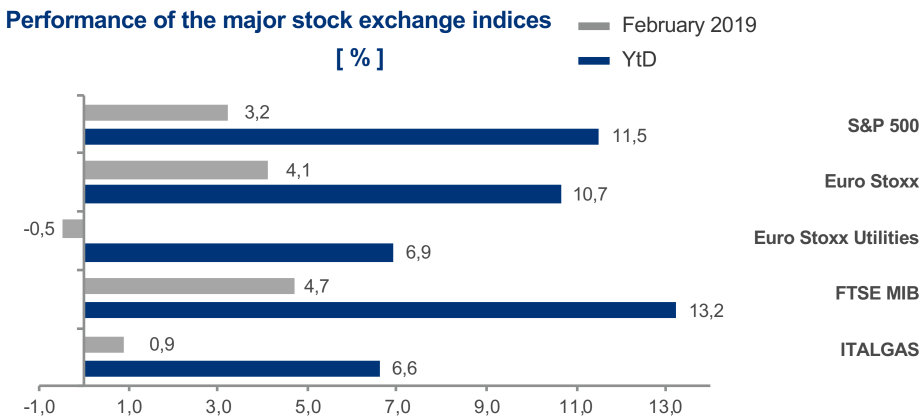
February 2019

Financial Markets Review

Continued recovery in equity markets with expected US-China trade agreement and rumours of a new TLTRO confirming the accommodating approach of central banks. Recovery in core yields limited by persistent weakness in macro data

The financial markets



Source: Italgas processing of Bloomberg data

The recovery of global equity market continued in February, supported by: 1) expected US-China trade agreement, with Trump willing to extend deadline for reintroducing customs duties; 2) Chinese credit growth at historic highs, reflecting expansive monetary and fiscal policies by the central bank and government; 3) end of US federal government shutdown; 4) rumours on a new round of TLTRO by the ECB. Euro Stoxx +4.1%, highest level in nearly 5 months vs. +3.2% for the S&P 500, just 5 percentage points from historic highs. FTSE Mib in moderate outperformance (+4.7%) based on exposure to the banking sector, supported by robust FY results and speculation regarding a change in the governing coalition, more market friendly in terms of fiscal policy and dialogue with the EU. Despite continued recovery in equity markets and oil prices, core yields showed marginal increases due to mixed macro data and the continuation of accommodating monetary policies. The Bund was essentially stable (+3 bps) due to the ZEW and IFO German confidence indices below expectations and greater YoY contraction in Eurozone industrial production in 10 years vs. a moderate increase for UST (+9 bps) reflecting improved macro data, in particular new non-agricultural payrolls and GDP. BTP-Bund spread moderately higher (+13 bps) with weakness in macro data (SME manufacturing at 6-year low and GDP in 2nd consecutive quarterly contraction) and a new reduction in growth forecasts by the EU Commission, mitigated by the risk-on phase, expectations on the next TLTRO decision, and regional election results, which opened the possibility of a reshuffling to a more market-friendly governing coalition. EUR/USD -0.7% as a result of the aforementioned discrepancy between macro data and growing expectations for a new round of TLTRO by the ECB to thwart peripheral slowdowns at the end of QE. EUR/GBP -1.8% due to Eurozone macro data and the Brexit deadline extension agreement if the UK Parliament does not back the renegotiation of agreements with the EU in time.

