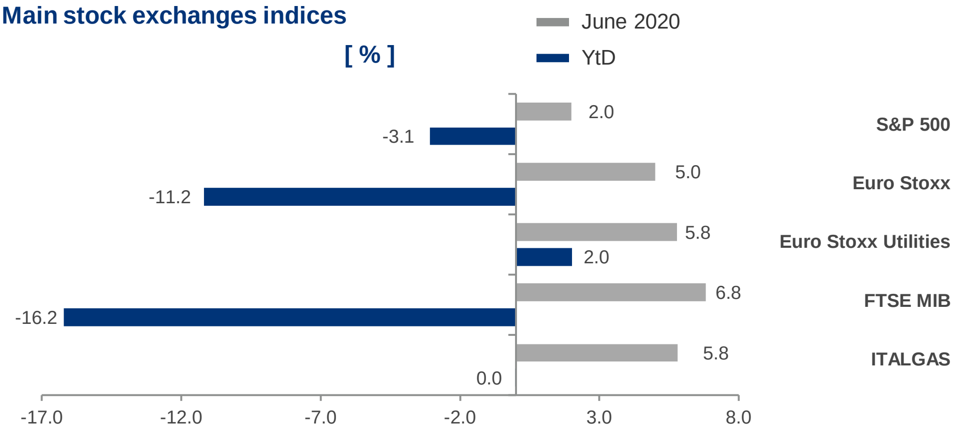
June 2020

Financial Markets Review

Equity extends rises with above expectations macro data and recovers by almost 50% from March lows. Little change in core yields with confirmation of hyper-accommodative central banks policies vs spreads in sharp decline with risk-on

Financial markets

The global equity recovery continued in June, with indexes reaching new period highs at the beginning of the month, recovering by 40% - 45% compared to lows of the second half of March. The dynamic was supported by better than expected macro data, in particular by the US unemployment rate dropped to 13.3% vs estimates of 19% and by the Eurozone PMI, as well as by confirmed support from the Eurozone monetary and fiscal authorities, with the ECB approving a pandemic QE increase of 600 bn euro, confirming flexible geographical allocation, and by the German Government which presented a 130 bn euro fiscal stimulus plan, as well as increased expectations of a new US fiscal manoeuvre for 1 tn USD. The rise was mitigated by fears of rising contagions, especially in China, USA and Germany, with the consequent reintroduction of local lockdown measures. Euro Stoxx + 5% vs FTSE Mib + 7% due to exposure to banks. More moderate dynamics for US indices (S&P 500 + 2%) due to partial reabsorption of the outperformance achieved since the start of the crisis. Despite ongoing equity bullishness, core yields were overall unchanged (Bund -5 bps in adj. terms due to benchmark maturity extension from 02/2030 to 08/2030 (-0.46%) vs UST stable at 0.66%) in function of confirmed hyper-accommodative central banks approach, with already mentioned PEPP expansion by the ECB, while the FED sees rates in line with the current level at least until the end of 2022 and extended corporate bond purchases on secondary market directly to eligible securities. Significant contraction in peripheral spreads (BTP-Bund -17 bps (171 bps) adj. for changed Bund maturity, due to risk-on and central bank support. EUR up against USD and GBP (+ 1.2% and + 0.7%, at 1.12 and 0.91) supported by the QE extension with confirmation of possible deviations from the Capital Key rule, which improves visibility on the stability of peripheral economies and therefore on the common currency, as well as from German fiscal stimulus.



