November 2018

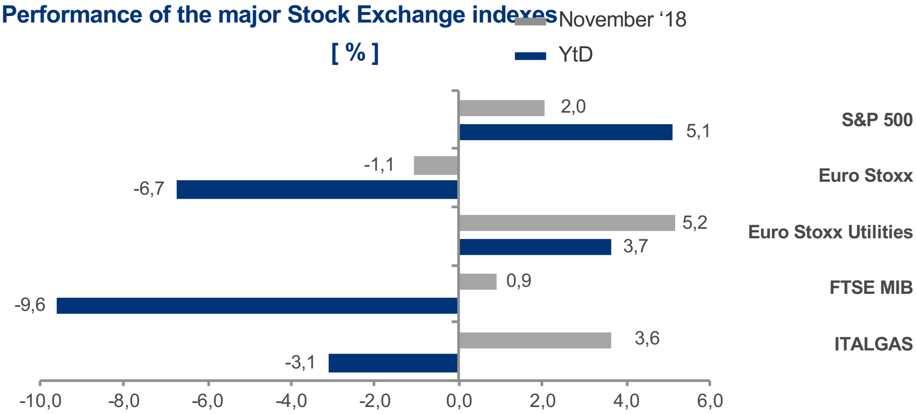
Financial Markets Review

The fall of the equity market came to a halt with mitigated peripheral tensions despite the weakness of oil and the persistent fears of a slowdown. Core yields undergoing moderate contraction, but expectations of monetary standardisation remain

The Financial Markets

The Eurozone equity market enjoyed substantial stability in November. The bear pressures induced by: 1) continuing contraction of the oil prices, at minimum levels for over one year; 2) macro data generally lower than expectations; 3) political upsets in the UK; 4) weak corporate results and outlooks for technological and automotive sectors, were on the whole offset by: 1) mitigated Eurozone peripheral tensions, with Italy opening up its manoeuvre to review in order to avoid the start-up of infringement proceedings over excessive deficit; 2) accommodating remarks made by the FED chairman, according to whom additional monetary tightening will depend on the evolution of the macro conditions; 3) resumption of USA-China trade talks in getting ready for G20; 4) US mid-term electoral results, which provided an outlook of continuity for the government's tax policy. Euro Stoxx about -1% versus FTSE Mib +1% based on the above-mentioned opening up of the Italian government to review its manoeuvre. 2% hike for S&P 500, which mostly was affected by the above-mentioned US electoral results and the slowdown in tensions caused by the FED's monetary standardisation. Core yields undergoing a moderate contractions despite the heavy drop of the oil price, with the market considering that standardisation of the monetary policies will continue so that the central banks will re-establish margins for action in the case of a new recession. 10y Bund -7 bps versus UST -16 bps based on the increased bullishness shown to date by the US yield due to stronger economic growth and peripheral Eurozone tensions. After updating the maximum levels for over 5 years based on the fears of starting up infringement proceedings over excessive deficit, the spread closed down by 14 bps, reflecting Italy's willingness to reviewing the manoeuvre. EUR/USD unchanged, with the bear effect generated by the inverse empirical ratio between commodities prices and the US dollar compensated by Powell's accommodating comments. EUR/GBP also stable based on the mixed Brexit newsflow.

Performance of the major Stock Exchange indexes [%]