The oil market

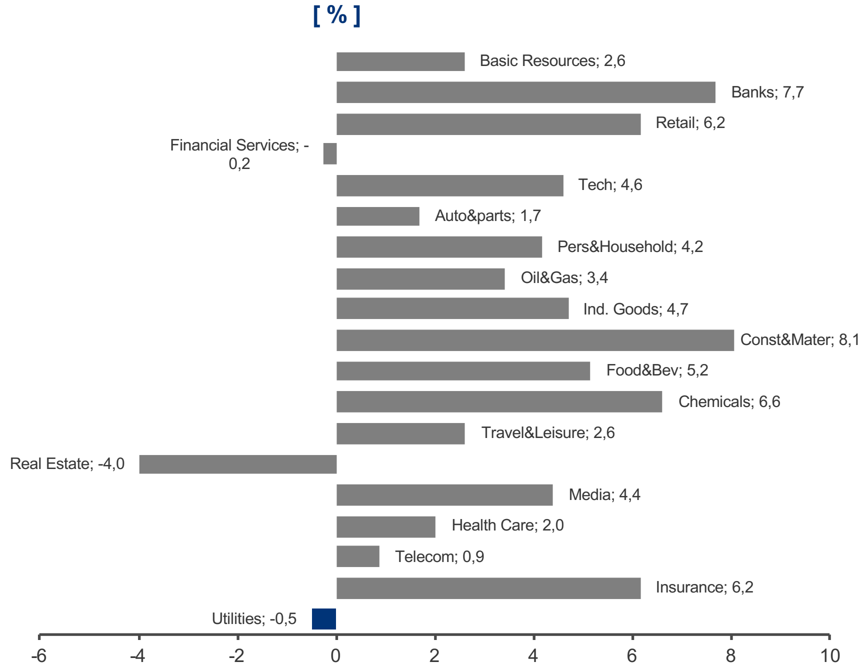
New 8% jump in oil prices, which returned to the highest levels in more than 3 months in relation to: 1) general risk-on phase; 2) January OPEC data, which showed the largest drop in production in 2 years, with the cartel already reaching 80% of the cuts defined in the more extensive OPEC+ meeting in December (overall reduction of output amounting to 1.2 mbd, of which 0.8 mbd as the OPEC portion and the remaining for non-OPEC countries); 3) announcement of higher cuts in output by Russia (as yet behind in the targets set by the OPEC+ block); 4) continuing concerns about Venezuelan output, with US sanctions in place on the PDVsa national oil company in an attempt to expedite a solution to the country's internal political crisis.

Trend of the sectors

Cyclicals supported by improved commercial outlook; banking among best performers with slowdown in contraction of core yields and TLTRO rumours. Defensive stocks showing opposite performance

Overall sector dynamics favouring cyclicals, among which banking and insurance stand out (increases between 6% and 8%), supported by the recovery of core yields after the minimums recorded in January, due to the improved commercial outlook and oil prices at their highest levels in over 3 months. Banks also benefited from statements by ECB members on possible new rounds of TLTRO, which would facilitate the repayment of previous issues maturing between 2020 and 2021 and allow the ECB's 2019 capital requirements to be met. Conversely, generalised underperformance of bond-proxies, reflecting the risk-on phase and the aforementioned recovery in core yields, with real estate (-4%) as the worst performer, also as a result of EPS guidance that was lower than expected from URW, one of the sector's main operators.

Trend of the main sectors, February 2019



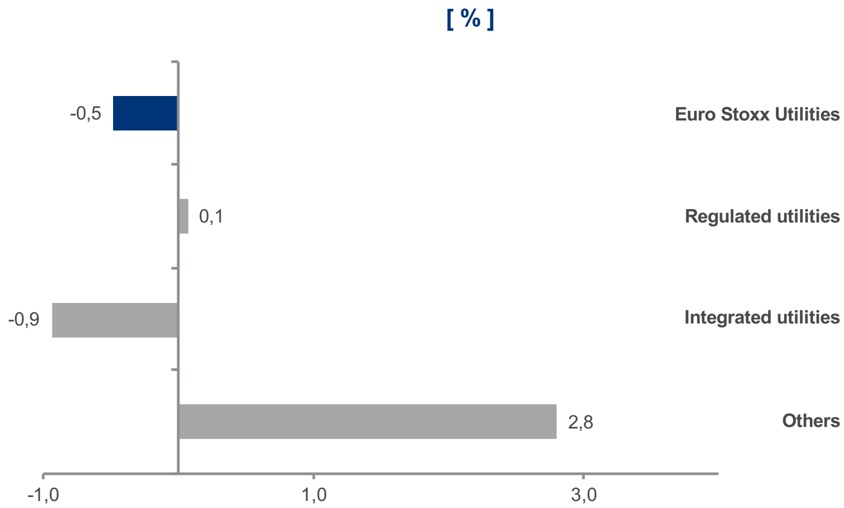
Source: Italgas processing of Bloomberg data

Utilities among worst performers with risk-on phase and slowdown in contraction of core yields

Trend of the Utilities sector

0.5% contraction in the utilities sector, positioned among the worst performers due to the risk-on phase and the increase in core yields from the low levels recorded in January. Underperformance for the integrated operators segment, essentially penalised by the drop in EdF (-12%) after 2019 guidance lower than expectations and confirmation of the scrip dividend, while Veolia is up 5% in the water/environmental segment reflecting 2018 results and dividends above expectations, as well as rumours of large contracts awarded in the Middle East.

