July 2019

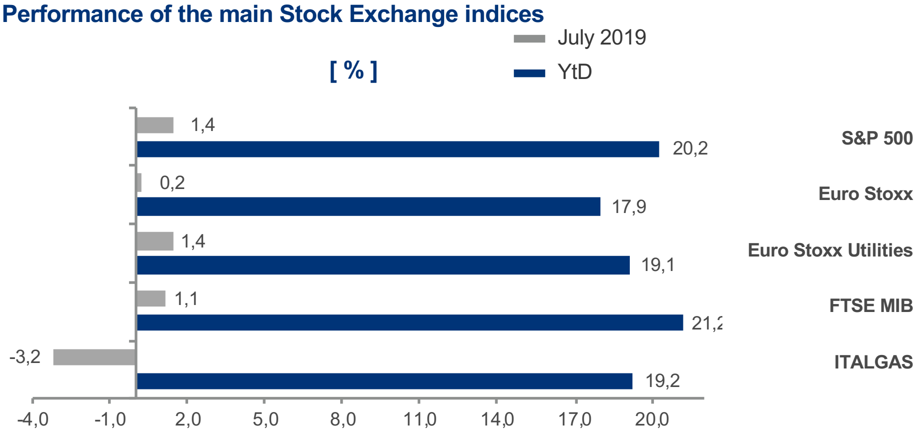
Financial Markets Review

Eurozone stock market unchanged with USA-China trade truce offset by continuing weak German macro data. Bund yield at record lows; sovereign spread down sharply following EU green light on public finances

Financial markets

The Eurozone stock market was stable overall in July. The support provided by the USA-China trade truce, with the US mitigating the technological embargo on Huawei and renouncing any further tariff increases, as well as expectations for ECB monetary incentives to continue following the appointment of Lagarde (current head of the IMF and renowned for being in favour of accommodating policies) as Draghi's successor from 1 November, was offset by new lower than expected macro data for Germany, particularly industrial production, manufacturing PMI (at 7-year lows and well below the threshold of 50, which defines the boundary between expansion and recession) and the ZEW confidence indicator, as well as significant drops in European car registrations from the beginning of the year. Euro Stoxx was unchanged vs S&P 500 +1%, with the US index at new record highs following higher than expected macro data (GDP Q2 and new non-agricultural payroll). A rise of 1% was also recorded for the FTSE MIB, boosted by a lower sovereign spread. The 10y Bund yield reached record lows (-15 bps maturity adj.) due to the abovementioned German macro data and expectations for continuing ECB accommodating policies following Lagarde's ECB meeting in appointment.

Performance of the main Stock Exchange indices



Source: Italgas elaboration of Bloomberg data

The ECB meeting was in line with expectations; forward guidance rates to changed and the QE to reopening was announced with tiering of deposit rates to safeguard bank profitability. On the other hand, the 10y UST was stable (+1bp), reflecting the abovementioned US macro data and following the less dovish than expected FED meeting; despite a cut of 25 bps, Powell stated that this decision did not imply a bearish interest rate trend. The BTP-Bund spread stood at -49 bps (maturity adj) following the EU Commission's green light for Italy's public green light on public finances without an infraction procedure. EUR/USD was -2.6%, at record lows for over 2 years, following the appointment of Lagarde, the cited divergence of macro data and the less than expected accommodating outcome of the FED meeting. EUR/GBP was +1.7%, at record highs for almost 2 years, with the cited ECB news flow more than counterbalanced by the hardened position of the new UK government under the leadership of Johnson and UK composite PMI at record lows for 3 years and under the 50 threshold.

