

# Financial Markets Review



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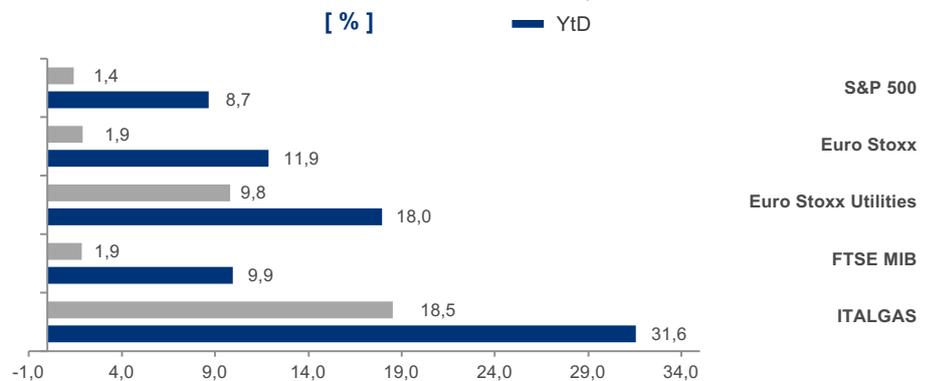


€ Eurozone stock markets have continued rallying, supported by the French elections' results; peripheral spreads have contracted and the euro is on the rise due to lower political risks

## Financial markets

Markets have continued to rise in the Eurozone and reached a two-year high thanks to the French elections' results and the positive quarterly results. Fears of political instability in the US following "Russiagate" and the economy's loss of competitiveness resulting from a stronger EUR/USD exchange rate did not have significant consequences. The Euro Stoxx rose by 1.9%. The same is true for the FTSE MIB, which, however, shows a more volatile trend. After a significant initial rise due to the decline of political risks in the Eurozone following the French newsflow, the Italian index underperformed towards the end of the month, largely because of the increasing risk of early elections in Italy, even if Q1 GDP was higher than expected. The S&P 500 index reached record highs (+1.4%). The depreciation of the dollar more than compensated the above-mentioned political fears. On the fixed income side, the 10-y Bund yield closed the month relatively unchanged (0.30%), with initial rises caused by capital shifts in favour of peripheral bonds due to the decline of political risks in the Eurozone.

Main stock indexes performance



Source: Italgas elaboration from Bloomberg data

Risks were compensated by a period of political uncertainty in the US and a contraction with German inflation (at a 6 month-low) after the strengthening of the EUR/USD exchange rate and a weakening of crude prices. The BTP-Bund spread is down 7 bps (190 bps); the significant initial decline supported by the French newsflow was partially compensated at the end of the month by fears of early elections and new sovereign bond issues.

The sovereign US yield also shrank (-8 bps), affected by political uncertainties that followed "Russiagate", the FED's seemingly more cautious approach with its interest rate hike programme, and payrolls being lower than expected. EUR appreciation vs USD and GBP (+3% and +4%) reflects sovereign yield trends induced by political risks (including greater uncertainty around the UK electoral results) and macro-economic data.

## Oil Market

Dated Brent shares were very volatile and down 2% despite the USD's depreciation. The market was largely focused on the continuous increase of US output, which almost reached historical highs (9,34 mbd vs historical peak of

9,6 mbd recorded in July 2015), with subsequent greater difficulties to absorb the surplus production. The downward trend was interrupted during the middle of the month by joint declarations from Saudi Arabia and

Russia on their intentions to extend production cuts (1,8 mbd) until March 2018, and followed by profit taking after an agreement was reached in Vienna.



