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Milan, 5 July 2019

Saipem S.p.A

Equity Research

Saipem S.p.A (SPI.MI)
Milan Stock Exc., P 4.33 Currency in EUR

Price Target: €5.14 - €5.80 (↑ 34.0%)

Key points:

Business

The Oil & Gas industry has always been subject to market volatility and is mainly affected by macroeconomic and international politics events, especially those regarding military conflicts between the US and the Middle East, as the trade tensions between Trump's administration and Iran showed in the very recent days. As a consequence, the use of derivative instruments such as futures, to name one, make the analysis of companies in this industry slightly more complicated. Despite these challenges, Saipem can count on a wide geographical presence that gives an important competitive advantage.

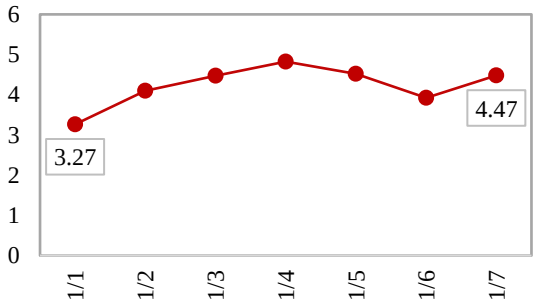
Valuation

Our analysis is mainly focused on the DCF approach. We decided to implement a classic two-stage approach. Firstly, we computed the fundamental components of the cost of equity (including some assumptions on the risk premium) and the cost of debt. Subsequently, we computed the WACC, necessary to discount both the FCFO and the TV. Assumptions regarding the revenues were related to the industry forecasts made by the major analysts and financial institutes, and we took them for granted.

Investment Risk

We also consider the risk of a dramatic reduction in the supply of Oil & Gas goods. The reserves of petroleum in the Middle East are worsening year by year and it is complicated to find new oil fields in the world. The scares resources, along with the international tensions could make the price of petroleum much higher in the next few years.

Historical Chart – Closing Price



Key Statistics

Sector	Oil & Gas
Industry	Petroleum services
Revenues	10,069,118
Share Outstanding (Mil.)	1,010.98
Market Cap (Mil.)	4,423.43

Earnings History

	Q3 2018	Q4 2018	Q1 2019	Q2 2019
EPS Est.	0.12	0.15	0.17	0.18
EPS Actual	0.07	0.06	0.07	0.07
Difference	0.05	0.10	0.10	0.10

Recommendation: Overweight

Given the results of our valuation and the analysis of the economic and financial characteristics of Saipem S.p.A, we recommend to overweight the shares.

Business Description

Company Background

Saipem S.p.A. (Società Anonima Italiana Perforazioni e Montaggi) is an Italian oil and gas industry contractor. Saipem was founded in 1957 and is headquartered in San Donato Milanese, Italy; it is based in 70 countries, with approximately 32.000 employees from 120 nationalities. It is specialised in the implementation of infrastructures for the research, the drilling and the start of production of hydrocarbon deposits; it has also been contracted for the design and construction of oil and gas pipelines such as Blue Stream, Greenstream, Nord Stream and South Stream.

Saipem's mission is to implement challenging, safe and innovative projects, leveraging on the competence of its people and on the solidity, multiculturalism and integrity of our organisational model. With the ability to face and overcome the challenges posed by the evolution of the global scenarios, we must seize the opportunities to create economic and social value for all our stakeholders.

Saipem is a company subject to the joint control of Eni Spa and CDP Equity Spa. The shareholders holding shares totalling to more than 3% of the share capital of Saipem S.p.A. are:

- Eni S.p.A. (30.54%)
- CDP Equity S.p.A. (12.55%)
- Dodge & Cox (4.87%)

The following business segments compose the company: Offshore Engineering & Construction; Onshore Engineering & Construction; Offshore Drilling; and Onshore Drilling. The Offshore Engineering & Construction segment includes platforms, pipelines, subsea field developments, MMO or maintenance, modification and operations activities, and the execution of large-scale offshore projects. It is considered Saipem's core business. The Onshore Engineering & Construction segment designs and constructs hydrocarbon production facilities, hydrocarbon treatment facilities, and large onshore treatment and transportation systems and facilities. The Offshore Drilling segment consists of a fleet of vessels for deep water, mid-water, high specifications jack-up, and standard jack-up operations. The Onshore Drilling segment comprises a fleet of drilling rigs for wells in Italy and abroad. Its fleet includes Saipem 7000, the biggest crane boat in the world.

Industry trends

Oil and Gas. In 2018, the world economy grew by around 3.7% on an annual basis, in line with 2017's growth rate. Following a long period of market decline started in the second half of 2014, the main companies in the sector had to adapt to an industrial context characterised by lower volumes, promoting a strategy of cost reduction and downsizing. Since 2016, oil prices have recovered from 2014 downturn.

The recovery is due to different factors. One of them is the success of the agreement between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries, entered into force in 2017. Other factors, which helped in the recovery, are the minor quantity of oil in the market

and the ongoing global demand growth forecasted by the EIA. The global demand growth for 2018 was estimated at 1.6 million b/d.

Turning to the details for 2018, the average price of oil was around $70/barrel, quite an increase compared to 2017. Until August 2018,the recovery of prices was supported by a prolonged global geopolitical instability, with reference to the tensions between the United States and Iran, the war in Syria and the drop in production in some countries such as Venezuela. After reaching a high of $86/barrel in the month of October, the price dropped to below beginning of the year prices to approximately $55/barrel. This decrease, which can be attributed to the persistence of an excess supply of hydrocarbons on the market, was curbed towards the end of the year thanks to the production cuts decided in 2019 by the Vienna alliance between OPEC and non-OPEC countries (specifically Russia and Saudi Arabia).

