

# Financial Markets Review



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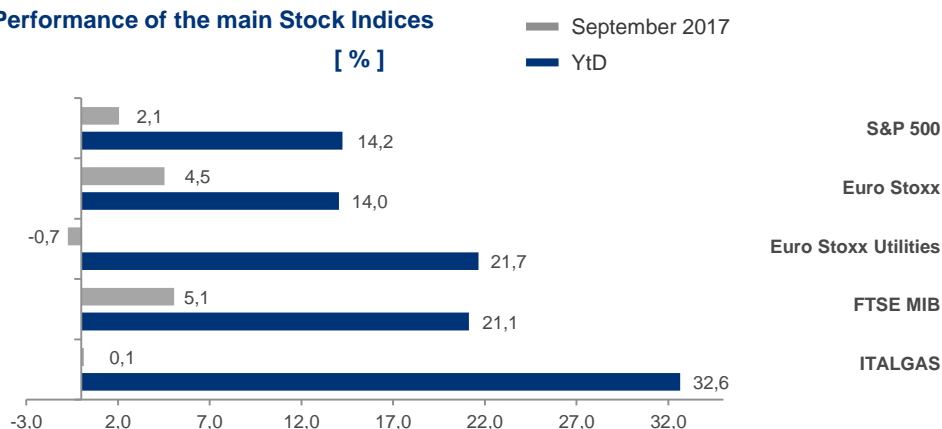


**Eurozone shares continue to rise, with cyclical stocks. High sovereign yields with rebound in US and UK core inflation rates**

## Financial Markets

In September, Eurozone shares rose substantially, boosted by several factors: 1) robust macro data, with the current German ZEW survey at historic highs; 2) the surge in oil prices to the highest levels since July 2015; 3) new historic highs on Wall Street, which benefited from the presentation of the US tax plan, with the corporate tax rate expected to fall to 20% from the current 35%; 4) the contraction of the EUR / USD, which bolstered the DAX in particular, which is heavily exposed to export-producing securities; 5) a general upward trend in bond yields, which boosted the performance of the banking sector. Euro Stoxx rose +4.5% vs +5.1% on the FTSE Mib (at the highest levels since December 2015), buoyed by banks and the FCA (+20%), which sustained the rally seen in the previous month thanks to rumours of corporate restructuring and potential interest from automotive groups. The S&P 500 (+2.1%) reached historic highs, supported largely by the presentation of the US Tax Reduction Plan. A significant rise in sovereign yields, driven predominantly by better-than-expected US and UK core inflation rates and by statements by the President of

**Performance of the main Stock Indices**  
[ % ]



**Source:** Italgas analysis of Bloomberg data

the FED and the Bank of England in favour of rising rates / unwinding of monetary stimulus. Ten-year UK and US government bond yields rose 33 bps and 22 bps respectively, while the 10y Bund's growth was lower (+10 bps) due to the capital outflow following the outcome of the German election, as the liberal party, nominated for the new coalition government, is opposed to the ECB's accommodative policies. The BTP-Bund spread contracted 4 bps, with

the impact of the German elections more than offset by the accommodative statements by ECB members on the extension of QE and by the S&P's upgrade of Portugal. Currency fluctuations (EUR / USD -0.8%, EUR / GBP -4.2%) reflected the performance of sovereign yields.

## The oil market

Oil prices rose sharply (Dated Brent +8%, the highest level since July 2015), largely due to the possibility of an agreement between OPEC and non-OPEC countries to extend the current cut in oil production (around 1.8 mbd) until the end of March 2018, as well as to the

upward revision of global demand estimates by the International Energy Agency and OPEC. Geopolitical tensions resulting from Turkey's potential closure of pipelines in response to the secessionist referendum launched by the Kurdish minority in Iraq have

been offset by the growth in Libyan output and the return to peak period of US output following the hurricanes, as well as by the recent increase in American active oil rigs.