The oil market

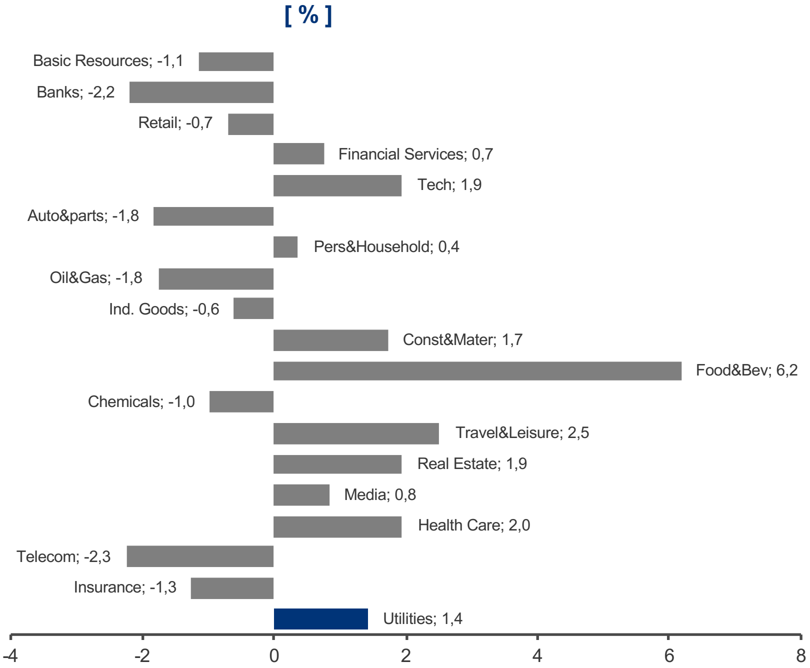
Oil prices were volatile, but overall stable during the month, with bullish pressure induced by: 1) growing geopolitical tensions following confirmation that Iran has exceeded the limits for the production of enriched uranium established in the 2015 non-proliferation agreement; 2) OPEC+ decision to extend cuts from 1.2 mbd for 9 months (until March 2020); 3) Gulf of Mexico crude output down by approx. 30% due to hurricane alerts and 4) US crude stock at record lows since April offset by the significant recovery of Venezuelan output despite US sanctions still in place and full resumption of Russian supplies of crude oil, interrupted in April due to a change in their chemical composition, which could have created problems for refineries.

Trends by segment

Bund yield falls to new record lows and supports defensive stock outperformance vs banking stock still among worst performers

Overall, the underlying sector dynamics highlight the outperformance of defensive stocks given the fall of the Bund yield to record lows, while on the other hand, with a 2% drop, automotive and banking stocks both felt the repercussions of the abovementioned European car registration figures (despite a 5% rise in the share held by Beijing Automotive Group in Daimler) and the contraction of core yields. This underlying dynamics were integrated by the trend of quarterly figures. The food segment, typically defensive, was therefore the best performer (+6%) given the +17% rise of the spirits manufacturer Anheuser-Busch Inbev reflecting a strong Q2. Despite an anticyclical profile, telecoms stocks were instead the worst performers due to continuing competitive pressure from virtual operators.

Performance of the main segments, July 2019



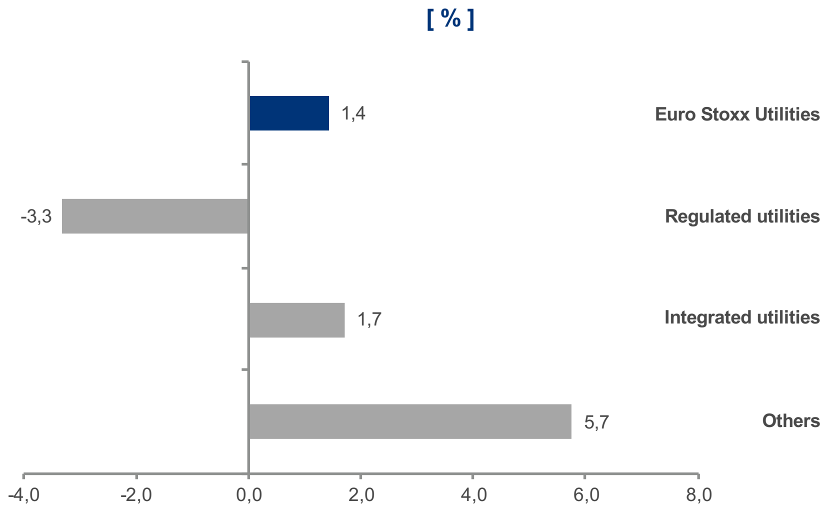
Source: Italgas elaboration of Bloomberg data

Utilities at eight-year maximum; regulated segment penalised by fall of Spanish stocks

Performance of the Utilities segment

There was a 1.4% rise in the utilities segment, which recorded eight-year highs, supported by the fall of the Bund to new record lows. Despite the abovementioned underlying dynamics, regulated stocks were down overall due to widespread drops of Spanish stocks following a worse than expected regulatory outcome. Integrated stock benefitted from electricity prices at YTD maximums in central Europe, reflecting CO_2 prices at record highs, despite the penalisation of German operators due to the exposure to the UK market following the profit warning and dividend cut by Centrica. In the water/environment segment, Veolia and Suez were sustained by expectations in terms of their Q2 results, the sale of peripheral assets and the acquisition of new contracts.