With regard to investments in exploration and production of hydrocarbons, after the minimum reached in 2016, there were two consecutive years in slight recovery. Although this growth, already visible in 2017, was mainly driven by the North American drilling market and therefore linked to non-conventional developments, in 2018 there were improvements in investment volumes also in international markets and in particular in Asia-Pacific, Africa and the Middle East. After a period of delay in project awards and cancellations of higher risk initiatives, there was an increase in final investment decisions by oil companies compared to volumes reached in 2017.

Future trends. The main trend in the Oil and Gas Industry to watch for in 2019, is the Oil and Gas supply. Several problems will influence the Oil and Gas supply such as, the problems with Venezuela and Iran, as well as Qatar's exit from OPEC.

Energy policies are the second trend, which includes the decisions, from the US Department of Energy and by other organizations as well. What will influence the oil production in 2019, is the rise of the federal oversight regarding the methane and wastewater, and the return of more autonomy to Oil-production parts in the United States. What can make the situation unpredictable, are the changes to the ranks of OPEC, especially in the part of how the countries manage their energy policies, as well as the political situation in the UK that can affect the policies related with the North Sea oil exploration and nuclear energy in Scotland.

Many are anticipating the Natural Gas supply to be at the forefront and expecting that in 2019, the global LNG (Liquefied Natural Gas) supply will outstrip demand, for few reasons. One is the development in China, of their own Natural Gas Infrastructure and the investments in LNG imports.

Next comes, the output of OPEC as a trend. As it has been stated in the beginning of this article, the OPEC has committed to pulling oil from the market. The reduction in oil production, still doesn't scare many experts in the industry.

Stock Performance. Saipem is listed in the Milan Stock Exchange (SPM.MI).The share capital of Saipem is composed by ordinary shares, equal to 99.999% of the share capital, and savings shares (convertible into ordinary shares), equal to 0.001% of the share capital, all without par value. Each share carries the entitlement of one vote. In 2018, the price of ordinary Saipem shares fell by 15%, while the FTSE MIB index, recorded a decrease of 16%.At the beginning of 2018, the Saipem share followed an upward trend in a positive climate for the energy industry. This was also due to the

agreement between OPEC (Organization of the Petroleum Exporting Countries)and Russia for the extension of oil production cuts. However, from the end of January, oil prices and Saipem share fell. The share dropped to its lowest point of the year at €3.10 on April 9, after which it continued to rise slowly. The share reached the year high on October 1 at a price of €5.43. In October, strong pressure due to the fear that geopolitical factors, affected the oil price again.

Porter's five forces analysis

In order to better understand the industry in which Saipem operates, it is useful to assess it through the Porter's analysis.

Threat of new entrants (LOW). The factors that affect the newest companies to enter the business, especially the upstream segment are:

- Huge capital required
- National Oil Companies control more than 90% of the proven oil and gas reserves
- Increase of the internal competition within the industry
- Established companies like Saipem can increase their R&D spending which will give them a boost regarding innovation and improve existing technologies. This strategy will give them a competitive advantage over new entrants.
- Saipem's economics of scale
- Oil and Gas Reserves are usually located in war zones or geographical areas with geopolitical conflicts or political instability
- National and international law restrictions which can affect the new entrance

Threat from substitute products (MEDIUM). We can find substitutes by looking at the main alternatives sources to oil and gas for producing energy, in which Saipem does not operates:

- Nuclear Energy
- Coal
- Hydrogen
- Biofuels and other renewable sources such as solar and wind energy

These alternative sources of energy can replace a high amount of hydrocarbons use in the global energy mix according to their performance, quality and price. This strategy requires a big amount of investments in R&D and producing procedures. Saipem's is watching carefully new trends and sources and technologies whose distinctive character is based in greater environmental sustainability. Saipem is further strengthening its base of skills, assets and technologies in this field to meet the demand for sustainable energy. Government policies, new technologies and consumption trends will have effects on production periods and methods and on energy use, so that it is difficult to predict.

Bargaining power of suppliers (HIGH). The Group relies on numerous vendors of goods and services and subcontractors and in some cases partners. Any inadequate performances by vendors, subcontractors and partners could generate deficiencies in the supply chain and affect profits. A deterioration in relations with vendors, subcontractors and partners could transform into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in time

and costs, a worsening of contract terms and a deterioration of commercial relations with the client and in the Group's economic results. In general, Supplier's loyalty is low therefore Saipem strive to create long term, trusted relationships that can offer better conditions and affect profits.

Bargaining power of buyers (MEDIUM). The Company operates in the highly competitive sector of services for the Oil & Gas industry, an industry which is significantly influenced by the trend in the price of oil in international markets, determining an impact on the demand for services offered by the Company and the margins associated with them.

Saipem relies on bids and the determination of the right price.The margins that the Company realises could vary significantly compared to the sums originally estimated for many. This fact in addition to other risks inherent in the sectors in which Saipem operates may imply additional costs, lost revenue and the subsequent reduction in margins from those originally estimated, leading to a decrease, perhaps even a significant one, of profitability or to losses on projects.

Existing competitors (HIGH). Competition in the sector is increasing. In order to face drastically changed market conditions, in 2018 the industry was affected by cost reduction programmes, organisational rationalisation, restructuring and extraordinary operations, aimed at operational efficiency and strategic diversification in order to face changing market conditions.

