February 2021

Financial Markets Review

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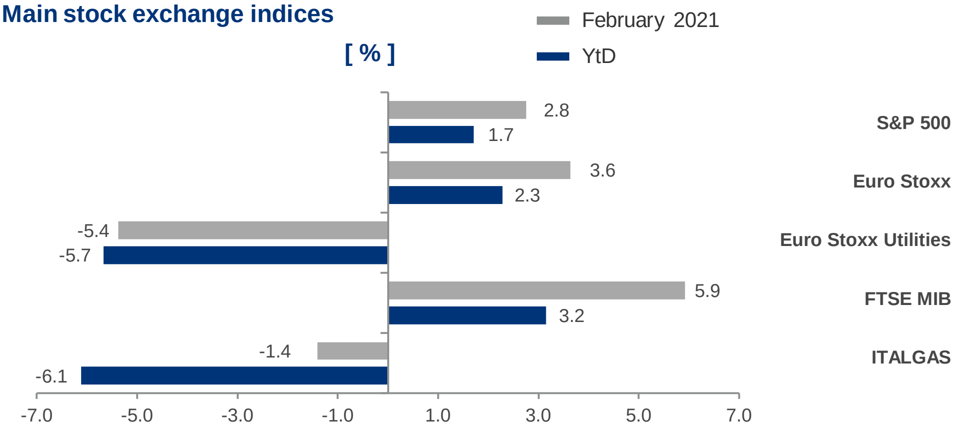
Global equity rallied with strengthened macro outlook and pandemic containment, as well as US fiscal stimulus progress. FTSE Mib outperformed and Italian spread contracted with new executive headed by Draghi and risk-on sentiment. Strong increase in core yields with inflation and real yields rising from historical lows

Financial Markets

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

Sustained rise in global equities reflecting improved pandemic containment prospects following the announcement by the EU of agreements aimed at increasing vaccine supplies and the results achieved by the UK, which has already administered the first dose of vaccine to around 23% of the population, as well as macro data above expectations and progress in the approval of the US fiscal stimulus package. The S&P 500 and the Euro Stoxx advanced between 3% and 4%, both on new all-time highs (adjusted for dividends in case of the Eurozone index); consistent outperformance for the FTSE Mib (+6%) reflecting the rise in ENI and banks, as well as a contraction in the sovereign spread induced by the mandate to Draghi to form the new government. Strong rise in core sovereign yields, with 10y UST and Bund respectively +34 and +26 bps (at 1.41% and -0.26%), at their highest since February and March 2020. The dynamics reflected the factors underlying the equity rally, with intensification of the inflation process as a function of the expansionary phase of commodity prices, as well as, after a long period of exceptional inelasticity to improved risk appetite and historical highs of global equities, expectations of moderation of hyper-expansionary policies by central banks due to the aforementioned improvement in the outlook, with real yields rising from the historical lows at the beginning of the year (beginning of the month for the eurozone). The BTP-Bund spread contracted 14 bps (to 102 bps) reflecting the new executive headed by Draghi, with bipartisan support and extension of the risk-on phase. EUR/USD -0.5% (1.21) as a function of better US macro data, namely the January core personal consumption expenditure deflator. EUR/GBP -2.1% (0.87) with less accommodating indications from the BoE, as well as the UK advantage in the vaccination campaign, which led to a roadmap for the complete removal of the restrictions relating to Covid starting from June.

