Data: 10/12/2024

Eni vs Shell

Analytics Accounting Groupwork

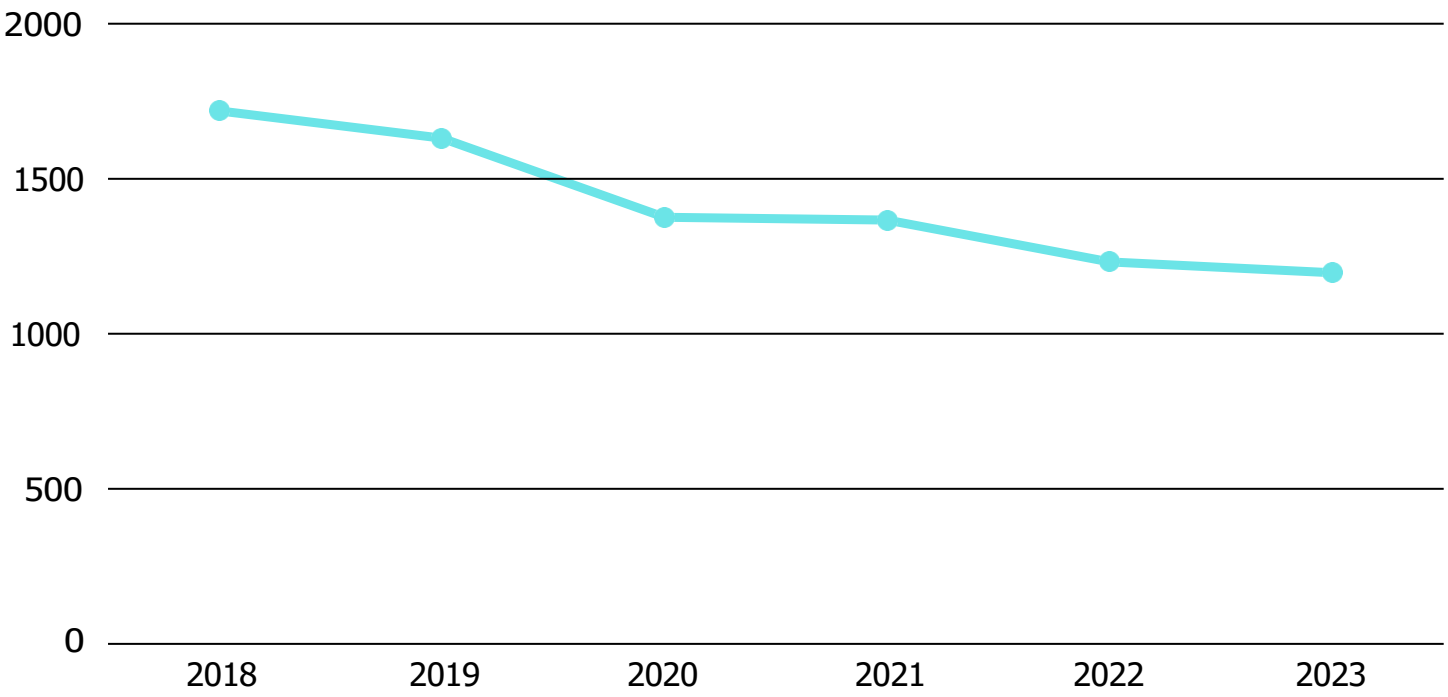
Report Analysis Results

What about Shell?

Shell and Eni are prominent players in the global energy sector, recognized for their extensive operations in oil and gas exploration, production, and distribution, as well as their growing investments in renewable energy.

Shell, officially known as Royal Dutch Shell plc, is headquartered in London, UK. It operates in more than 70 countries, making it one of the most geographically widespread energy company in the world.

Shell has been actively investing in renewable energy technologies. In recent years, the company has committed to reducing its carbon footprint and increasing its renewable energy capacity. For example, Shell aims to achieve net-zero emissions by 2050 and has set interim targets to reduce its operational emissions by 20% by 2025 and 45% by 2030 compared to 2016 levels. Shell is significantly investing in electric vehicle (EV) charging infrastructure and biofuels, aiming to improve energy efficiency and sustainability through various partnerships. A key collaboration with Equinor aims to establish the UK's largest independent oil and gas company by merging their North Sea assets. This initiative is part of Shell's broader strategy to secure long-term energy while maximizing economic recovery from existing resources.