SWOT analysis

Strengths	Weaknesses
High margins even though Saipem is facing downward pressure on profitability Diverse revenue model beyond the energy sector First mover advantage Wide geographic presence Extensive product offering which helped to penetrate different costumer segments Market leader	High cost of replacing experts Declining market share Suppliers' royalty is low Low investments into Saipem's costumer oriented services High turnover of employees
Opportunities	**Threats**
Increasing government regulations may be a problem for unorganized players in the industry Expansion of the economy in the US may be an opportunity to expand the market Technological innovations and advances which improve productivity Migration of costumers to higher end products (Saipem has a strong brand recognition in the premium segment) Fast changing costumers' preferences which need to be monitored	Competitive pressure Distrust of institutions and increasing threat of legal actions for Saipem Trade Relation between US and China can affect Saipem growth plans Saturation in urban market and stagnation in the rural markets Changing political environment with US and China trade war, Brexit impacting European Union, and overall instability in the middle east

Financial Analysis

Reclassified Annual Statements

Income Statement (in thousands of USD)	2014	2015	2016	2017	2018
TOTAL REVENUES	**17.091.047**	**12.767.659**	**11.069.448**	**10.168.651**	**10.069.118**
COGS	**10.277.438**	**9.739.098**	**6.813.330**	**6.283.656**	**6.380.922**
Gross Profit	6.813.610	3.028.561	4.256.119	3.884.995	3.688.196
Selling/General & Admin.	5.130.762	2.465.005	2.809.392	2.647.887	2.600.727
R&D	-	-	-	-	-
Other Op. Expense	75.589	-	443.530	288.696	88.460
Unusual Expense	556.971	-	1.904.635	236.821	408.096
EBITDA	**1.050.288**	**563.556**	**(901.439)**	**711.592**	**590.913**
D&A	977.351	1.064.988	756.545	569.499	547.273
Operating Income	**72.937**	**(501.432)**	**(1.657.984)**	**142.093**	**43.640**
Extra-ordinary expense	-	-	-	-	-
EBIT	**72.937**	**(501.432)**	**(1.657.984)**	**142.093**	**43.640**
Interest inc. (Exp)	(225.441)	(232.966)	(148.212)	(254.865)	(293.688)
Other non-operating inc (exp)	(6.631)	-	(2.212)	(6.766)	(4.718)
EBT	**(159.135)**	**(734.398)**	**(1.808.408)**	**(119.538)**	**(254.765)**
Taxes	156.482	140.889	492.197	226.672	228.817
Net income before extraord. Items	(305.008)	(894.147)	(2.308.347)	(369.892)	(556.709)
Extraordinary items	-	-	-	-	-
NET INCOME	(305.008)	(894.147)	(2.308.347)	(369.892)	(556.709)

Reclassified Balance sheet (in millions of USD)	2014	2015	2016	2017	2018
Assets					
Cash and Short term Investments	1.948.830	1.185.912	2.046.899	2.183.276	2.018.533
Net Accounts receivable	3.396.843	3.048.402	2.747.057	2.408.801	3.874.208
Total Inventory	3006109	2.482.596	2.357.024	2.270.847	347.509
Other Current Assets, Total	629.045	226.974	151.388	221.926	114.689
Total Current Assets	**10.440.938**	**8.214.504**	**8.185.453**	**8.088.916**	**7.123.359**
Property, Plant, Equipment (PPE) – Total	16.499.126	15.181.194	14.571.073	15.827.549	15.611.521
Accumulated Depreciation – Total	(7.304.181)	(7.267.512)	(9.112.703)	(10.332.172)	(10.650.058)
Property, Plant, Equipment (PPE) – Net	9.194.945	7.913.682	5.458.370	5.495.377	4.961.463
Goodwill – Net	880.663	789.522	765.349	872.111	764.978
Intangibles - Net	38.710	33.666	28.385	31.190	40.141
Note Receivables – Long Term	-	-	-	17.994	12.616
Other Long Term Assets - Total	581.867	623.364	424.727	425.859	353.243
Total Assets	**21.283.497**	**17.722.434**	**15.018.929**	**15.102.989**	**13.392.281**

Reclassified Balance sheet (in millions of USD)	2014	2015	2016	2017	2018
Liabilities					
Accounts Payable	3.971.452	2.864.868	2.912.112	2.613.933	2.720.433
Accrued Expenses	543.156	541.914	507.780	463.046	369.300
Notes Payable – Short Term Debt	2.644.409	3.275.376	159.798	143.952	91.752
Current Port. Of LT Debt/Capital Leases	718.563	712.416	56.770	82.773	258.051
Other Current Liabilities, Total	3.741.608	2.876.814	2.325.484	2.078.910	1.641.205
Total Current Liabilities	11.619.188	10.271.388	5.961.945	5.382.614	508.0740
Long Term Debt					
Total Long Term Debt	4.008.952	3.085.326	3.357.865	3.513.634	3.034.682
Total Debt	4.008.952	3.085.326	3.357.865	3.513.634	3.034.682
Deferred Income Tax	48.388	10.860	62.027	41.986	20.644
Minority Interest	49.598	48,870	19.975	49.184	84.870
Other Liabilities, Total	552.834	533.226	501.472	647.785	627.351
Total Liabilities	**16.278.960**	**13.949.670**	**9.903.284**	**9.635.203**	**8.848.287**
Shareholders Equity (in Millions USD)					
Preferred Stock – Non redeemable, Net	-	-	-	-	-
Common Stock, Total	533.479	478.926	2.303.407	2.628.328	2.512.845
Additional Paid In Capital	66.534	59.730	1.839.782	1.258.382	634.232
Retained Earnings (Accumulated Deficit)	4.456.542	3.280.806	1.044.996	1.696.237	1.505.872
Treasury Stock – Common	(52.017)	(46.698)	(72.540)	(115.162)	(108.955)
Unrealized Gain (Loss)	-	-	-	-	-
Other Total Equity, Total	-	-	-	-	-
Total Equity	**5.004.537**	**3.772.764**	**5.115.645**	**5.467.786**	**4.543.994**
Total Liabilities & Shareholders' Equity	**21.283.497**	**17.722.434**	**15.018.929**	**15.102.989**	**13.392.281**

The reclassification of the Balance Sheet is preparatory for the key financial ratios in the subsequent parts.