The oil market

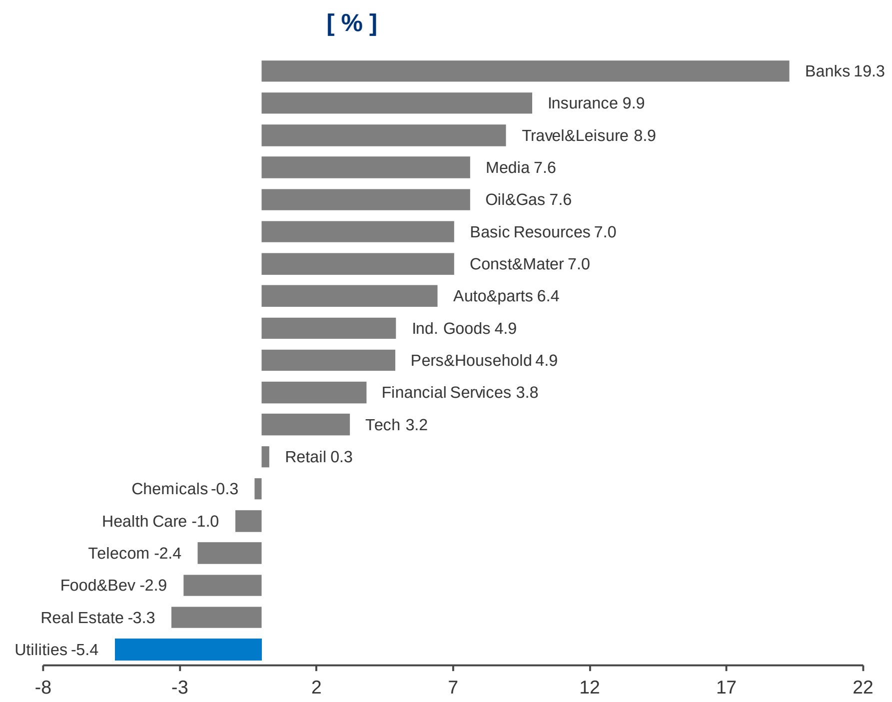
The oil price rose by 17% (64 USD/b), returning to pre-Covid levels. In addition to the improved outlook, the trend was supported by continued signs of contraction in supply with: 1) temporary reduction of up to 4 mbd in the US output as a result of the sharp drop in temperatures; 2) meeting of the OPEC+ ministerial committee, which indicated high compliance compared to the organization's production targets; 3) Nigeria and Angola output falling to the lowest over the last 3 years due to damages and maintenance of production and transportation facilities; 4) a 1% reduction in the national output estimate for 2021 (100 kbd) by the US government agency EIA due to the sharp decline in the number of active rigs that took place in 2020.

Performance by sector

Sector dynamics reflect improved risk appetite and rally in core yields. Financials are best performers, with profitability directly related to bond yields. Bond-proxy and defensive lagged behind

The sector dynamics fully reflected the improved risk appetite and the rally in core sovereign yields, with clear advantage for financials. With an increase of 19%, banks were the best performers, followed by insurance companies (+10%) as a function of the direct correlation between the level of bond yields and unit profit margins of the operators. Tourism sector (+9%) immediately followed, according to the improved mood on the containment of the pandemic and UK roadmap for complete removal of Covid-related restrictions starting from June. Consistently, bond-proxy sectors were on the opposite side, with utilities (-5%) and real estate (-3%) worst performers, but with contractions between 2% and 3% also sectors that are in any case defensive, such as telecoms and food, appear at the bottom of the indices.

Main sectors performance, February 2021



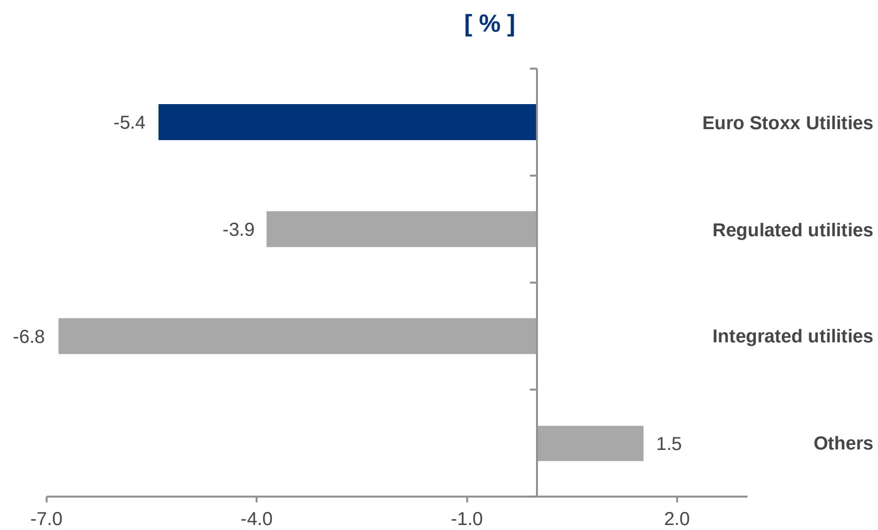
Source: Italgas' elaborations on Bloomberg data

Utilities worst performers with pressure on regulated (bond-proxy) and profit-taking on renewables

Utilities sector performance

With a 5% decline, the utilities sector was the worst performer. In addition to the penalization of regulated operators (-4%) due to the bond-proxy profile, the sector was also affected by the decline in integrated operators (-7%), in particular those with larger exposure to renewables, due to: 1) fierce competition in the auction for offshore wind capacity development in the UK; 2) press rumors on EU interventions aimed at introducing limitations on the amount of ETS permits that can be held by financial operators; 3) generalized profit-taking after strong increase achieved in 2020. The water-environmental sector (+2%) went against the trend, with Veolia's progress in the legal dispute for the acquisition of Suez, and the latter aligning to the offer price.