July 2019 - Performance of segment and subsegments

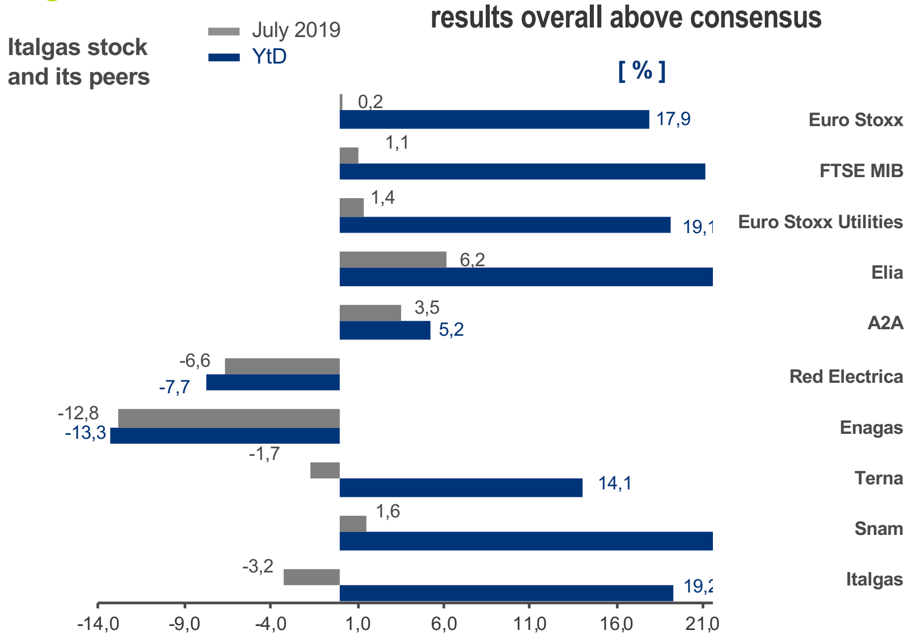


Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers on the Stock Exchange

Italgas -3% with profit taking after its outperformance in H1 and despite Q2 results overall above consensus

The Italgas stock was down 3%; despite Q2 results being overall higher than consensus and the abovementioned fall in the Bund yield and sovereign spread, the trend reflected profit taking after the stock reached a record high since its listing and outperformed all its peers until June. With regard to the rest, significant falls were recorded for Spanish regulated stocks (Enagas -13%, Red Electrica -7%) due to lower than expected tariff proposals, while on the other hand, Elia SO benefitted from the abovementioned macro factors underlying the segment trend and higher than expected Q2 results.



Source: Italgas elaboration of Bloomberg data

Agenda
Corporate events

07 November Board of Directors Q3/9M results

08 November Press release and conference call

Corporate News

New EUR 600 million bond

On 17 July, Italgas successfully launched a new note issue, with April 2030 maturity, at a fixed rate and for an amount of EUR 600 million, with an annual coupon of 0.875% under its EMTN Programme established in 2016 and renewed by resolution of the Board of Directors on 5 November 2018. This issue enables Italgas to take advantage of the current favourable market conditions in order to optimize the cost of debt while extending its maturities. The operation recorded applications for more than EUR 3 billion from a high quality and geographically diversified investor base.

Consolidated Q2/H1 results

On 29 July, the Board of Directors of Italgas approved the consolidated results for Q2/H1, which for the half year recorded revenues of EUR 609 million (+2.3% y/y), EBITDA of EUR 434 million (+2.3% y/y), EBIT of EUR 242 million (+8.3% y/y), net profit of EUR 166 million (+10.3% y/y) and net financial debt of EUR 3.859 million (+1.2% YTD). The economic and financial results achieved by Italgas in the first half of the year further mark the continuous growth trend pursued by the Company and consolidate its role among the main and most dynamic industrial companies in the country, able to create value for communities and investors. With EUR 318 million of organic investments (+39.4% y/y), Italgas has shown its commitment to invest in Italy for the renewal of networks and the extension of service. The installation of smart meters continued, replacing traditional meters, and is expected to be completed by 2020; also considering affiliates, since the beginning of the programme 68.5% of total meters have been replaced. Paolo Gallo, CEO of Italgas, commented: “The first half of 2019 again showed significant results. All the main economic indicators are up compared to last year, in line with the objectives of the Business Plan, confirming the commitment aimed at guaranteeing growing and sustainable returns for shareholders. The company’s digital transformation continues at a rapid pace on all the fronts indicated in the strategic plan, and we continue to strengthen our leadership in Italy and abroad also through the development of valuable partnerships, such as the one recently created with GRDF in France”.

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