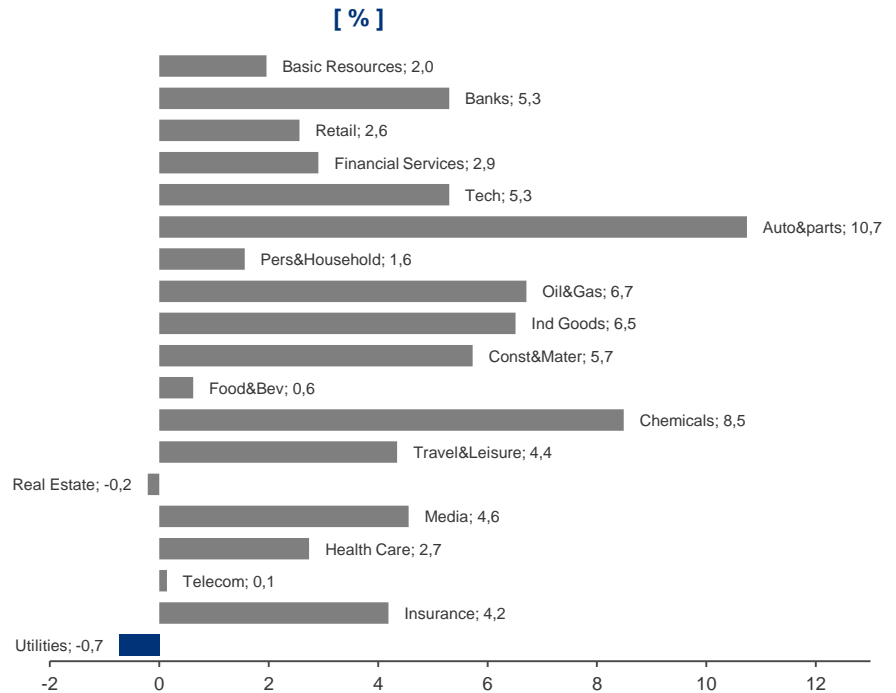
## Sector trends

The strengthening of the economic outlook and the correction of the EUR / USD have largely benefited the industrial and financial sectors. The automotive sector is the best performer, boosted by robust data on registrations, rising sharply compared to previous months, and rumours about M&A and corporate restructuring. The chemical sector also performed well, supported by the outlook for demand, the strengthening of the USD, and M&A activity (BASF-Solvay deal). The oil & gas sector reflects the rise in oil prices in euros, while the banking sector tracks the rise in bond yields. At the bottom, we find the utility and real estate sectors, due to a portfolio rotation in favour of the more cyclical sectors and those most exposed to rising rates; utilities were also affected by the weak Spanish securities due to the referendum on Catalonia's independence.



With a stronger economic outlook and rising sovereign yields, the focus is on cyclical and financial sectors

### Main Sector Trends, September 2017



Source: Italgas analysis of Bloomberg data



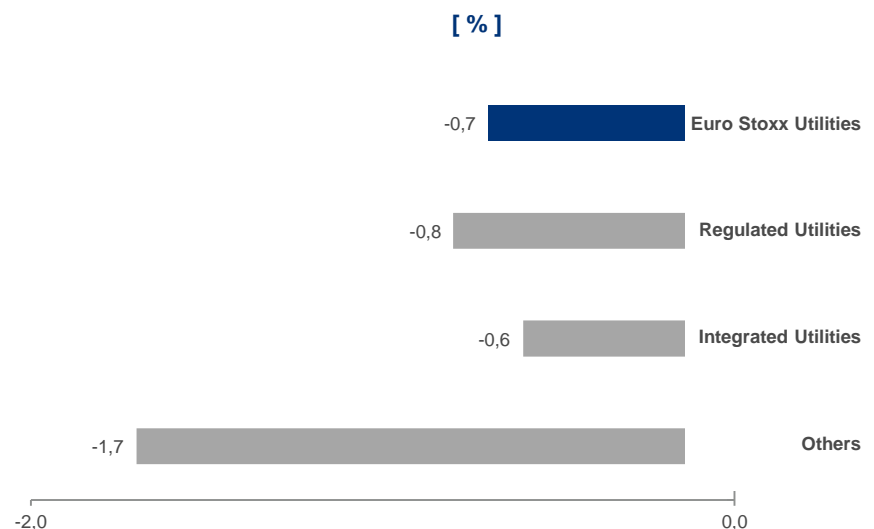
Utilities decline due to portfolio rotation and weak Spanish securities



## Utilities Sector Trends

After emerging as the best performer in August with a decline of 0.7%, the Utilities sector is the worst performer in September. The decline was mainly driven by the rotation of portfolios in favour of more cyclical sectors and sectors positively exposed to the rise in sovereign yields. The sector was further impacted by weak Spanish securities or securities exposed to Spain following the independence referendum in Catalonia, as well as by RWE's profit taking thanks to exposure to coal-fired power generation after the Green Party's likely entry into the new German government following the elections. The "others" sub-sector reflects Suez's decline in light of downgrades by several brokers.