Forecasts

Income Stat., thous. $	2018a	2019e	2020e	2021e	2022e	2023e	2024e	TV
Net Sales	10.069.118	10.723.611	11.420.645	12.162.987	12.953.581	13.795.564	14.692.276	15.647.274
Growth	*-0,98%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*
Cost of Goods Sold	6.380.922	6.674.245	7.108.071	7.570.096	8.062.152	8.586.192	9.144.295	9.738.674
%Sales	*63,37%*	*62,24%*	*62,24%*	*62,24%*	*62,24%*	*62,24%*	*62,24%*	*62,24%*
SG&A	2.600.727	2.761.264	2.940.746	3.131.894	3.335.467	3.552.273	3.783.170	4.029.076
%Sales	*25,83%*	*25,75%*	*25,75%*	*25,75%*	*25,75%*	*25,75%*	*25,75%*	*25,75%*
EBITDA	1.087.469	1.288.102	1.371.828	1.460.997	1.555.962	1.657.099	1.764.811	1.879.524
Margin	10,80%	12,01%	12,01%	12,01%	12,01%	12,01%	12,01%	12,01%
D&A	547.273	495.357	488.726	485.541	485.639	488.884	495.168	504.405
Other operating exp.	496.556	496.556	496.556	496.556	496.556	496.556	496.556	496.556
EBIT	43.640	296.189	386.546	478.900	573.767	671.659	773.087	878.562

D&A & CAPEX, thous. $	2018a	2019e	2020e	2021e	2022e	2023e	2024e	TV
Net Sales	10.069.118	10.723.611	11.420.645	12.162.987	12.953.581	13.795.564	14.692.276	15.647.274
D&A	547.273	495.357	488.726	485.541	485.639	488.884	495.168	504.405
% of Assets	*9,96%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*
Net Fixed Ass. Beg. Year	5.495.377	4.961.463	4.895.051	4.863.151	4.864.129	4.896.634	4.959.572	5.052.095
(+) CAPEX	13.359	428.944	456.826	486.519	518.143	551.823	587.691	504.405
% Net Sales	*0,13%*	*4,0%*	*4,0%*	*4,0%*	*4,0%*	*4,0%*	*4,0%*	
(-) Depreciation	547.273	495.357	488.726	485.541	485.639	488.884	495.168	504.405
Net Fixed Ass. End Year	4.961.463	4.895.051	4.863.151	4.864.129	4.896.634	4.959.572	5.052.095	5.052.095

NOWC, thous. $	2018a	2019e	2020e	2021e	2022e	2023e	2024e	TV
Net Sales	10.069.118	10.723.611	11.420.645	12.162.987	12.953.581	13.795.564	14.692.276	15.647.274
COGS	6.380.922	6.674.245	7.108.071	7.570.096	8.062.152	8.586.192	9.144.295	9.738.674
A/R	4.440.774	3.766.323	4.011.134	4.271.857	4.549.528	4.845.247	5.160.188	5.495.601
%Sales	*44,10%*	*35,1%*	*35,1%*	*35,1%*	*35,1%*	*35,1%*	*35,1%*	*35,1%*
Inventory	347.509	1.783.351	1.899.269	2.022.721	2.154.198	2.294.221	2.443.346	2.602.163
%Sales	*3,45%*	*16,6%*	*16,6%*	*16,6%*	*16,6%*	*16,6%*	*16,6%*	*16,6%*
A/P	3.089.733	3.046.192	3.244.195	3.455.067	3.679.647	3.918.824	4.173.547	4.444.828
%COGS	*48,42%*	*45,6%*	*45,6%*	*45,6%*	*45,6%*	*45,6%*	*45,6%*	*45,6%*
Other current A&L	-1.582.714	-1.783.292	-1.899.206	-2.022.654	-2.154.126	-2.294.145	-2.443.264	-2.602.076
%COGS	*24,80%*	*26,7%*	*26,7%*	*26,7%*	*26,7%*	*26,7%*	*26,7%*	*26,7%*
Working Capital	115.836	720.190	767.002	816.857	869.953	926.500	986.722	1.050.859
Change in WC	-551.142	604.354	46.812	49.855	53.096	56.547	60.222	64.137