Source: Italgas processing of Bloomberg data

The oil market

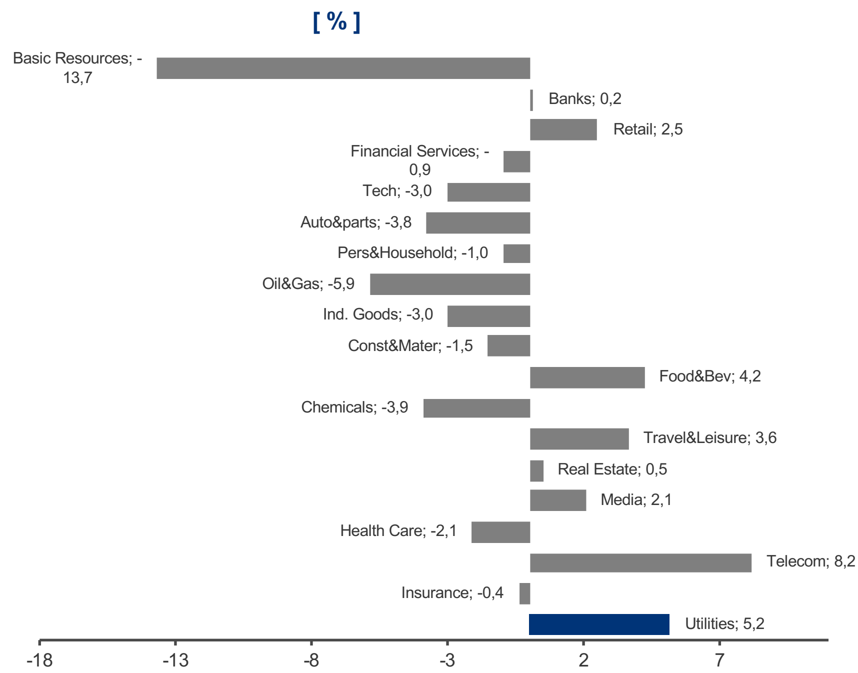
Dated Brent prices are at minimum levels for over 1 year (-21% in the month; -32% from the maximum levels of the period at the beginning of October) because of mitigated fears of supply disruption, after: 1) temporary suspension (6 months) of US sanctions on purchases of Iranian crude agreed upon with some big consumer countries, including China, India and Japan; 2) 10 consecutive weekly increases in US crude inventories; 3) US and Saudi production at historical highs; 4) persistent fears of an economic slowdown and review respectively lowering and raising OPEC estimates of growth in global oil demand and non-OPEC output for 2019; 5) lack of Russia's support for the OPEC+ plan to slash production proposed by Saudi Arabia.

Trend of the sectors

The dynamics in the sectors continued to reflect fears of an economic slowdown caused by standardisation of the FED monetary policy, with oil prices particularly taking a heavy fall, with resulting underperformance of the cyclical versus defensive sectors. With its 14% drop, the mineral/iron and steel sector proved to be the worst performer, basically due to the dynamics of Saipem and Tenaris, penalised by the fears of a slowdown in investments in the upstream. Oil&gas followed. Standing out amongst the other cyclical sectors is automotive following guidance below BMW's expectations, further contraction in registered vehicles in China and the US new threat of motor vehicle import duties. On the opposite side, the defensive sectors - telecommunications in particular - are pointed out on sector consolidation expectations (DT-Dutch branch Tele2 and continuation of Telecom Italia/OF negotiations).

The dynamics in the sector continued to reflect fears of an economic slowdown and a heavy fall in oil; the best performers are still defensive

Trend of the main sectors, November 2018



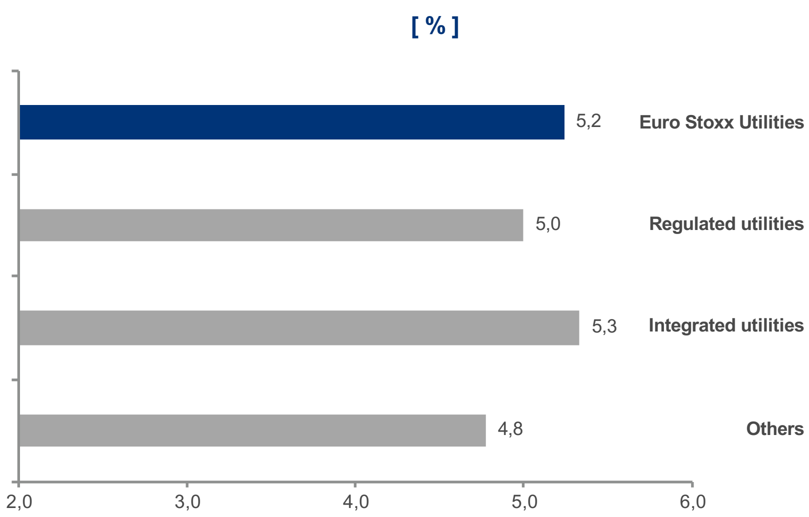
Source: Italgas processing of Bloomberg data

Utilities is still one of the best performers, with expected drop in inflation and risk-off persistence

Trend of the Utilities sector

5% rise for the utilities sector, which like October was confirmed the second best performer behind the telecommunications sector. In addition to the overall risk-off phase, contraction of inflationary expectations due to the heavy drop in oil prices and mitigation of the peripheral risk, the sector was backed by the integrated German operators based on expectations that coal plants would be closed down in Germany only after 2022 with compensations for the producers, and by Enel, which strengthened its dividend policy in the business review. Dynamics were partially absorbed by the shares exposed to the UK market for local market capacity invalidation due to failure to conduct a survey on compatibility of the electricity producer aid system as set forth in the EU rules.

