April 2020

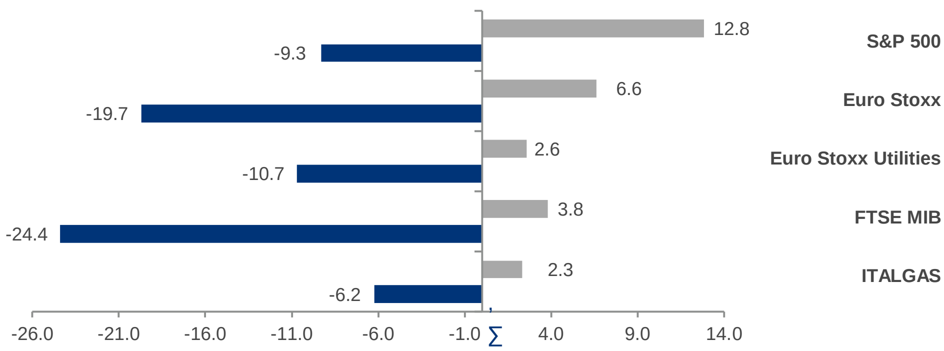
Financial Markets Review

Global equity recovering strongly with pandemic data showing improvement and ongoing economic support from the US authorities; Eurozone indices underperformed due to lack of agreement in the Eurogroup on shared measures and significant increase in peripheral spreads

Financial markets

Significant recovery for global equities after the US and Eurozone indexes fell in March to their lowest levels in 4 and 7 years respectively due to the spreading Covid-19 infection and the resulting closure of economic activities in several countries. Despite the very strong increase in the US unemployment rate, estimated in April at c15% vs 3.5% in February (well above the peak of 10% reached during the previous recession which started in 2007-2008), the rise was supported by the gradual improvement in overall environment, with improvement of global Covid-19 data and repeated support from the US authorities. In particular, the FED announced a new USD 2.3 tn program aimed at injecting further liquidity in the system and the Congress approving additional 500bn USD of fiscal stimulus in addition to the 2.2 tn USD package approved at the end of March. The S&P 500 rose 13%, while Eurogroup persistent difficulties in adopting shared measures to combat recession, which resulted in sharp increases in peripheral spreads, the Euro Stoxx and the FTSE Mib advanced by 7% and by 2% respectively.

Main stock exchange indices



Source: Italgas elaboration on Bloomberg data

Despite the attenuated risk aversion, core yields contracted (Bund -12 bps at -0.59%; Treasury -3 bps at 0.64%) due to the ultra-accommodative approach by central banks, and the aforementioned new maxi liquidity injection by the FED. The BTP-Bund spread (+36 bps to 235 bps) was instead negatively affected by the exceptional weakness of the Italian composite PMI and the Eurogroup stall on measures to counter the emergency impact mitigated by the ECB decision to allow using non-investment grade bonds as collateral in TLTRO transactions, and lack of downgrade by S&P (little impact from Fitch's downgrade). General weakness of the euro against the main currencies (-0.7% vs the dollar at 1.10 and -2.1% vs the pound at 0.87) reflecting the aforementioned increase in peripheral spreads and consequent fears of breakdown of the common currency.

The oil market

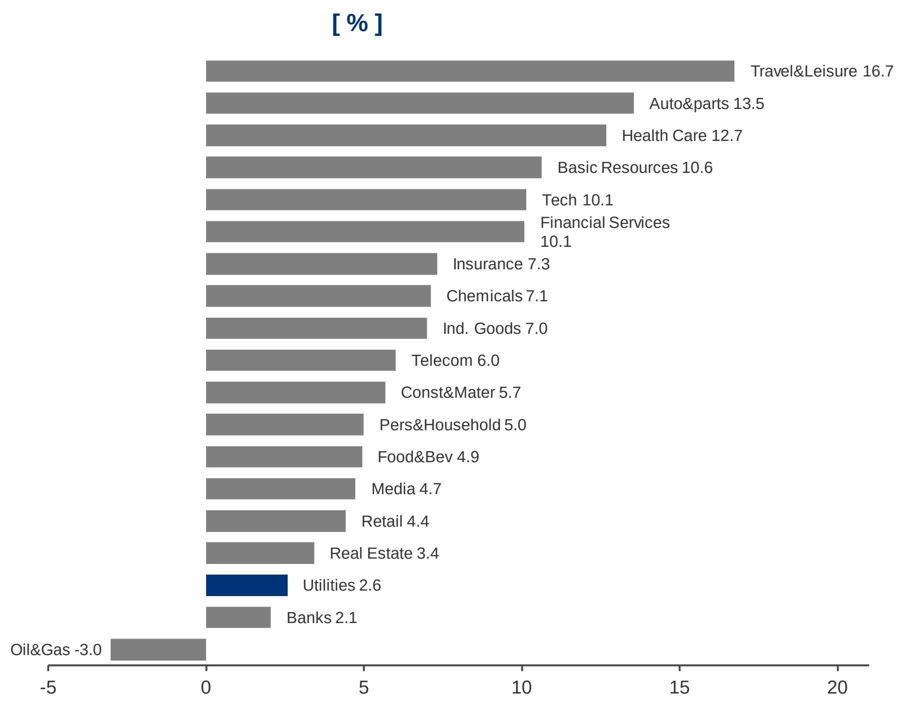
Despite a record increase in US crude inventories as a result of the lockdown, Brent price rose by 10% (24 USD/b) vs the 20 years lows of March on the back of China's decision to increase strategic inventories and Russia / Arabia agreement on the end of the price war, which led OPEC + to the largest production cut in history (almost 10 mbd). Prices were extermely volatile due to an exceptional drop in world demand (35% of pre-Covid consumption) and progressive depletion of storages with an exponential increase in related costs. For the first time in history, the WTI recorded negative prices due to largest ETF sales imposed by the US authorities to recalibrate the portfolio. The spot price collapse created the greatest contango in history, with a 1-year forward price more than double vs spot prices.