February 2019 - Trend of the sector and sub-sectors



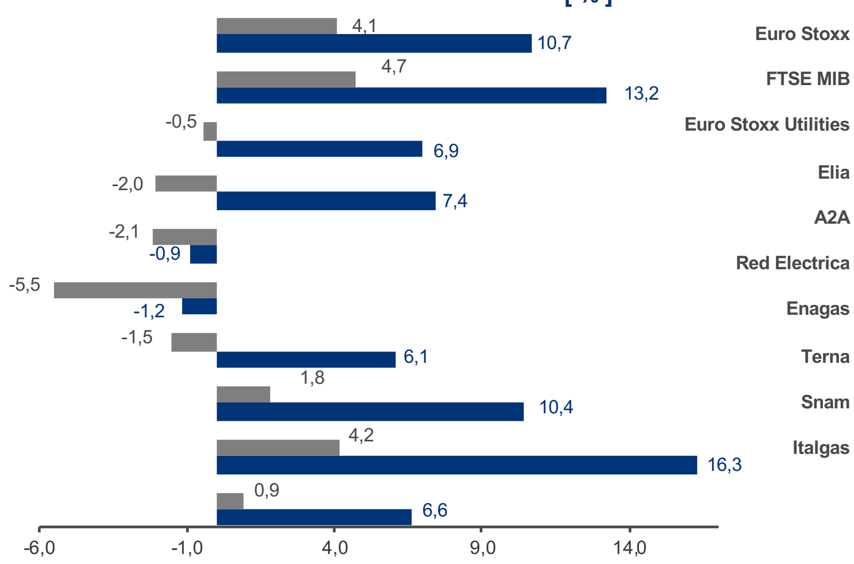
Source: Italgas processing of Bloomberg data

The Italgas share and its peers

1% increase for Italgas, at the highest share price levels adjusted for dividend detachment; despite the growth in the sovereign spread, the stock outperformed the sector index based on Q4/FY results that exceeded expectations. With regard to peers, Snam posted a 4% increase (best performer) due to improved guidance on 2019 net profit vs. a contraction of almost 6% for Red Electrica (worst performer) after acquiring a majority stake in Hispasat, a deal questioned by market from a strategic perspective, as well as lower margins resulting from the new business plan.

Italgas (+1%) outperforms sector index and updates maximum price levels (adj. DPS) with Q4/FY results above expectations

Italgas and its peers



Source: Italgas processing of Bloomberg data

Agenda
Corporate events

13 May	BoD Q1 results
14 May	Press Release and Conference Call

Corporate News

2018 consolidated results approved

On 22 February, the Italgas Board of Directors approved the 2018 consolidated results and resolved to propose the distribution of a DPS of €0.234. Revenues amounted to €1.176 million (+4.6%), EBITDA was €840 million (+8.2%), EBIT €454 million (+8.5%), and net profit stood at €314 million (+7.1%). Technical investments were €523 million (stable) and net debt was €3.814 million (+2.5%). The 2018 economic and financial results, the amount of investments made, the acceleration of the digitisation project and the acquisitions carried out represent an effective synthesis of the goals achieved at the end of the first business management cycle, which began in November 2016 with the Company's return to the stock market.
The corporate acquisitions made it possible to achieve the objective of growth for the Group and strengthening of the sector, an objective set in the 2018-2024 Business Plan.
Paolo Gallo, CEO of Italgas, commented, "The brilliant results achieved once again in 2018 are the result of the determination with which the Business Plan objectives were pursued and exceeded and highlight the path of growth, begun in November 2016 with the Company's return on the stock exchange, which created value for shareholders and the communities served. The key indicators, such as EBIT and net profit, also recorded considerable increases for this year, and reflect the effective operational management that led to a reduction in costs despite the expansion of the business perimeter. With the acquisitions made during the year, the Group has achieved additional growth, strengthening its presence in areas of the country that have significant potential for development and from which we expect substantial results in the coming years. Through these transactions, we have acquired new distribution networks and expanded the number of redelivery points, exceeding the target set for 2018. Investments were made to develop and improve the service, for energy efficiency and technological innovation, as well as to create a Digital Factory which is the engine of the digital transformation of business processes. The coming years will make this Company a reference model for dynamism, focusing on the environment, service quality, and the energy needs of its communities, as a result of its daily commitment and the value of the individuals who work here".

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