

# Financial Markets Review



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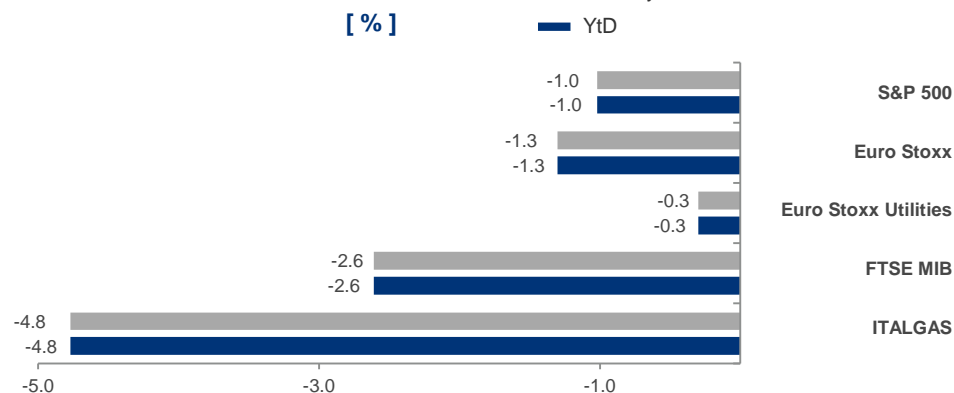


Moderate decline in global equities with increasing delays in vaccine distribution and profit-taking after recent rally. Core yields divergence induced by US fiscal package and Democrats majority also at the Senate. Spread BTP-Bund rises with government crisis

## Financial Markets

After having again updated historical/period highs due to the outcome of the ballot vote in Georgia, which has strengthened and speeded up the action of the Biden executive giving the Democrats the majority in the Senate, with the possibility of faster approval of new public spending measures to support the economic recovery, as well as new fiscal maneuver of nearly 2 tn USD announced by Biden and declarations in favor of further expansive fiscal interventions by the new US Treasury secretary, global equities showed a moderate contraction due to increasing delays in the distribution of vaccines and fears of new restrictive measures aimed at containing the pandemic, as well as physiological achievements induced by a context that still remains considerably uncertain. The Euro Stoxx and the S&P 500 declined by 1%, with FTSE Mib (approx. -3%) exacerbating losses due to the government crisis. Divergence between US and eurozone yields; against substantial stationary of the Bund yield (+2 bps to -0.52% net of the benchmark maturity extension from 08/30 to 02/31), which despite eurozone implicit inflation at its highest since

### Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

07/19 was affected by the German government's cut (from 4.4% to 3.0%) in GDP growth estimated for 2021 and by the inflow of capital out of Italy due to increased political risk, the Treasury yield increased 15 bps (to 1.07%) due to the aforementioned outcome of the Georgia ballot vote, which accelerates the action of the new US executive against the recession, as well as new fiscal maneuver of nearly 2 tn USD announced by Biden. After

falling to a minimum from 03/16, adjusted for the aforementioned German government benchmark maturity extension, the BTP-Bund spread rose by 8 bps (116 bps) due to the political uncertainty induced by the government crisis. EUR/USD -0.7% due to the aforementioned divergence of core yields. The EUR/GBP also reported a decline (-0.9%) due to UK inflation and stronger-than-expected job data.

## The oil market

Oil price rose by 7% (55 USD/b), high from the end of February, supported by a contraction in supply after OPEC+ agreed on an overall reduction in output from February (against expectations of an increase). Saudi Arabia will unilaterally take charge of the drop in

production (1 mbd for February and March, similar to what was already done last June), while Russia and Kazakhstan will be authorized to marginal increases (75 kbd in total), and the others countries will see unchanged output. In addition, signs of a contraction in supply also

came from Iraq, which confirmed to bring the output about 300 kbd below the ceiling set by OPEC+ to compensate for excess production recorded in 2020, and from Libya, which blocked 3 ports due to security reasons.



