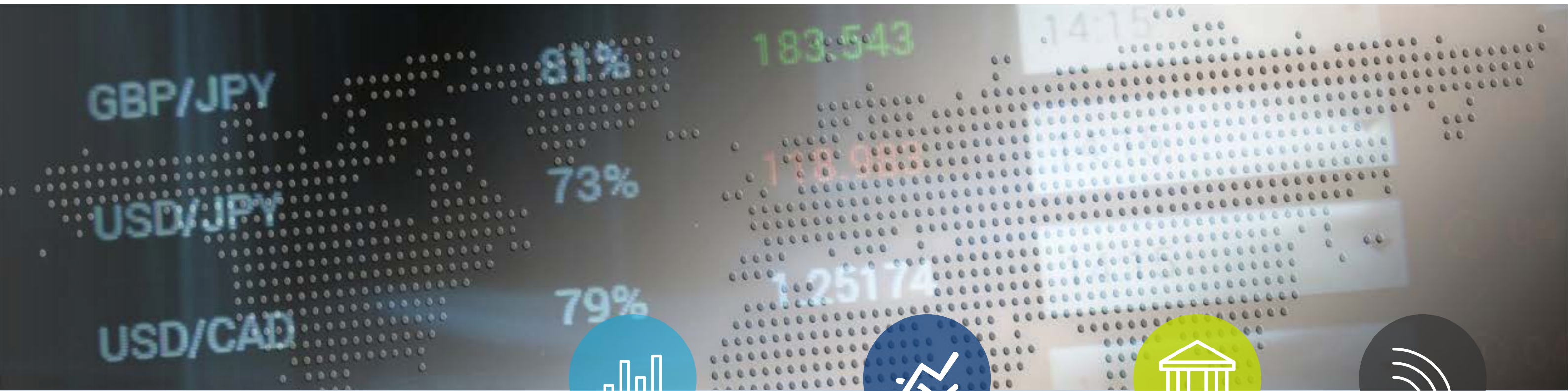
February 2020

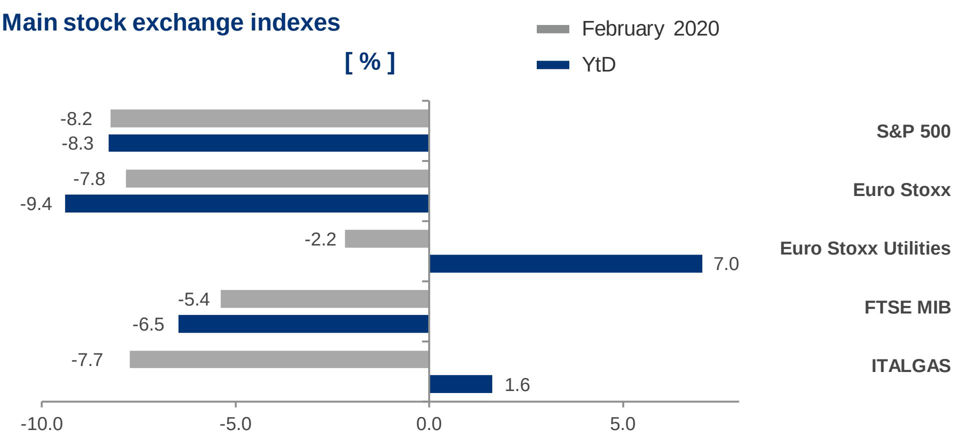
Financial Markets Review



After updating historical / multi-year highs, global equities corrected deeply with escalation of contagions outside China. Core yields updated historical lows vs. rising peripheral spreads

Financial Markets

After the initial rise to new historical / multi-year highs induced by strong liquidity injections by the Chinese Central Bank and the consequent expectations of expansive monetary and fiscal policies in the eurozone and the USA to compensate for the economic slowdown from coronavirus, as well as progress in vaccine experimentation, the equity markets moved down in function of escalation of Covid-19 cases outside China and in particular in Italy, who rose to 3rd place in terms of positive cases after China and South Korea. The correction was accentuated by the aforementioned historical / multi-year highs reached in the 3rd week of February, with markets up 20% in previous 12 months. The Euro Stoxx and the S&P 500 fell by 8% vs FTSE Mib -5%. The latter outperformed thanks to the main banks (Intesa, Unicredit) reporting better than expected quarterly results and sector consolidation expectations after the offer of Intesa on Ubi, as well as better performance of Enel and STM as a result of utilities and technological dynamics. Significant contraction of core sovereign yields due to the aforementioned equity sell-off and growing risk



Source: Italgas' elaboration on Bloomberg data

aversion. Both the US and German yields updated historical lows, with higher contraction of the Treasury vs the Bund (-36 bps at 1.15% vs -17 bps at -0.61%), reflecting lower nominal and real levels expressed by the latter. The market anticipated an acceleration in FED and ECB rate cuts (2 cuts within 12 months for the FED and 1 cut for the ECB). Peripheral spreads rose materially (BTP-Bund + 34bps at 171 bps) due to risk-off.