Source: Italgas' elaborations on Bloomberg data

The oil market

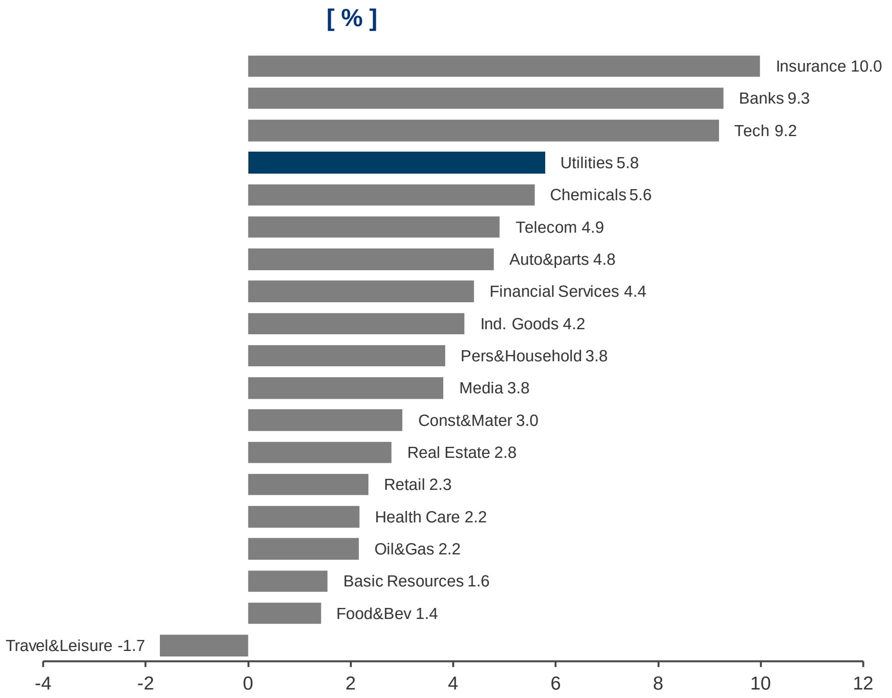
The oil price recovery phase continued (Brent + 12% to 41 USD / b), driven by: 1) risk-on; 2) OPEC + decision to extend to July the 9.7 mbd production cut, active from May, which, according to the April agreement should have been reduced by 2 mbd; 3) OPEC / Iraq agreement on the reabsorption of Iraq's May excess production vs the limits imposed by the organization (similar plan for repayment of excess production are also being finalized for Kazakhstan, Nigeria and Angola); 4) US active oil rig count reaching new 11-year lows. The dynamic was mitigated by the decision of Saudi Arabia, UAE, Kuwait and Oman to remove further voluntary production cuts of 1.2 mbd for June and increase of US inventories to new all-time highs.

Performance by sector

Sector dynamics reflect equity recovery extension; banks and insurance best performers with German breakeven inflation at a 3-month high

The sector dynamics reflected equity recovery, with cyclicals and financials outperforming. Despite the extension of the indication not to pay dividends or buy-back stocks to preserve capital in the context of growing insolvencies, banks and insurances were best performers (approximately + 10%) due to the expectations of a faster economic recovery, with German breakeven inflation (max for 3 months) slowing down further fall in core yields, and peripheral spreads supporting the value of government securities held in the portfolios. On the other side, restrictions on international mobility negatively affected the Travel&Leisure (-2%). Despite the highs reached by crude prices in the period, Oil & gas was among the worst performers (+ 2%), due to expectations of asset write-downs reflecting the changed market scenario, as announced by Royal Dutch Shell (up to 22 bn USD).

Main sectors performance, June 2020



Source: Italgas' elaborations on Bloomberg data

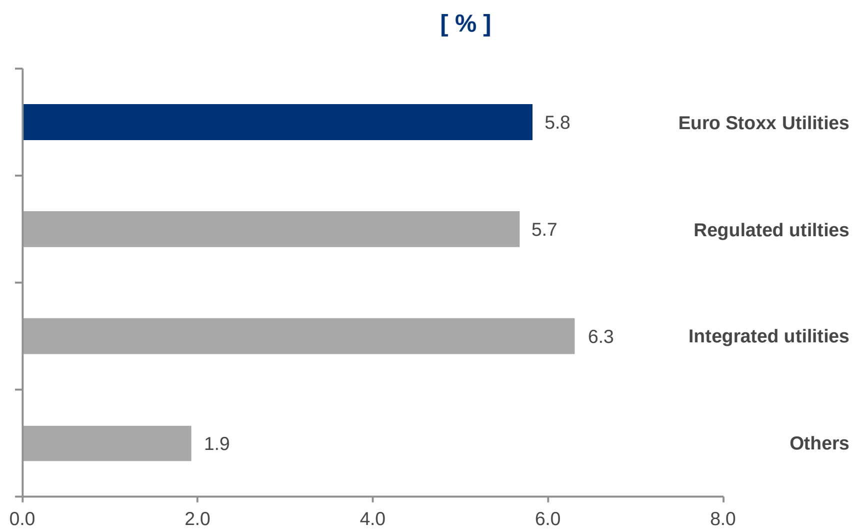
* 3 months extension (at least until 01/2021) by the European Systematic Risk Committee, following that of the ECB at the end of March

Utilities +6%, supported by energy transition and expected capex increase to support GDP

Utilities sector performance

Despite its defensive profile, the utilities sector rose by 6%, moderately outperforming (vs +5% eurozone benchmark) supported by both integrated and regulated names. Integrated utilities kept being held up by the energy transition theme, with EU Parliament approving the general financial framework supporting the green economy (Taxonomy), a further step towards the implementation of the 750 bn Euro Recovery Fund. Regulated were sustained by holding core yields, narrowing peripheral spreads and expectations of measures to support infrastructure investments. Further behind were the environmental operators (+ 2%), reflecting Suez's business update, with incremental non-recurring charges related to corporate restructuring and the pandemic.