### September 2017 - Sector and Sub-Sector Trends



Source: Italgas analysis of Bloomberg data



## Italgas shares and its peers on the Stock Market

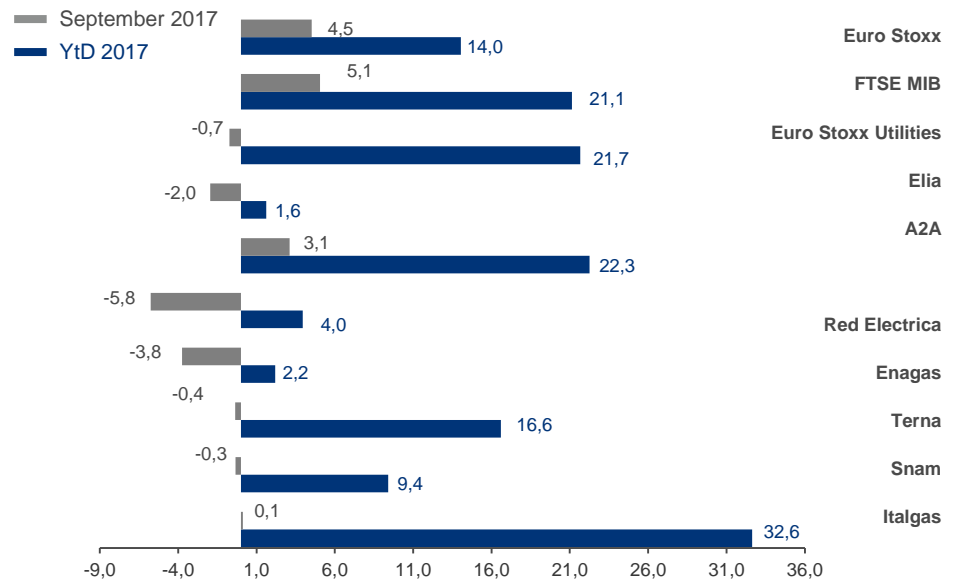


Italgas largely stable in September, but still the best performer vs. fully regulated peers

Overall, Italgas shares were stable in September and the stock was confirmed as the best performing stock vs fully regulated peers. After an initial contraction caused by rising rates, shares have recovered ground thanks to the maturity date of the Gas Natural tender and to expectations for a less competitive environment with the possible withdrawal of several participants. A2A has emerged as the best performer thanks to rising electricity prices and the release of its stake in Montenegro. Conversely, there was a sharp drop in Spanish securities, which were affected by the increased sensitivity to bond yield fluctuations and the referendum on Catalonia's independence. Average daily trading was at 1.5 million vs. 1.2 million the previous month.

Italgas and its peers

[ % ]



Source: Italgas analysis of Bloomberg data



### Agenda Corporate events

23 October

Board of Directors interim report as at 30 September; press release & conference call



### Corporate News

#### Successful plan for the launch of a 500m euro bond issue

On September 11, Italgas (BBB+ rating from Fitch, Baa1 from Moody's) successfully completed the launch of a bond issue maturing on January 18, 2029, at a fixed rate of 500 million euros with an annual coupon of 1.625%, as part of the Euro Medium Term Notes Program (EMTN) approved by the Board of Directors on October 18, 2016.

The new bond will further optimize Italgas' financial structure with regards to the short-to-medium-long-term debt ratio, extending the average life and increasing the fixed rate share.

This new transaction represents the longest issue by Italgas so far and the longest issue in euros by an Italian issuer since the start of the year. The transaction raised a demand of 2.6

times the bid, with a high quality and wide geographical diversification of investors.

Below are the details of the operation:

Amount: 500 million euros

Expiration: January 18, 2029

Annual coupon of 1.625% with a re-offer price of 99.746 (corresponding to a spread of 72 basis points on the mid-swap reference rate).



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