, 37. So that's the reason why we kept the guidance unchanged. So by definition, the revenue today are lower than expected, so less than $300 million per year. And in term of how much of this revenue are cashed in, in 2019, we expect to cash in more or less 25% of this number. So very much in line with the expectation we had since the budget time.

OPERATOR: The final question is from Christyan Malik of JPMorgan.

CHRISTYAN MALEK, JP MORGAN CHASE: First of all, just 2, please. One downstream. What are the key drivers that will generate the EUR 260 million of EBIT into Q4 and just sort of made the guidance around EUR 400 million? And just around IMO, I mean, how quick does Eni's business sort of adapt to the fuel specification requirements? What proportion of Eni's E&P oil production is light low sulfur? And I guess the question is how material could the benefit be if Eni -- if IMO widened the light- heavy crude spreads?

And the second is questions around your buyback framework. Beyond the EUR 400 million commitment to '19, how do you think about the leverage oil price thresholds? You've obviously got EUR 400 million per annum on a $60 to $65 Brent, EUR 800 million per annum above $65. But just given the volatility sub-$60, I'd just like to understand how we should think about into the sort of the buyback outlook in periods it falls below $60.

MASSIMO MONDAZZI: Okay. So I give you the answer about the buyback, and then I'll leave the floor to Ricci to answer your question about the expectation about the fourth quarter result in R&M. So you remember correctly that we linked our buyback to the level of Brent as well as the leverage. So now end of September, our leverage is in the range of 25% because of the peak of the cash out. I mentioned the 20% stake in ADNOC refinery payment as well as the interim dividend payment that took place in September. So the expectation would be to see a reduction in such a leverage by year-end, by definition, and we see the leverage back in the range of 20% in the coming quarters.

So as we said that the buyback policy was based on the steady expectation forward about the buyback, I would say nothing changed versus the moment in which we launched the buyback. So we feel confident that the leverage would be in the money in term of buyback. In term of oil price, it will be more precise when we present, when we'll present the strategy presentation, could be second half of February 2020. But probably if you see the forward curve today, you will have an indication about what the oil price we assume will be. So by definition, higher than today, speaking with the today numbers higher than $60 per barrel. And then I'll leave the floor to Ricci.

GIUSEPPE RICCI: About the IMO regulation, now we are seeing the effect on the spread. In fact, the spread between the low-sulfur and the high-sulfur fuel oil is increasing and is reaching $150, so that it is a very, very significant spread. As for the gas oil, fuel oil, the difference is continuously now more than $300 per tonne. With this spread, it is mandatory to produce a low-sulfur fuel oil and in our system, with the contribution of Taranto refinery that to produce a low-sulfur fuel oil. The contribution of Milazzo refinery with FCC refining that produce a low-sulfur fuel oil, and they incoming restarting of EST in Sannazzaro, we cover all the conversion to low-sulfur fuel oil or zero high-sulfur fuel oil. In the fourth quarter, we expect to complete the new arrangement for the production of the 0.5% sulfur fuel oil for the distribution of the market of the new product.

And the result of the refining system in the fourth quarter is expected more or less in breakeven or slightly positive.

OPERATOR: The final question is from Massimo Bonisoli of Equita.

MASSIMO BONISOLI, ANALYST, EQUITA: 2 questions left. You had stronger results in marketing in R&M division. If you can give us some color on that performance considering the flat volumes in retail. The second question, you mentioned at the beginning of the presentation, the new mission of Eni on sustainability and energy transition. I don't want to spoil your new strategic presentation but should we expect some sizable increase in CapEx from the EUR 33 billion you announce in March this year for the 4-year plan?

MASSIMO MONDAZZI: Okay. So I'll leave the floor to Ricci to answer your question about the marketing, and then I'll give you an answer.

GIUSEPPE RICCI: About the marketing, the good result are 450 million (EURO), not 550 million, 450 million (EURO). Very, very good, driven by the retail, both Italian and abroad retail and mainly driven in the summer season due to many, many factors. First of all, we have the boost in the sale of our premium product Eni diesel plus that included the 15% of HVO. And we have an increase of sale compared with the past year of more than 30%. And the second, we are adding to the service station a lot of services, non-oil, that are contributing to the overall result. The margins maintained in all period very good. And the overall combination of this factor boosted the result.

MASSIMO MONDAZZI: Okay. So in term of mission, I would say, you said that you don't want to spoil, but in summary, I think it would be fair saying that in February, March when we are going to present the new mission, you will see clear idea about how to get -- how to reach the transition, complying with the mission target, so clear idea about how to get there. But I would say no CapEx increase as far as the next 4 years maneuvering.

OPERATOR: Mr. Mondazzi, there are no more questions registered, sir.

MASSIMO MONDAZZI: Okay. Thank you very much, everyone. Bye-bye.