Performance by sector

Cyclicals and travel&leisure recover with mitigated risk aversion, but banks penalized by peripheral spreads; oil worst performer with commodity volatility and negative US prices

The mitigated risk-aversion resulted in a substantial recovery of the sectors mostly affected by the pandemic, namely travel& leisure, airlines, automotive and mining. Pharmaceuticals remained among the best performers, by way of the emergency. Despite their cyclical profile, banks were among the worst performers as the ECB required to block payments of the 2019 DPS and suspend the execution of buybacks to preserve equity, as well as for high exposure to periphery, penalized by the increase in spreads and weak Q1 results with large provisions for alleged credit losses. Oil&gas was the worst performer due to extreme volatility in oil prices, which despite an overall monthly rise have fallen in negative territory in the USA, and new historical lows for gas prices.

Main sectos performance, April 2020



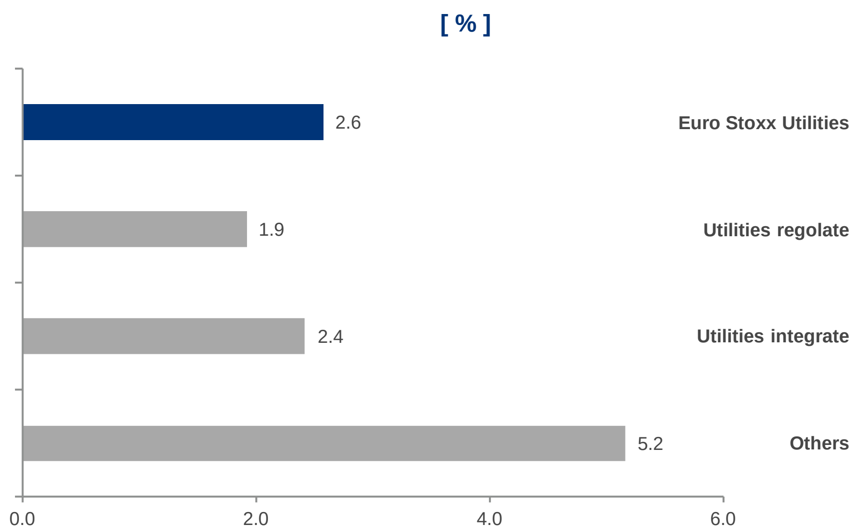
Source: Italgas elaboration on Bloomberg data

Utilities underperformed due to their defensive characteristics, peripheral spreads and gas prices

Utilties sector performance

Utilities (+ 2.6%) were among worst performers in the market due to: 1) mitigated risk aversion; 2) increase in peripheral spreads (high index exposure to Southern European operators, with Enel and Iberdrola accounting for over 40% of the index); 3) new historical lows for gas prices (-22% in the month on the TTF platform) also due to the end of the heating season; this had negative impact on both electricity prices and supply margins; 4) dividend cuts announced by the main French utilities following the French government requests. The environmental names saw the the rise of Suez (+ 11%) induced by Q1 results, lower than expected DPS cut (around 30%) and mitigation of underperformance in the previous 3 months.