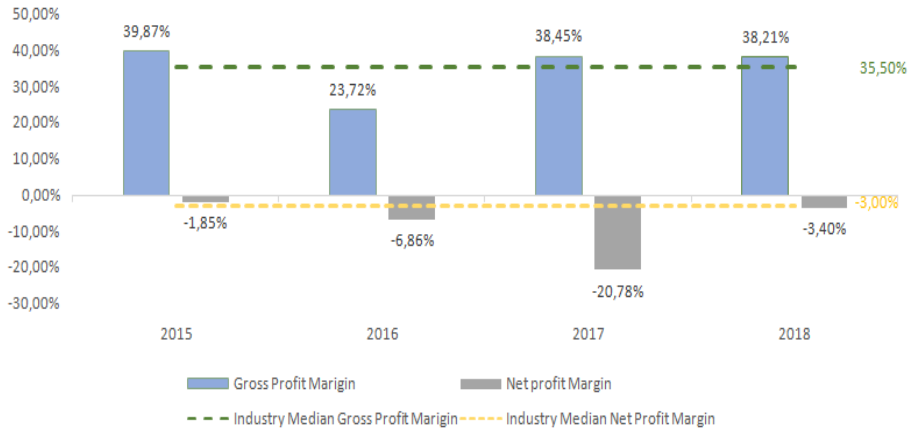
Financial Ratios

This section aims at analyzing Saipem key financials by examining its reclassified balance sheet (see previous sections) through some indicators. The study assesses the firm performance in three clusters: profitability, liquidity and leverage. The computation of some key financial ratios is accompanied by the comparison with industry standards and stakeholders' expectations.

The source of external information (such as the median industry performances) are taken by CSI market and Thomson Reuters. At the end of this section, it should be possible to obtain a picture of the overall performance of Saipem's consolidated financial statements.

Profitability. In order to understand what were the leverages that improved profitability, it is important to compute the gross and net profit margin. The former allows to understand what percentage of sales was transformed into Gross Margin, the latter, instead, what portion was transformed in income available to be paid out to shareholders. The following table and graph show the trend of these two ratios over the past four years, as compared to the industry median:

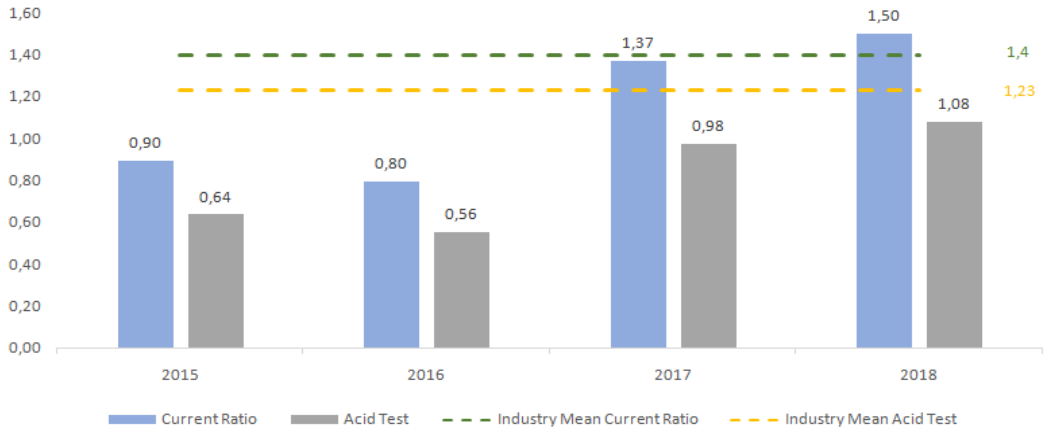
	2015	2016	2017	2018	Industry Median (2018)
Gross Profit Margin	39.87%	23.72%	38.45%	38.21%	35.50%
Net Profit Margin	-1.85%	-6.86%	-20.78%	-3.40%	2.90%
Industry Median Gross Profit Margin	35.50%	35.50%	35.50%	35.50%	
Industry Median Net Profit Margin	-3.00%	-3.00%	-3.00%	-3.00%	
					Expected Return (2018)
ROCE	0.75%	-6.73%	-18.31%	1.46%	10.72%
ROE	-6.31%	-23.20%	-44.97%	-6.33%	9.78%



A step further in the analysis is to check whether Saipem ability to make profits satisfies the required return by investors, as shown in the last two lines of the table above (ROCE and ROE).

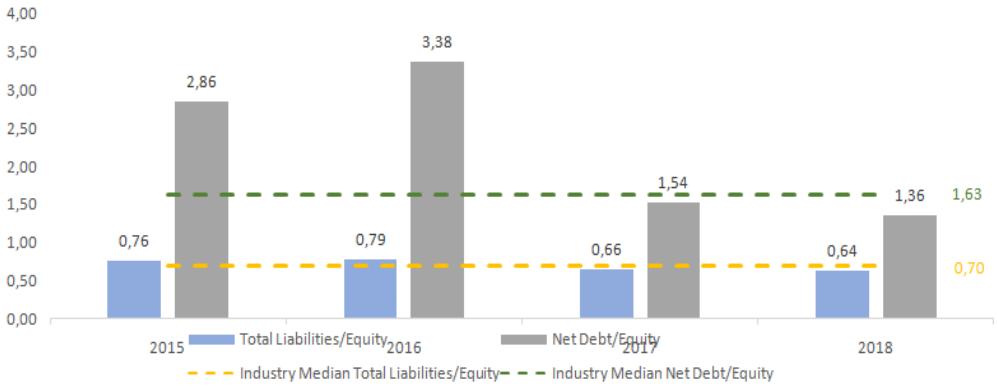
Liquidity. This part is concerned with determining whether the company is able to meet its short-term financial obligations. The two ratios computed are the current ratio and the acid test (also called quick ratio). Both are computed as current assets over current liabilities, but while the former takes into account all assets, the latter excludes those which are immediately transformable into cash or cash equivalents (e.g. inventories). Theoretically, it would be better for both to be higher than zero, but this condition may depend on the features of the industry concerned. Once again it is important to compare Saipem's results with the industry average:

	2015	2016	2017	2018	Industry Median (2018)
Current Ratio	0.90	0.80	1.37	1.50	1.40
Acid Test	0.64	0.56	0.98	1.08	1.23
Industry Mean Current ratio	1.4	1.4	1.4	1.4	
Industry Mean Acid Test	1.23	1.23	1.23	1.23	



Leverage. To assess whether this financial structure is sustainable we also computed the interest coverage ratio as operating income over interest expenses. In 2018 it is equal to -0.56 and emphasizes some concerns regarding long-term debt. Indeed, this ratio emphasizes not only the company's ability to pay the interest due, but also to exploit the interest tax shields and increase shareholders' wealth.