Shell's emissions

Note: in million metric tons of CO2

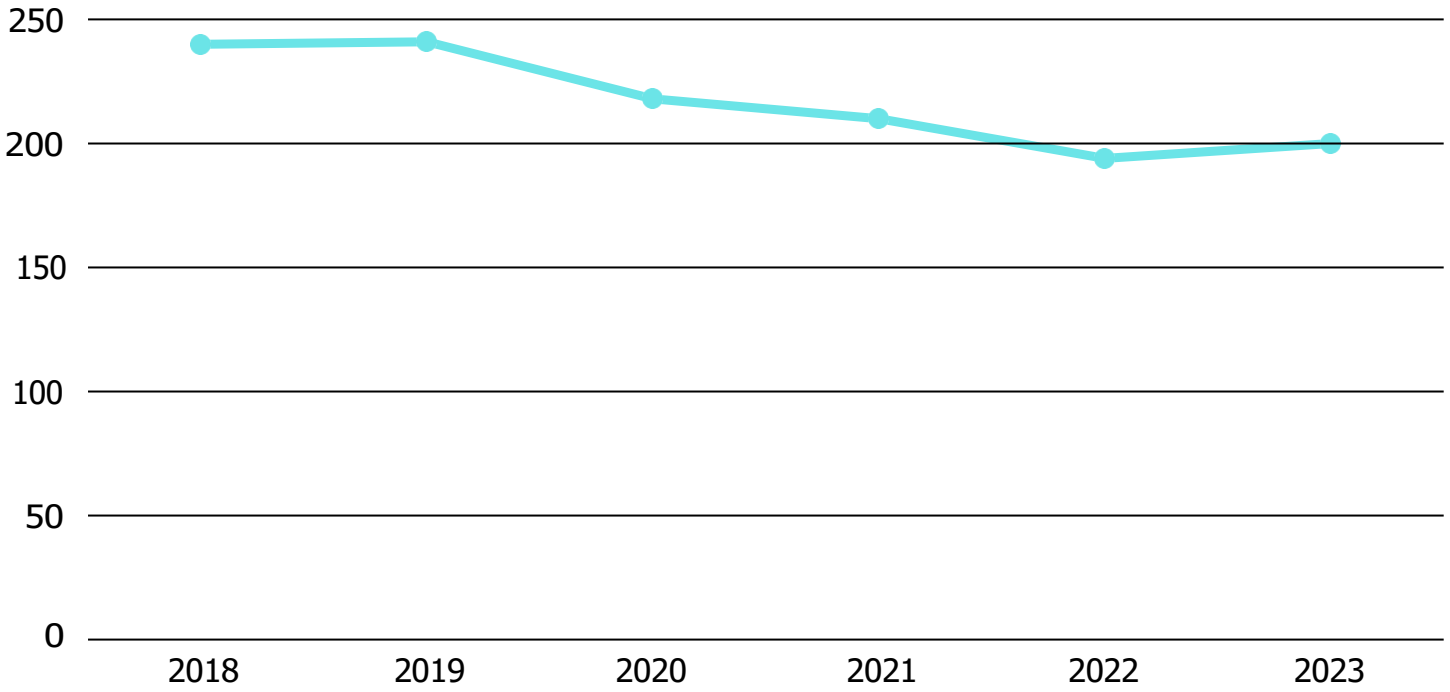
Source: Shell, Reuters calculations

What about Eni?

Eni S.p.A., based in Rome, Italy, is another major player in the energy sector with operations all around the world. Eni is recognized as one of the "supermajor" oil companies globally, with a market capitalization of approximately €50 billion as of late 2023. The company engages in all stages of the oil and gas value chain—from exploration to production and marketing.

Eni has a strong emphasis on oil and gas production, particularly across Europe and Africa. The company is noted for its innovative approaches to energy transition, focusing on natural gas as a key component of its strategy. For instance, Eni aims to replace 20 billion cubic meters of Russian gas by 2025 through diversified sourcing strategies. In 2023, Eni reported an increase in natural gas production by 2% compared to the previous year.