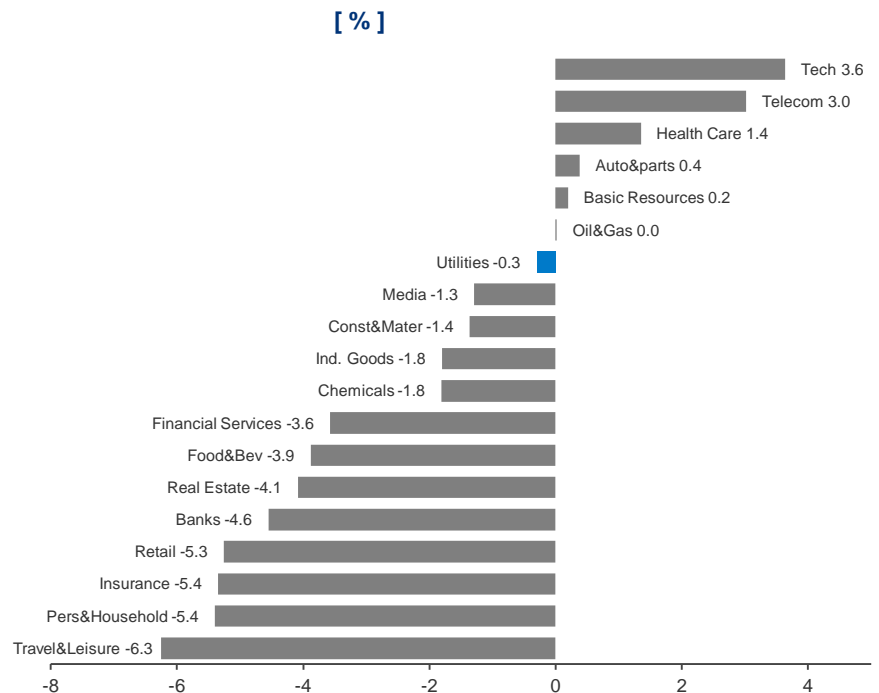
## Performance by sector



Strengthening inflationary dynamics continues to penalize defensive sectors

Based on the continuation of reflation, with implicit 10y eurozone inflation at highs from 07/19, defensive sectors (personal goods and retail -5%) were worst performers. However, among potential reflation beneficiaries we note -5% also for banks and insurances due to: 1) Wells Fargo's results below expectations and penalization of Spanish operators after the ECJ expressed in favor of invalidating tax benefits granted in the past on M&A transactions; 2) penalization of operators most exposed to the life insurance sector due to the recovery of the mortality rate induced by the pandemic and the decline in Allianz as a result of participation in a competitive auction to take over Aviva's business in Italy. Tech and telecoms best performers with Netflix, ASML and STM results above expectations, and Telefonica rally after the sale of towers business.

### Main sectors performance, January 2021



Source: Italgas' elaborations on Bloomberg data



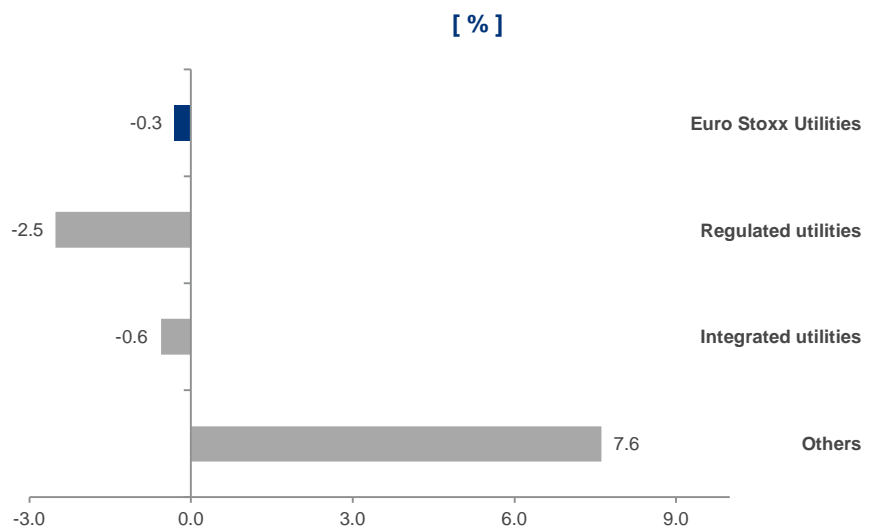
## Regulated utilities underperformed the sector with continued reflation process



### Utilities sector performance

Consistently with the described continued reflation process, regulated operators are the worst performers in the sector. After a further rise in the first half of the month due to new period highs (from 09/2019) of German forward electricity prices, integrated operators showed some profit-taking. For water and environmental operators ("Others" sector), the 8% increase reflected +10% of Veolia after communicating the intention to proceed with a public offer on the remaining 70% not held in Suez, with the French government in favor of integration between national operators vis-à-vis the possibility of a rival offer by private equity funds at a price equivalent to the Veolia bid (18 euro/share).