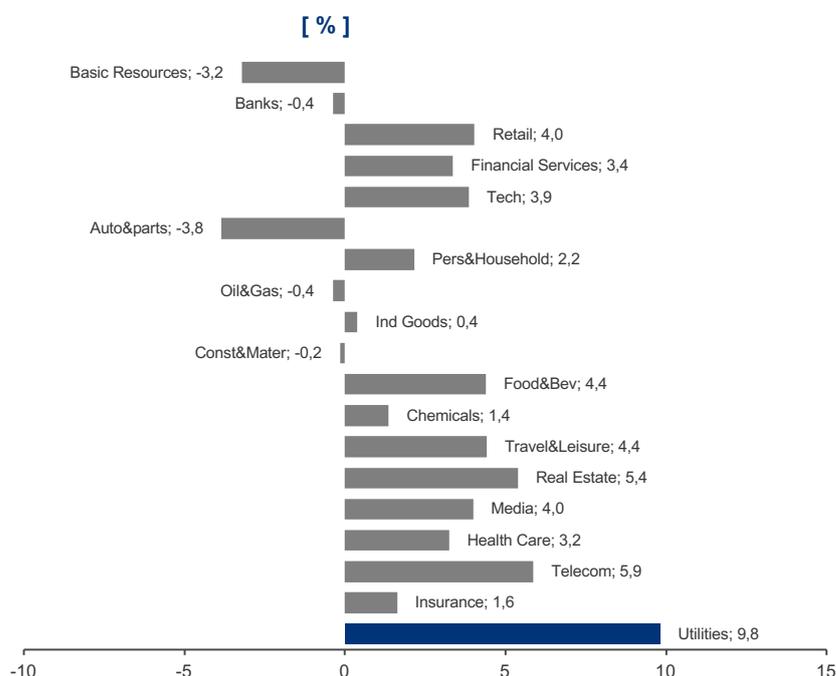
## Sector performance



Sector performance in May reflects falling commodity prices and inflation expectations

Apart from sector-specific themes, May trends reflected the falling commodity prices. The resulting impact translated into inflationary pressures, rising bond yields, as well as in narrowing peripheral spreads due to decreasing political risks. The best performer was the utilities sector, supported by macro trends and M&A speculation around German operators. The second best were the telecom (mergers) and real estate (larger sales supported by mortgages connected to falling interest rates) sector. The worst performers were instead the automotive sector (political instability in Brazil, where many producers are exposed to the potential consequences of environmental investigations in the US) and the mining sector (certain commodities' prices have been at their ever lowest for a year).

### Main sectors' performance, May 2017



Source: Italgas elaboration from Bloomberg data



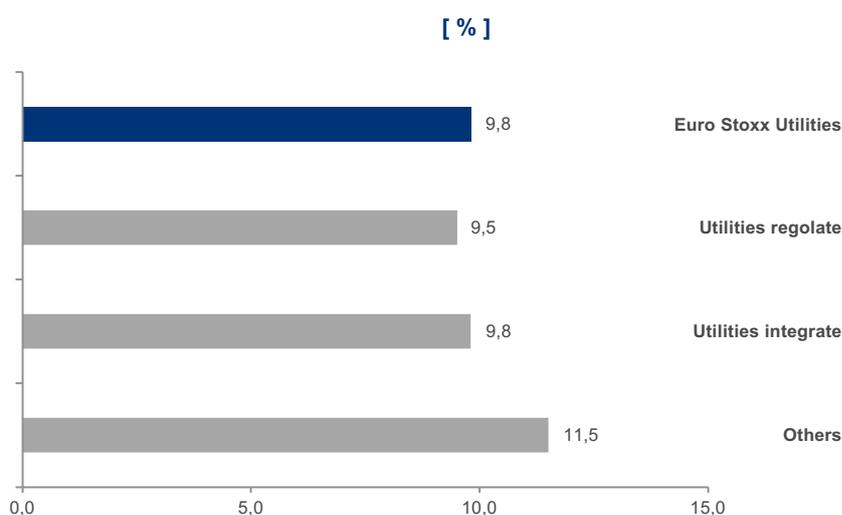
Utilities sector supported by falling inflation and peripheral spreads and M&A speculation



## Utilities sector performance

The utilities sector rose almost 10% resulting as the best performer. Various sub-sectors were also as successful. In particular, the regulated securities sector benefitted from macro trends mentioned above, whilst the integrated utilities sector was supported by speculation around consolidation within German operators and by the French stocks reaching new highs (political results, potential extensions of EdF nuclear power plants and appointment of a former Areva public relations head to the role of Prime Minister). In the "misc" sector, Veolia stood out (+12%), having benefitted from higher than expected quarterly results following contract acquisitions.