Eni has made significant steps toward sustainability, committing to ambitious decarbonization targets. The company plans to reduce its greenhouse gas emissions by 35% by 2030 and aims for an 80% reduction by 2040 compared to 2018 levels. Its strategy includes expanding renewable energy projects and improving biorefining capacities.



ENI's emissions

Note: in thousands metric tons of CO2

Source: Eni Report

So…

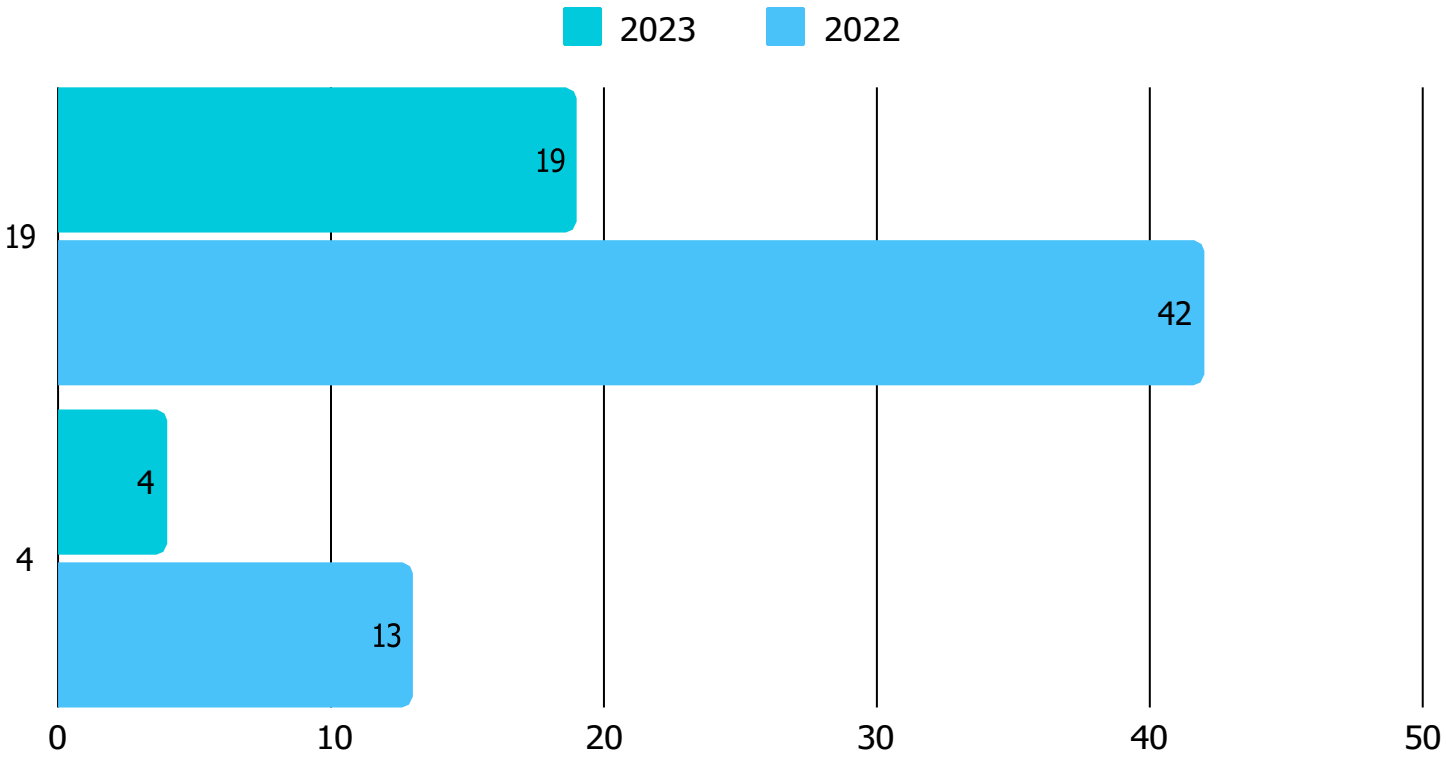
Both Shell and Eni are pivotal in shaping the future of the global energy landscape. They are adapting to changing market dynamics through diversification into renewable energies while maintaining robust oil and gas operations. Their strategic initiatives not only reflect their commitment to sustainability but also position them as leaders in navigating the complexities of the energy transition in the middle of global challenges.