April 2020 – Utilties sector and subsectors

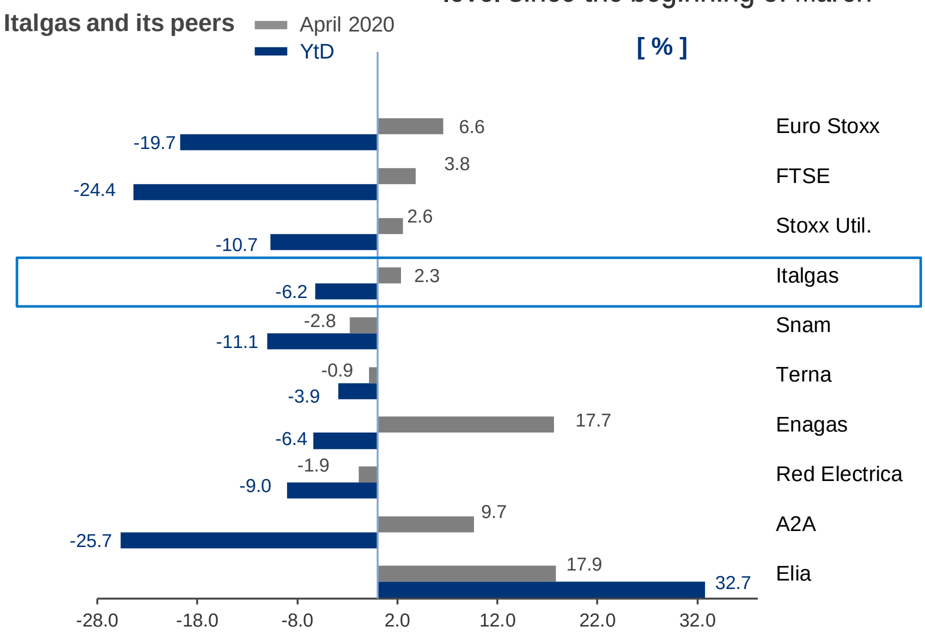


Source: Italgas elaboration on Bloomberg data

Italgas and its peers

2% increase for Italgas, in line with the sector; stock back above €5, the highest level since the beginning of March

2% increase for Italgas, in line with the sector. Although in an extremely volatile context, the share price returned above € 5 (€ 5,105), the highest level since March 6th. Q1 results were overall in line with expectations. With an increase of 18%, Enagas and Elia were best performers. Enagas was supported by the confirmation of FY guidance on profit and dividends (+4% and +5% respectively) despite a changed context, with resilient Spanish gas demand (-5% y/y in mid-April) and upgrades by several brokers. Elia reached new highs in function of the regulatory visibility, with tariff defined until 2023 in Belgium and Germany and no exposure to peripheral spreads.



Source: Italgas elaboration on Bloomberg data

Agenda

Corporate events

12 May AGM and DPS approval

Corporate News

Consolidated financial results Q1

On April 29th the BoD approved Q1 results, which recorded revenues at 327 mn euro (+5.2%), EBITDA at 227 mn euro (+3.7%), net profit at 75 mn euro (-13.2%), technical capex at 206 mn euro (+35.2%) and net debt at 4.45 bn euro, up 40 mn euro vs 2019 year end. Despite the significant impacts of Resolution no. 570/19, Q1 results demonstrate the ability of our company to keep sound economic - financial results thanks to the actions taken in the last three years

With reference to the impacts, including potential ones, on revenues, costs, investments and cash flows expected as a result of the limitations imposed by the Coronavirus Emergency, the Company has not found any evidence to date to suggest significant negative effects on the 2020 results

Paolo Gallo, CEO of Italgas, commented: “The global emergency Covid-19 that has hit us in recent weeks has seen all the people of Italgas react with great determination to ensure the country’s continuity of service. We are even more determined to leverage the digital transformation of our networks so that our people can face the challenges that lie ahead in the coming months”.

Fitch confirms rating and outlook

On April 30th Fitch has affirmed the Company's Long-Term Issuer Default Rating (IDR) at ‘BBB+’ with Stable Outlook, despite the downgrading on April 28 of the sovereign rating of Italy (BBB-/Stable), reflecting Company’s ring-fencing from the macro-economic shoc.

The assessment by Fitch is based on the “negligible volume and price risk, good regulatory visibility (the current regulatory period covers the period 2020-2025)” as well as on the Company’s solid business profile: Fitch expects “Italgas to confirm its strategic and financial targets” and highlights that, as a consequence of a low counterparty risk and Company’s insulation from gas demand volumes volatility, it does not foresee any negative impact on working capital.

The Stable Outlook also reflects Italgas’s importance for the Italian gas sector and wider economy thanks to its large infrastructure investment plans.

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