### January 2021 – Utilities sector and subsectors



Source: Italgas' elaborations on Bloomberg data

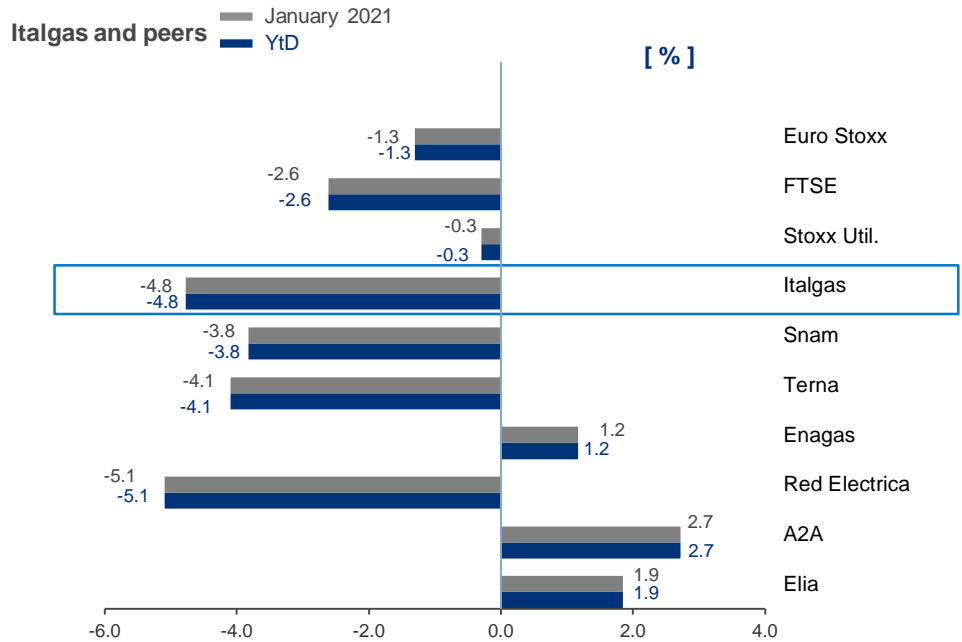


## Italgas and its peers

Italgas -5%, with the panel of regulated peers underperforming the sector due to the macro context, with recovery of inflationary expectations making a negative impact on bond-proxies. A2A (+3%) was the best performer due to its exposure to merchant activities and presentation of the industrial plan, which sees Ebitda and net profit CAGR around +8% until 2030. Elia (+2%) was also among the best performers, with the Belgian electricity system reporting +31% in production from renewables, with increased flexibility required in power transmission grid, and Enagas (+1%), partially recovering after penalization induced by the acquisition of a stake in Tallgrass Energy and determination of the allowed opex for the new regulatory period.



Regulated operators still penalized by the strengthening of inflationary dynamics; Italgas -5%



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

### Italgas grows in Campania and Sardinia with the Conscoop agreement

On January 28, Italgas announced new acquisitions, strengthening its leadership in the gas distribution sector thanks to an agreement with Conscoop, the consortium of cooperatives in Forlì which, among others, includes the gas concessions in Basin 33 in Sardinia through the subsidiary Isgas33, and Olevano sul Tusciano in Campania (Atem Salerno-3) through the subsidiary Mediterranea Energia. In Campania, following the Framework Agreement signed between Italgas and Conscoop on 28.12.2018, the acquisition of the Mediterranea Energia business branch relating to the gas concession in the Municipality of Olevano sul Tusciano (SA) was concluded. The network extends for about 26 km, covering a potential pool of users totaling 2.5K resident families. The

consideration for the transaction was established, as an advance, at 1.1 mn euro, and is subject to adjustments based on the final RAB, which will be approved by ARERA in 2021. In Sardinia, the parties have agreed that, within the deadline of 5 July 2021 and once certain precedent conditions have been met, Italgas will take over the entire investment in Isgas33. Today Isgas33 has completed the conversion from LPG to natural gas of the distribution network in the municipalities of Quartu S. Elena, Monserrato, Quartucciu, Settimo S. Pietro and Sinnai, serving a potential user base of over 31K resident families. The valuation of the operation (enterprise value) was established equal to the RAB that will be approved by ARERA in the first half of 2021, currently provisionally estimated at around

25 million euro.



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