Let’s make an Analysis

Net profit represents the bottom-line earnings remaining after all expenses, interest and taxes have been accounted for. Shell’s net income declined by 54.2%, from $42 billion dollar to $19 billion in 2023, while Eni’s net income contracted by 65.8%, from €13 billion to €4 billion (*plot 1.1*).

For Shell, the large net profit in 2022 suggests that the company’s revenues exceeded its total costs, likely driven by higher commodity prices, strong demand and efficient cost control. In contrast the lower net profit in 2023 indicates a contraction in profitability. This reduction stems from lower sales revenue, due to declining commodity prices and higher operational costs. Similar to Shell, Eni’s drop in net profit from 2022 to 2023 can be explained by changes in external market conditions as well as increases in costs and it simply implies that the company’s profitability margin narrowed considerably

compared to the previous year.

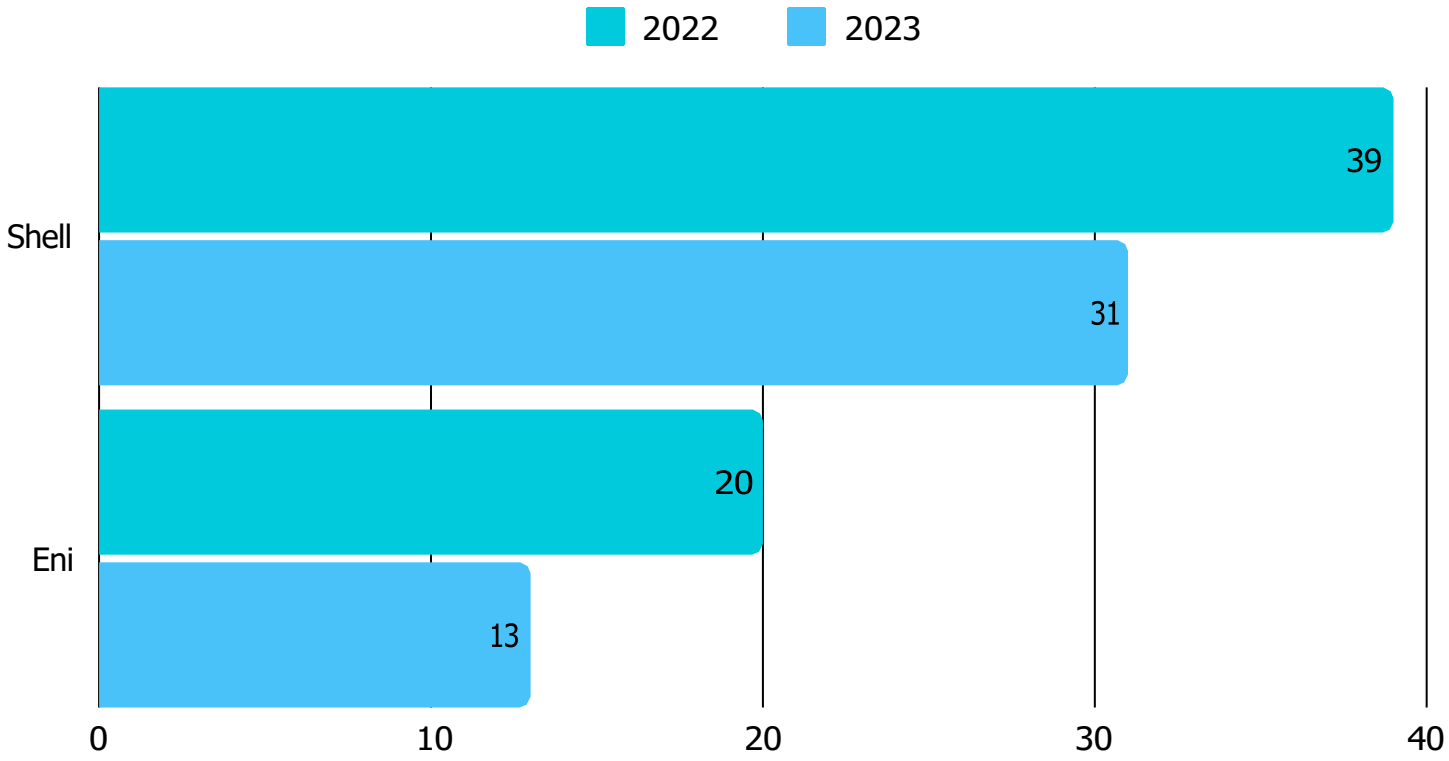


(plot 1.1)

The global energy sector, as we know, experiences significant fluctuations in oil and natural gas prices between 2022 and 2023, which played a central role in these results. In 2022, oil prices reached multi-year highs due to geopolitical tensions and supply chain disruptions. 2023, in contrast, saw prices drop due to weakening demand and fear of an imminent recession. These sudden shifts impacted the revenue-generating capacity of both Shell and Eni.