June 2020 – Utilities sector and subsect



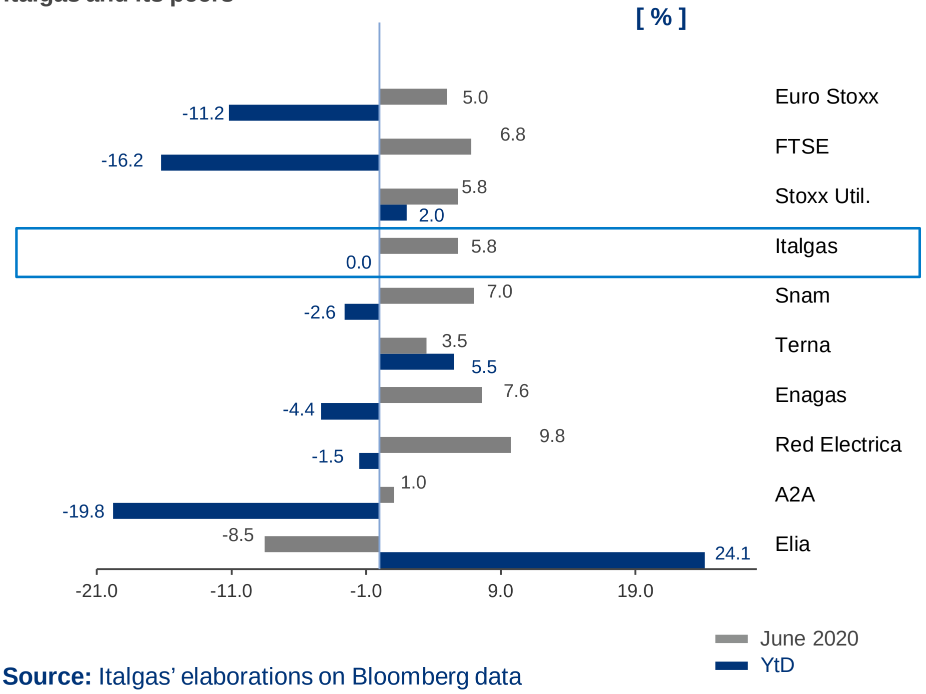
Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas increased by 6% (to 5.17 euro), in line with the Eurozone sector index. The stock was supported by the announcement of the 2020 guidance moderately above consensus and the ability to achieve further operational efficiencies, as well as the award of the tender of Belluno. Red Electrica and Enagas were the best performing peers (+ 10% and + 8%) due to the expectation of improving investment plan to support both the decarbonization (respectively renewables and hydrogen development) and the recovery of the national economy. On the other hand, Elia dropped by 9% reflecting profit-taking and downgrades after having been the best performer YTD in the space.

Italgas + 6% with business update and Belluno tender. Spanish peers best performers on expectations of improving capex to support GDP; profit taking for Elia

Italgas and its peers



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

27 July Board meeting on Q2/H1 results; press release and conference call

Corporate News

Belluno ATEM awarded

The Belluno contracting authority officially awarded Italgas the tender for the 12-year concession of the natural gas distribution service in the "Belluno" area. The concession awarded allows Italgas to increase the number of users served by approximately 40,000 units. In the area there are currently 34 methanized municipalities, served by approximately 990 kilometres of networks, for a total of 47,000 end users and a RAB of over 43 million euro. “The awarding of the Atem Belluno to Italgas - commented the Company's CEO, Paolo Gallo – is a further confirmation of how the tenders bring significant advantages to the territory. 135 million euros earmarked for investments in new networks, their digitization, energy efficiency, improving the service where it already exists, and bringing it to new municipalities, are a demonstration of how Italgas can contribute to the development of a territory at a particularly difficult time for the country”.

Business Update 2020

On 10 June the Italgas Board of Directors met under the chairmanship of Alberto Dell'Acqua to examine the expected operating performance in 2020 and the impact on business of the Covid-19 emergency. The guidance 2020 foresees revenues of more than €1.3 billion, EBITDA of € 960-980 million, EBIT between € 530-550 million, Capex of more than € 700 million resulting in Net Debt of approximately € 4.5 billions and leverage of approximately 60%.
The performance achieved in recent months and the speed at which almost all the network construction sites have resumed their activities demonstrate the Company's ability to react using all the new technologies developed by the Digital Factory.

New bond issuance

On June 17 Italgas S.p.A. (rating BBB+ by Fitch, Baa2 by Moody’s) successfully priced a new fixed rate note, with June 2025 maturity for an amount of 500 million euros with an annual coupon of 0.250% under its EMTN Programme (Euro Medium Term Notes). The new issuance provides a pre-funding for the financial needs linked to the Group growth strategy, confirms the solidity of its business model and the capacity to attract funds at competitive conditions. The transaction has gathered a demand of almost 2 billion euros from a high quality and geographically diversified investors base.

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