EUR / USD -0.6% (to 1.10) due to the inverse relationship between the dollar and the oil prices and weakness in eurozone macro data (GDP and German industrial production). EUR /GBP + 2.4% (0.86) on renewed concerns on the post-Brexit partnership agreement, with negative risk perceived for London's financial industry if the EU were to apply access conditions to the common market in line with those envisaged for the US and Japan.

The oil market

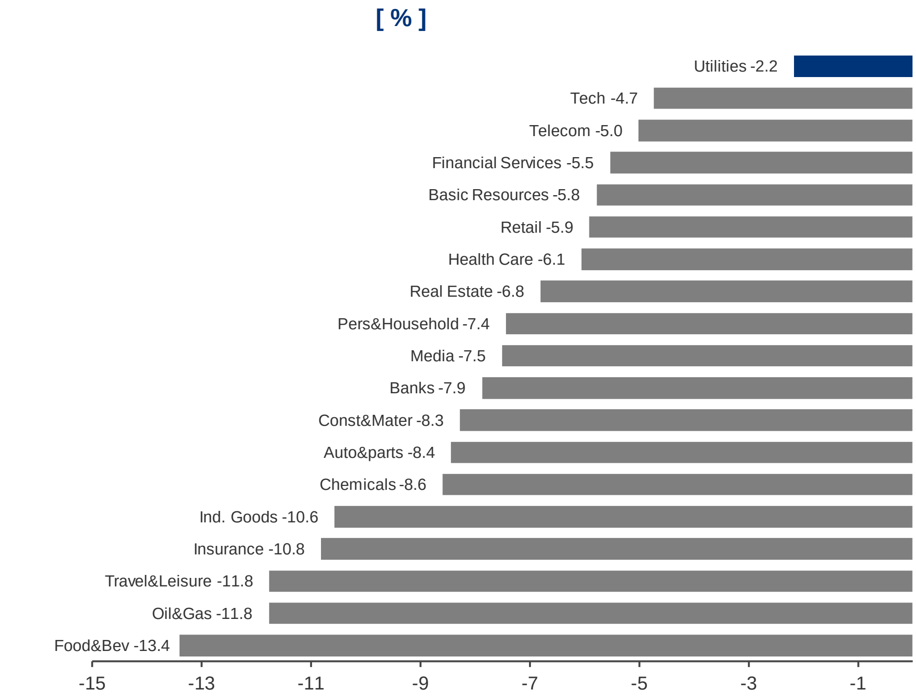
After an initial rise caused by the US restrictions against Rosneft (the main Russian oil operator) due to their activities on Venezuelan crude oil, as well as EIA estimates of US shale gas output growth at 3-year lows (reflecting the strong contraction in gas prices in January), the decline in oil prices continued (Brent -11% at 50 USD / b, minimum from 12/2018) after sector sources estimated a 20% contraction in Chinese oil demand (around 3 mbd) as a result of the restrictive measures on mobility and activities closures to limit the spread of the virus. Prices were also affected by OPEC+ lack of decision, and in particular by Russia, in relation to the implementation of further production cuts (compared to the last output reduction of 1.7 mbd) to contrast the drop in demand.

Sectors performance

Generalized defensive outperformance during the sell-off induced by fears of economic slowdown; oil & gas and tourism among worst performers as mobility was limited

The sell-off induced by the economic slowdown due to the coronavirus, and the consequent expected incremental monetary easing, saw defensives generally outperforming, with utilities (-2%) best performers helped also by the ongoing support from energy transition. On the other hand, oil & gas and tourism were among the main underperformers due to the reduction in international and Chinese mobility, with the consequent drop in oil demand (-3 mbd in China). Exceptions were represented on the one hand by technological stocks, which despite their cyclical profile outperformed thanks to the digitalization process in progress, and on the other hand by food & beverage. The latter includes spirits producers, and was penalized at Q4 by worst than expected results by AB InBev (-26%), the world's leading beer producer.