EBIT represents the company's operating profit, meaning the income generated from the core business activities before considering interest expenses and taxes. Shell's EBIT fell by 19.4%, from $39 billion in 2022 to $31 billion in 2023, while Eni's EBIT declined 32%, from €20 billion to €13 billion (*plot 1.2*). The smaller decline in Shell's EBIT indicates stronger operational efficiency and better cost control while Eni's sharper decline in EBIT suggests that revenues are highly exposed to market price volatility.

Revenue trends provide insight into the companies' market positioning. Shell's revenue fell by 16.5%, from $382 billion in 2022 to $319 billion in 2023, while Eni's revenues contracted by a sharper 29.3%, from €132 million to €93 million. The energy price dynamics of 2022 and 2023 played an important role in shaping these trends: in 2022, very high prices of oil and natural gas boosted revenue across the sector, however, in 2023 as price normalized, revenue declines became inevitable. Shell's smaller decline can be attributed to a better diversification across the energy sector. For instance, Eni's steeper decline indicates greater reliance on oil and gas production, where revenues are more tied to market prices.



(*plot 1.2*)

Shell's net profit margin decreased from 11.06% in 2022 to 6.11% in 2023, reflecting the combined pressures of falling revenues and rising costs. Eni's net profit margin is not reported but we can argue that the steep decline in its net income and revenues have deteriorated the profitability. These pressures were also caused by external factors: the inflationary environment and supply chain disruptions increased the cost of production and transportation, eventually rising operational costs. FCF represents the cash generated after accounting for capital expenditures. Shell's FCF declined from $27 billion in 2022 to $21 billion in 2023, reflecting lower cash inflows due to declining revenues.

Despite this, Shell had the ability to maintain a positive FCF reflecting its operational efficiency. Eni's FCF data for 2023 is unavailable, but the €9 billion in reported for 2022 indicates significantly weaker liquidity compared to Shell. A positive FCF can provide flexibility to market volatility, but can also be useful to service debt, fund strategic investment, and return capital to shareholders. While Eni's weaker FCF position suggests greater liquidity risk, particularly in a declining price environment.

Conclusions

The financial performance of Shell and Eni between 2022 and 2023 highlights the impact of declining commodity prices and rising operational costs on the energy sector. While both companies experienced substantial declines in net profit and revenue, Shell demonstrated relatively better resilience due to diversified operations and strong cost management. Eni's steeper revenue and EBIT declines underscore its greater exposure to market price volatility.

Beyond financial metrics, Shell's focus on diversification into renewable energy sources and its commitment to sustainability positions it as a leader in the energy transition. Investments in electric

vehicle infrastructure, biofuels, and partnerships such as those in the North Sea reflect a forward-looking strategy aimed at balancing profitability with environmental responsibility. In contrast, Eni's strategic emphasis on natural gas as a transitional fuel, alongside its decarbonization targets, highlights its role in reshaping energy supply chains, particularly in Europe and Africa.

Both companies' efforts to reduce emissions and enhance sustainability are commendable, but the pace and scale of these initiatives will play a crucial role in their future competitiveness. Shell's broader geographic footprint and diversified energy portfolio provide a buffer against market volatility, while Eni's reliance on oil and gas exposes it to higher risks, especially in periods of economic downturn or declining commodity prices.

Looking ahead, the energy sector's challenges—including geopolitical instability, inflationary pressures, and fluctuating demand—necessitate continued innovation and adaptability. Shell and Eni's ability to maintain operational efficiency, invest in sustainable energy, and manage liquidity effectively will determine their long-term success. Their experiences serve as a blueprint for navigating the complexities of the global energy market, emphasizing the critical importance of balancing financial performance with environmental stewardship.