### May 2017 - Sector and subsector performance



Source: elaboration from Bloomberg data



## Italgas stock and peers

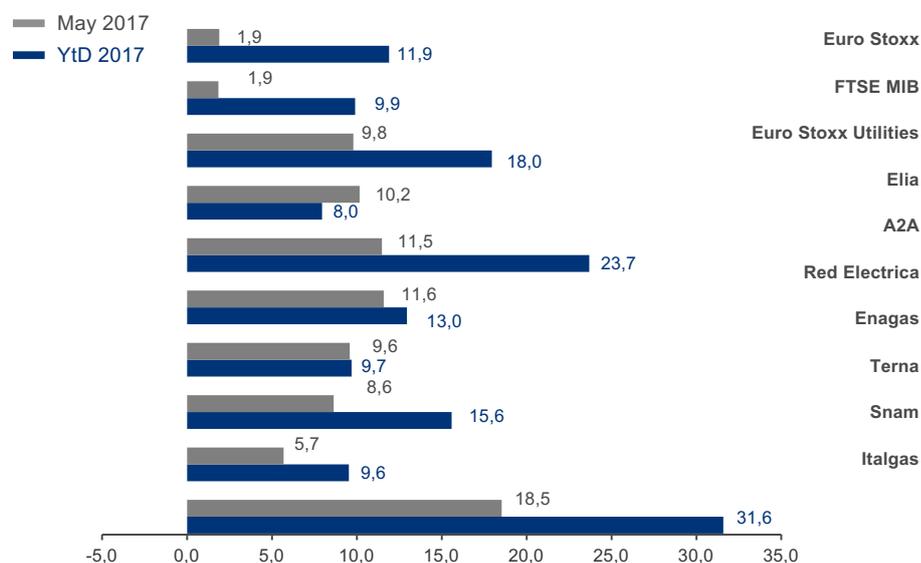
Italgas confirms its position of best performer compared to peers with an estimated 19% monthly increase (adjusted by dividend). In addition to a contraction in peripheral sovereign yields, shares were supported by Q1 results and renewed expectations on the dividend policy and operational efficiencies presented at the CMD. Spanish regulated stocks were also in constant rise due to macro trends above-mentioned and to the A24, which improved the end of year guidance. Italgas' volume exchanges averaged to 3.2m daily, an increase compared to last month (2.5m) and in line with the share price performance.



**Italgas +19% increase in May due to expectations for a dividend increase and operational efficiencies**

Italgas and peers

[ % ]



Source: Italgas elaboration from Bloomberg data



## Agenda

Corporate events

27 July

Board's Q2 results and H1 2017 financial report

28 July

Press release & conference call



## Corporate News

### Q1 2017 results

Italgas' Board, which met on the 5th of May under Lorenzo Bini Smaghi, approved the consolidated results for the first quarter of 2017, with revenues of €281m (+9.8% y/y), EBITDA of €193m (+19, 9% y/y), net profit of €72m (+16,%1 y/y) and net debt of €3,472m (-€146m vs end of 2016). Italgas CEO Paolo Gallo commented: "The first quarter of the year registered positive results across all the main economic indicators. Growth in investments and a greater focus on operating and financial efficiencies have allowed us to maintain a solid capital structure, guaranteeing continued value creation for all our shareholders".

### 2017-2023 Strategic Plan

Italgas' Board approved the 2017-2023 Strategic Plan on the 30th of May and presented it to the market the following day. The plan's main targets are the following:

- Overall investments for €5bn, with €3bn for organic growth and €2bn for sector tenders and further related technical investments in order to achieve a market share of almost 40% (from the current 30%)
- Consolidated RAB: +4.5% yearly average over the plan, considering the expected evolution of the sector tenders
- Operational efficiency programme: plan started in the first months of 2017 with the aim of obtaining by 2018 a reduction of more than 15% in costs compared to the 2016 figure;

- Financial efficiency and sustainability in the financial sector: continuous focus on optimising the debt structure and on maintaining a solid capital structure (D/RAB under 65% over the plan period);
- DPS 2016 (0,20 euro) increased by 4% per annum until 2019.

Italgas CEO Paolo Gallo commented: "The Business Plan confirms the strategy announced when Italgas listed on the stock exchange. Our priorities are organic growth, operational and financial efficiency, and sector consolidation mainly through tenders. The business model supports a dividend policy that is attractive, growing and sustainable".



**Italgas SpA**

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