Main sectors performance, february 2020



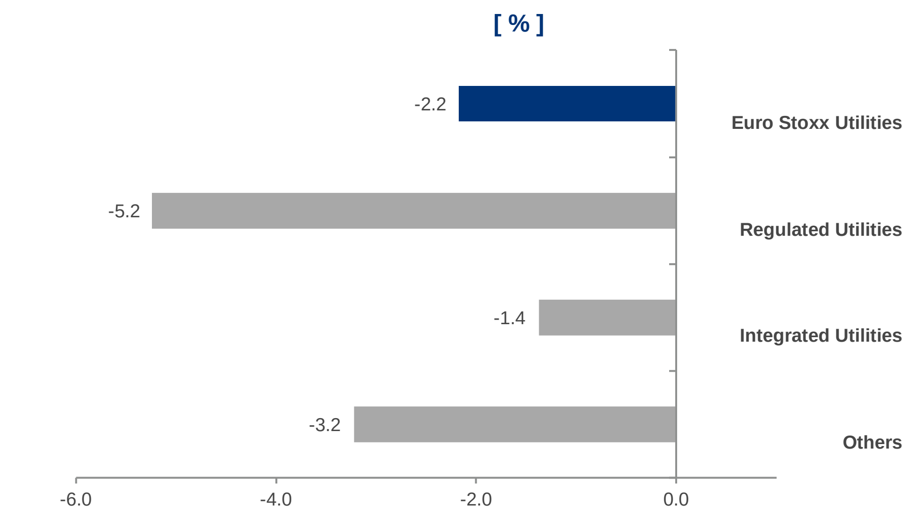
Source: Italgas' elaboration on Bloomberg data

Utilities best performers due to defensive profile & energy transition

Utilities sector performance

With a drop of 2%, the utilities sector was the best performer, supported by its defensive profile, by expectations of further monetary easing by central banks to counter the economic slowdown and, in the case of operators exposed to renewables, also by the energy transition focus on the back of the 1tn euro investment programme approved in January by the EU Parliament to support complete decarbonisation by 2050. The regulated operators, however, overall underperformed their peers due to higher exposure to Southern European markets, penalized by the sharp increase in peripheral spreads reflecting the risk-off phase.

February 2020 – Utilities sector and subsectors

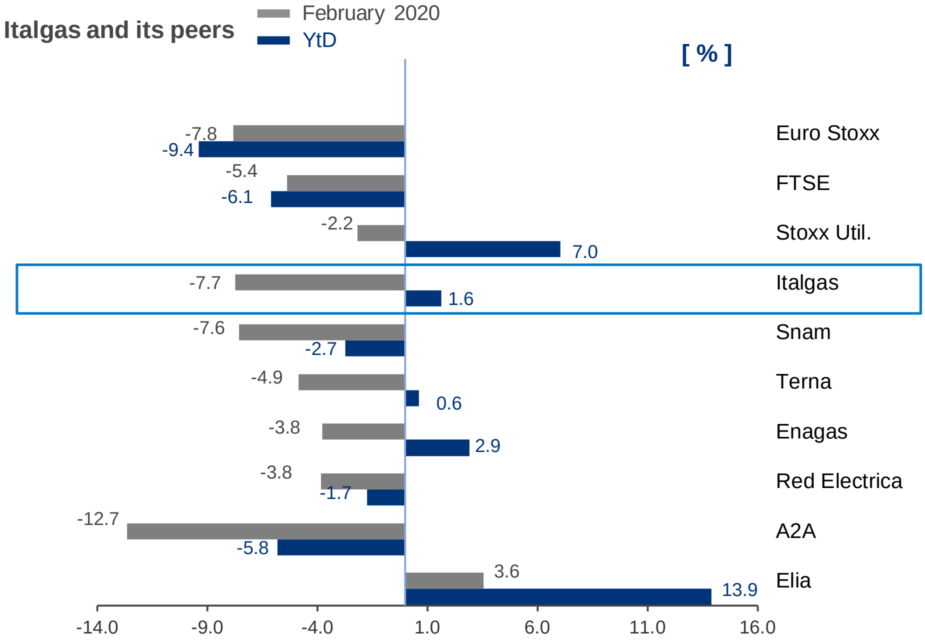


Source: Italgas' elaboration on Bloomberg data

Italgas and its peers

Italgas share price dropped by 8% after reaching all time highs

After updating the previous historical highs of 07/2019 both in terms of closing and intraday prices (6,294 euros on 19/02), Italgas corrects by 8% (at 5,532 euros) due to growing Covid cases in Italy in the last week of the month. Overall the stock underperformed the sector by 5.5%. The correction was induced both by increased country risk reflected in higher spreads and by profit taking after January's outperformance. The better performance of the Spanish peers was attributable to a lower increase in their sovereign spread and bigger valuation sensitivity to the expected drop in inflation. The Belgian TSO Elia reached new highs due to the contraction of core yields in the countries where the company operates.



Source: Italgas' elaboration on Bloomberg data

Agenda
Corporate events

11 marzo	Board meeting on Q4/FY; 2019 dividend proposal
11 marzo	Press release and conference call

Corporate News

No price sensitive press releases published

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