February 2021 – Utilities sector and subsectors

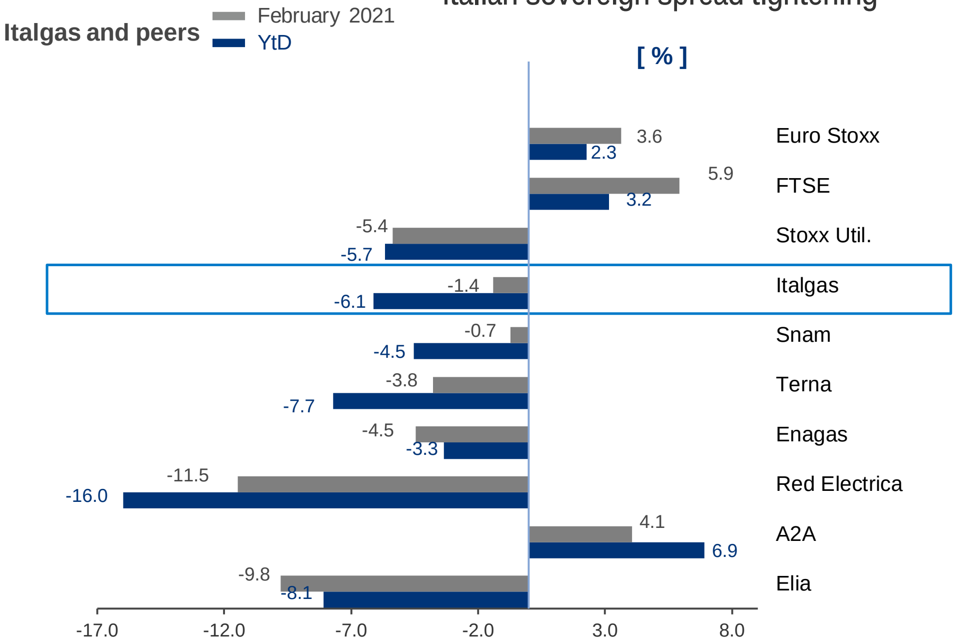


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas (-1%) and other Italian operators outperformed the sector index and eurozone peers with capital inflows and Italian sovereign spread tightening

Decline of 1% for Italgas (4.882 euro), which despite almost full exposure to regulated activities and a markedly bond-proxy profile, together with the other Italian regulated operators significantly outperformed the sector and the other eurozone peers due to the inflow of capital underlying the contraction of the sovereign spread. Among peers, Red Electrica fell 11% after updating the industrial plan, which envisages a contraction in capex, profitability and dividend. Elia was also down 10% as a result of profit-taking after an outstanding outperformance in 2020. On the opposite side, A2A jumped 4% on the return of interest over the local utilities sector after a large underperformance in 2020.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

10 March	BoD on 2020FY results and dividend proposal
11 March	Press release and presentation

Corporate News

1 bn euro "dual tranche" bond issue

On February 5, Italgas successfully completed the launch of a new "dual-tranche" bond issue with maturities in February 2028 and February 2033, both at a fixed rate and for an amount of 500 million euro each, annual coupon respectively equal to 0% and 0.5%.

The deal recorded a demand of around 3.4 bn euro, with high quality and a wide geographic diversification of investors. In particular, the 12-year tranche represents the transaction with the lowest coupon in Italy so far carried out with this maturity.

The Company, benefiting from the current favorable market environment, continued the process of optimizing the cost of debt and reducing the refinancing risk, further extending the average duration of the bond portfolio. The related proceeds were partially used for the repurchase of part of the two bonds maturing in 2022 and 2024 subject to the repurchase offer launched the same day.

Tender Offer on 2022 and 2024 bonds

On February 15 Italgas announced the results of the Tender Offer launched on 05 February on the bonds maturing in 2022 and 2024. The offer ended with very positive results, having registered a percentage of acceptance of more than 58% on the outstanding bonds maturing in January 2022. Also including the bonds maturing in 2024, the repurchase of securities amounts to a total nominal value of approximately 256 million euro.

The operation represents the second Liability Management exercise carried out by Italgas. Thanks to the combined effect of the two transactions (Tender Offer and "dual tranche" issue), the Company was able to reduce the refinancing risk and, at the same time, to extend the average duration of its debt.

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