	2015	2016	2017	2018	Industry Median (2018)
Total Liabilities/Equity	0.76	0.79	0.66	0.64	0.70
Net Debt/Equity	2.86	3.38	1.54	1.36	1.63
Industry Median total liabilities/equity	0.70	0.70	0.70	0.70	
Industry Median Net Debt/Equity	1.63	1.63	1.63	1.63	
Interest coverage ratio	-0.32	N.A	11.19	-0.56	



Valuation

We have performed our analysis by following two main approaches:

1. An intrinsic valuation concerning the DCF model (FCFO);

2. A relative valuation with market multiple of comparable companies.

Free Cash Flow to Equity Approach

Among the indirect evaluation methods, we choose the DCF asset side method. In the valuation of companies in the oil sector, the preferred approach is the asset side type since it omits the estimate of the level of debt. The oil & gas industry is in fact highly capital intensive in all its operational areas, which leads companies to make extensive use of external financing sources. For this reason, by excluding financial income and charges, we arrive to an estimate of the cash flows with greater reliability than with the levered method. Proceeding step by step the first thing we did is to calculate the WACC, computing:

- Cost of equity
- Cost of debt
- Cost of preferred stock (we do not have any preferred stock)

Cost of Equity and cost of debt. The main assumptions and components used to compute the cost of equity are an essential part of our DCF model. For our computation we decided to use:

- RISK FREE RATE: we took the 10 years Treasury Bonds yields as an average of the values of the last month (2.02%) instead of the European Government bonds yields, because we decide to consider the risk-free rate connected to the currency chosen to carry out the evaluation;
- The EQUITY RISK PREMIUM (5.38%) which represent the premium an investor will to receive to invest in the stock market instead of a risk free.
- The ß as the specific risk of a company
- The COUNTRY RISK PREMIUM, in order to take into consideration the risk that the company runs as it incurs revenues in other states.

We considered the cost of debt to be equal to 2,10%whichis the average cost of debt reported by Thomson Reuters Eikon for 2018.

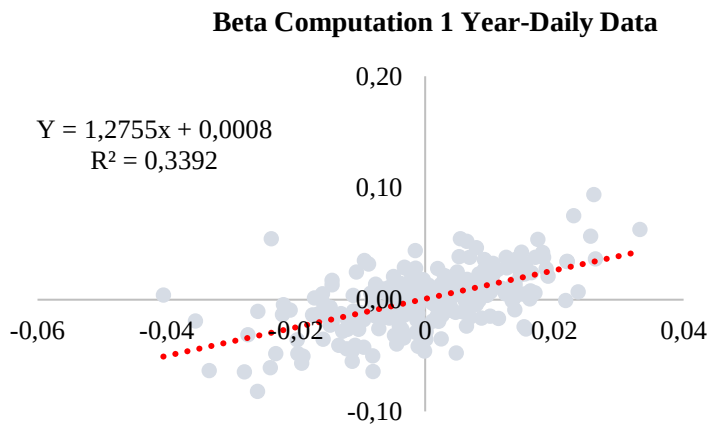
Beta Computation. Beta coefficient of the security indicates the portion of the security return that is explained by the return of the market portfolio. It is the systematic risk of the security considered. In order to compute the Beta of the company, we decided to use the market model.It measures the relationship between the return of the security and the return of the market (market index) in a given period (estimation window).

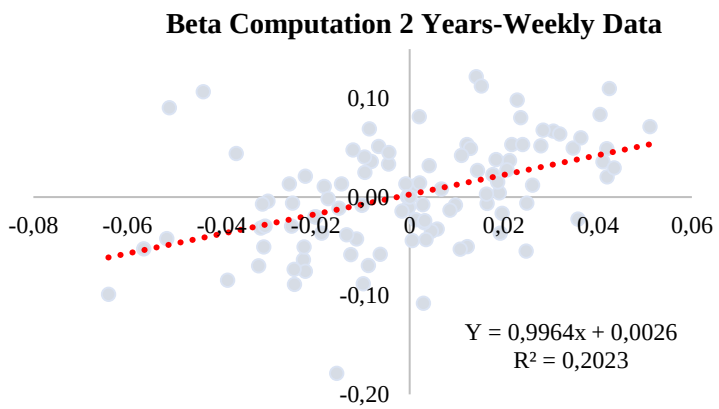
We decide to compare the security's returns with those of FITSE MIB, which is the Market Index we decide to take into account. We have taken three different return's frequencies:

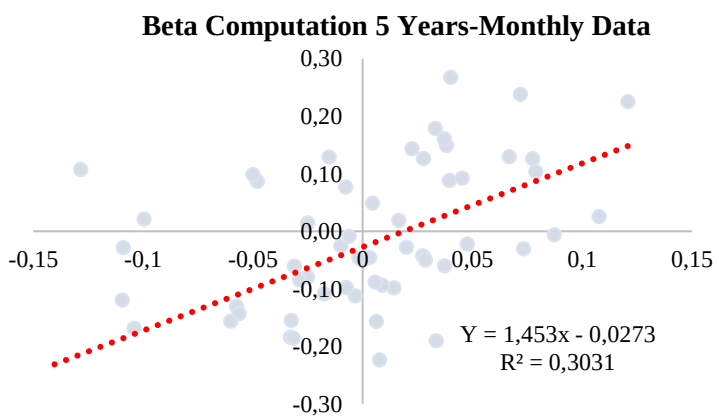
- 1 year-daily

- 2 years-weekly
- 5 years-monthly

In order to assess which one had the highest Adj. R^2. The Adj. R^2 indicates the portion of the variance of the security returns (dependent variable Y) that is explained by the movements of the market index returns (independent or explanatory variable X). The higher the value of the Adj. R^2, the better the ability of the market to explain the variability of the security returns







Country Risk Premium. In the cost of equity's computation we have decided to take into account a Country risk Premium. The weights of the CRP are based on the specific geographical area's revenues.

	Revenues 2018 for Geographic Area	CRP for Geographic Area
ITALIA	354.000.000	3,06%
RESTO EUROPA	467.000.000	2,24%
CSI	752.000.000	3,72%
MEDIO ORIENTE	2.893.000.000	2,78%
ESTREMO ORIENTE	501.000.000	2,65%
AFRICA SETTENTRIONALE	1.088.000.000	2,91%
AFRICA SUB-SAHARIANA	1.952.000.000	2,89%
AMERICHE	519.000.000	2,89%
CRP'S WEIGHTED AVERAGE CRP FOR GEOGRAPHICAL AREA'S REVENUES		2,88%

Scenario 1	
WACC	8,88%
TV growht rate	1%
PV expl. Forecasts	1.357.134
TV	8.473.442
PV of TV	5.085.940
EV core	6.443.074
Surplus Assets	1.307.458
NCI	84.870
Net Debt	1.840.766
Equity Value	5.824.896
N° of shares	996.226
Share Price $	5,85
Spot FX $/€ (30.06.19)	1,136665
Share price €	5,14

Scenario 2	
WACC	8,88%
TV growht rate	2%
PV expl. Forecasts	1.357.134
TV	9.705.047
PV of TV	5.825.175
EV core	7.182.309
Surplus Assets	1.307.458
NCI	84.870
Net Debt	1.840.766
Equity Value	6.564.131
N° of shares	996.226
Share Price $	6,59
Spot FX $/€ (30.06.19)	1,136665
Share price €	5,80

Market Multiples Approach

In order to double check the results obtained through the DCF analysis, we have performed a market multiple analysis. As a consequence, the aim of this method is to have a counter-proof of the target price identified in the previous section. Thanks to the data collected through Thomson Reuters we took the market multiples of a set of comparables:

Comparables	EV/Sales	EV/EBIT	EV/EBITDA
Tenaris SA	1,950	22,473	13,250
TechnipFMC PLC	0,817	9,529	6,023
Subsea 7 SA	0,898	11,074	4,040
John Wood Group PLC	0,522	19,585	10,050
Petrofac Ltd	0,441	4,689	3,669
Hunting PLC	1,174	10,772	5,595
Aker Solutions ASA	0,601	10,479	6,229

In particular, we focused on the 25th-percentile, median and 75th-percentile of the following multiples:

- EV/Sales
- EV/EBITDA
- EV/ EBIT.

We do not get the equity side multiple P/E; instead, (for example) the asset side is one EV/EBITDA, because the last one is not influenced by the financial structure of the company to be evaluated.

Comparables	25th - Percentile	Median	75th - Percentile	Applicable company figure (SAIPEM) - in thousands €
EV/SALES	0,56x	0,82x	1,04x	8.537.000,00 €
EV/EBIT	10,00x	10,77x	15,33x	537.000,00 €
EV/EBITDA	4,82x	6,02x	8,14x	1.001.000,00 €

After having applied the relative figures of Saipem (EBIT for EV/EBIT, Saipem Sales for EV/sales) to obtain the set of EV for each multiple and each range, we have adjusted it to obtain the set of implied equity values of Saipem. Ultimately, dividing the equity value by the number of diluted outstanding shares of Saipem, we have been able to identify a set of prices for Saipem for each multiple.

Thus, in the following tables it is possible to find the computations necessary to be performed in order to obtain a range of potential share prices for each figure.