November 2018 - Trend of the sector and sub-sectors

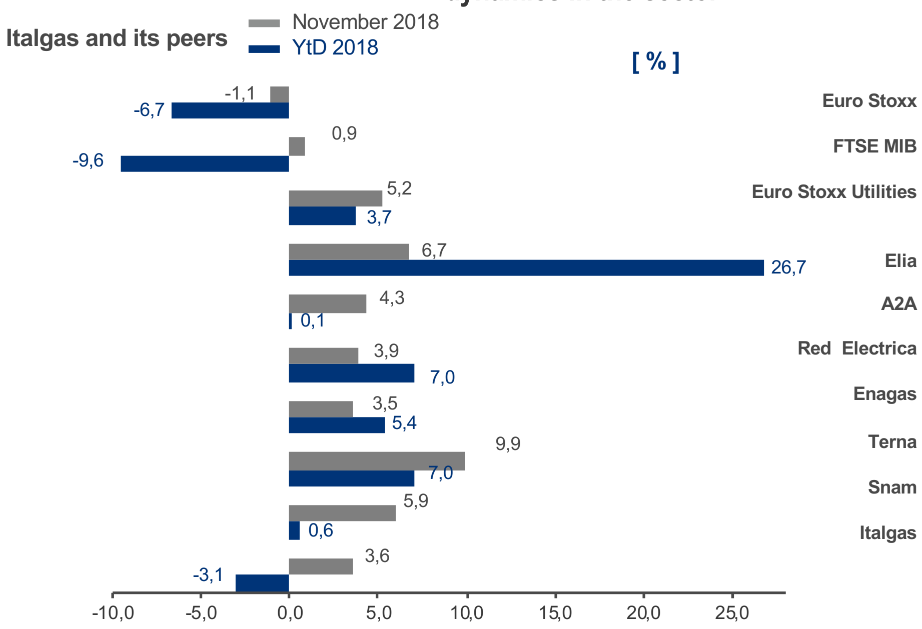


Source: Italgas processing of Bloomberg data

The Italgas share and its peers

Italgas up by about 4%, backed by the dynamics in the sector

Italgas up by about 4%, which similar to the sector's index was backed by the drop in inflation expected because of the contracted oil prices, the general rotation in favour of the defensive sectors, the mitigation of the sovereign risk and, like the other Italian regulated operators, the consultation paper on the WACC review that confirmed stability of the regulatory framework. Nevertheless, in spite of Q3 results on average higher than the consensus, the share underperformed the Italian regulated peers because of the strengthened dividend policy for Snam and EBITDA guidance/interim DPS detachment for Terna, as well as continuing delays in starting up gas tenders.



Source: Italgas processing of Bloomberg data

Agenda

Corporate events

22 February BoD Q4/FY results, press release and conference call

Corporate News

Consolidated 9M 2018 results approved

On 5 November, the Italgas BoD approved the consolidated 9M 2018 results, which posted total revenues at €881 million (+5.5%), EBITDA €629 million (+8.9%), EBIT €334 million (+8.9%), net profit €226 million (+6.1%), technical investments €349 million (+0.8%) and net debt approximately €3.7 billion (+0.4% YTD).

Still continuing are investment programmes, including the initiatives aimed at digitalising the network and M&A activities with the goal of further consolidating the Company's presence on the market. A considerable portion of the investments concerned the plan to install smart meters to replace traditional meters. Considering also the unconsolidated investees, in the first nine months of 2018 about 1.4 million were installed, taking the total to roughly 4.3 million, or 53.2% of all meters. The objective is to complete the replacement plan within the early months of 2020. With more than 67K kilometres of network managed and 7.5 million delivery points, Italgas retains its leadership position in the sector in Italy, with a market share topping 34%, and it is the third largest operator in Europe. Paolo Gallo, CEO of Italgas, commented: "These results allow us to confirm the targets set for 2018 in the Business Plan thanks to the constant attention paid to operational efficiency and to the commitment to carry through with the planned investments, investments that have already led to an appreciable development of the networks and number of managed customers".

EMTN programme renewed

On 5 November, the Italgas BoD resolved renewal of the EMTN programme, started up in 2016 and afterwards renewed in 2017, for a maximum total amount of €3.5 billion. As of today, bonds for €2.9 billion have been issued under the EMTN programme. The EMTN programme is an effective tool for continuing to gain access to the bond debt markets and to acquire financial resources at competitive costs to support the Company's development programmes.

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