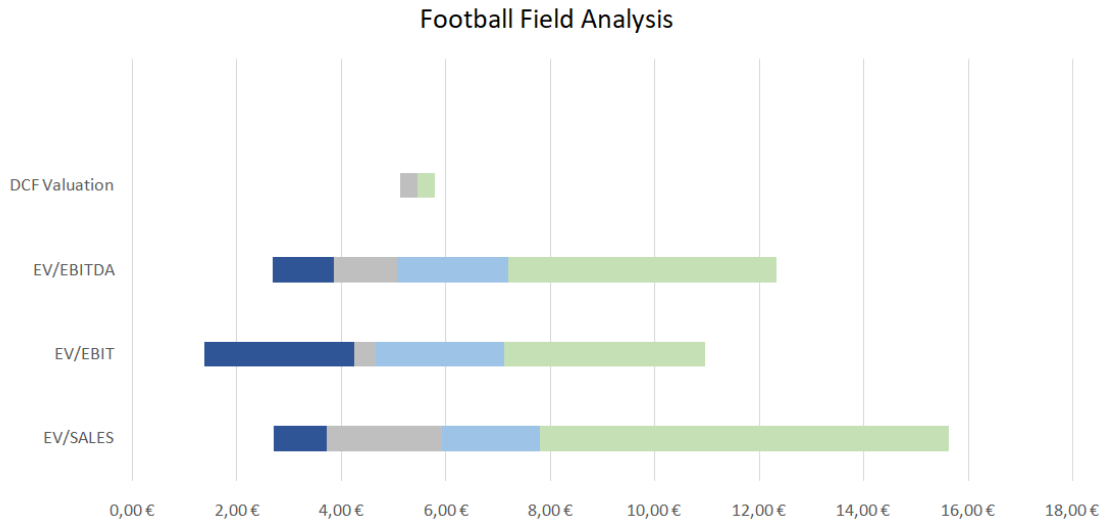
EV/SALES	25th - percentile	Median	75th - percentile
Enterprise Value (in thousands)	4.790.971,36 €	6.975.668,64 €	8.846.720,88 €
Plus: cash & cash equivalents	1.627.768,62 €	1.627.768,62 €	1.627.768,62 €
Plus: equity investments	- €	- €	- €
Plus: other non-core assets	- €	- €	- €
plus: net operating losses	-410.000,95 €	-410.000,95 €	-410.000,95 €
Less: Total debt	2.869.500,49 €	2.869.500,49 €	2.869.500,49 €
Less: preferred stock	- €	- €	- €
Less: Non-controlling interests	71.956,17 €	71.956,17 €	71.956,17 €
Implied Equity value	3.887.284,28 €	6.071.981,55 €	7.943.033,79 €
Diluted shares Outstanding	996.221,10 €	996.221,10 €	996.221,10 €
Implied share price	**3,90 €**	**6,10 €**	**7,97 €**

EV/EBITDA	25th - percentile	Median	75th - percentile
Enterprise Value (in thousands)	4.822.326,47 €	6.028.684,60 €	8.147.635,11 €
Plus: cash & cash equivalents	1.627.768,62 €	1.627.768,62 €	1.627.768,62 €
Plus: equity investments			
Plus: other non-core assets			
plus: net operating losses	-410.000,95 €	-410.000,95 €	-410.000,95 €
Less: Total debt	2.869.500,49 €	2.869.500,49 €	2.869.500,49 €
Less: preferred stock			
Less: Non-controlling interests	71.956,17 €	71.956,17 €	71.956,17 €
Implied Equity value	4.062.551,73 €	5.268.909,86 €	7.387.860,36 €
Diluted shares Outstanding	996.221,10 €	996.221,10 €	996.221,10 €
Implied share price	**4,08 €**	**5,29 €**	**7,42 €**

EV/EBIT	25th - percentile	Median	75th - percentile
Enterprise Value (in thousands)	5.372.080,84 €	5.784.304,98 €	8.231.864,03 €
Plus: cash & cash equivalents	1.627.768,62 €	1.627.768,62 €	1.627.768,62 €
Plus: equity investments			
Plus: other non-core assets			
plus: net operating losses	-410.000,95 €	-410.000,95 €	-410.000,95 €
Less: Total debt	2.869.500,49 €	2.869.500,49 €	2.869.500,49 €
Less: preferred stock			
Less: Non-controlling interests	71.956,17 €	71.956,17 €	71.956,17 €
Implied Equity value	4.468.393,76 €	4.880.617,89 €	7.328.176,95 €
Diluted shares Outstanding	996.221,10 €	996.221,10 €	996.221,10 €
Implied share price	**4,49 €**	**4,90 €**	**7,36 €**

Football Field Analysis

Through the Football Field Chart, we ultimately gave a better overview of the market multiple analysis and we can notice that the results are consistent with the target price that we have found through the DCF method.



Investment Risk

In this section we will analyze the main uncertainties and risks that investors would face and should be aware of when investing in Saipem and, more in general, in the Oil & Gas industry. External circumstances and sector-specific events could tragically impact both the core and the accessory business of the company.

Firstly, it must be clear that the Oil & Gas industry represents one of the most volatile markets in the entire panorama. Given the high uncertainty related to the future trends it is really complicated to make trustable expectations on the path that the company will pursue in the next 3 to 5 years.

Military conflicts, macroeconomic trends and international politics tensions are the main drivers of this sector's volatility. In fact, it is sufficient to look at the recent events to understand the magnitude of the effects of these issues on the financial markets.

In the last few weeks, tensions between Iran and US drove the markets in a high uncertain environment and highlighted the increasing independence of the US from the supply of Oil & Gas goods, given the rise of the production in the Texas factories.

Another important issue that arose in the last few days, is the deal agreed between the Russian President Vladimir Putin and Saudi prince Mohammed Bin Salman at Osaka G20 according to which OPEC countries found a deal to extent the cuts of petroleum production for other nine months, leading to a rally of petroleum on markets.

As we can notice, these are only some of the main events that happened in the recent weeks and that continuously affect the performance of companies in this sector.

By the way, it is also important to mention that the exposure of the companies in this sector is not direct, in the sense that is it mitigated through the use of derivative instruments, in particular futures contracts that help the companies to stabilize the prices with their suppliers and clients, making this market more desirable than it would actually be without the use of such financial instruments.

Another important issue to mention, that is strictly related to the ones just named, is the risk of a dramatic reduction in the supply of Oil & Gas goods. In fact, it is well known that the reserves of petroleum in the Middle East are worsening year by year and it is complicated to find new oil fields in the world.

The scares resources, along with the international tensions could make the price of petroleum much higher in the next few years.

Ultimately, but not least for importance, companies are now moving towards the field of renewable sources of boost for the automotive sector. As a consequence, if the companies working in this sector fail to pursue this path in the next few years, this could trigger their performance and could ultimately make this industry to collapse.