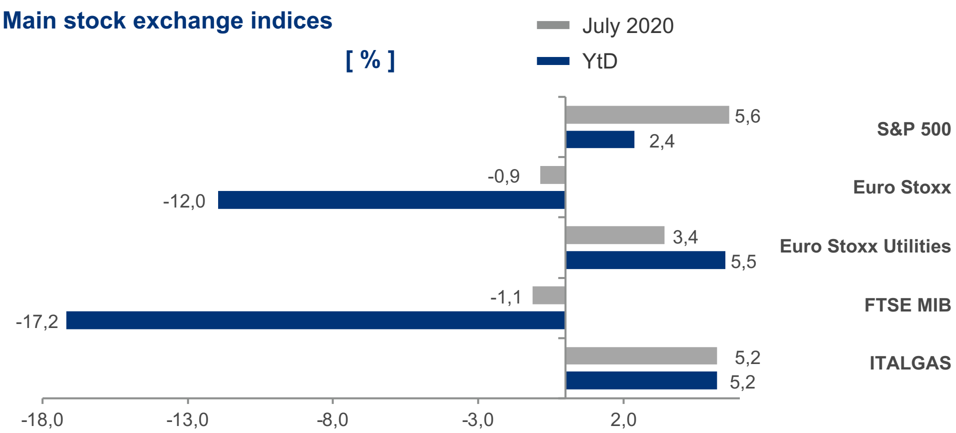
# Financial Markets Review




**Eurozone vs US equity divergence induced by strong EUR / USD rise with Recovery Fund finalization. BTP-Bund spreads at lows since the end of February with an improved eurozone scenario**

## Financial markets




**Source:** Italgas' elaboration on Bloomberg data

Marginal decline in eurozone equities in July after the sharp rise of June, which had led indices to new high since the beginning of March. The upward pressure induced by: 1) finalization of the Recovery Fund, despite a moderate downsize of the amount of non-repayable transfers (390bn euros vs the EU Commission proposal of 500bn euros, out of 750bn euros of total funds) they overall confirmed a huge funding plan to support the Southern European economies most affected by the health and economic crisis; 2) further progress on the Covid treatment side, was offset by profit-taking after a significant increase in the final figures vs March lows, as well as lower than expected German Q2 GDP and initial US unemployment claims back to growth vs previous week for the 1st time since the end of March and re-emerging US / China geopolitical tensions. Euro Stoxx and FTSE Mib -1% with an increase of around 6% for the S&P 500. The divergence is explained by further strengthening of the EUR/USD, leading to improvement in US competitiveness. Core yields in moderate decline (Bund and UST -7 and -13 bps at -0.52% and 0.53%) with the aforementioned macro data (German GDP, total US unemployment claims) and expected maintenance of accommodative central bank policies even in the event of economic recovery. The ECB confirmed the use of the PEPP unless the outlook improves strongly, and reiterated possible deviations from the Capital Key rule, while the FED confirmed rates close to zero until the macro picture fully recovers. Spread BTP-Bund -18 bps (154 bps) with Recovery Fund finalization and improved Eurozone scenario. EUR/USD + 4.8% (1.18, max from 05/2018) with Recovery Fund and EU plan for climate and hydrogen, capable of activating substantial investments in the medium / long term. Despite Recovery Fund, EUR/GBP -0.6% (0.90) with BoE chief economist statements on "V" economic recovery and presentation of fiscal stimulus package by UK finance minister.

## The oil market

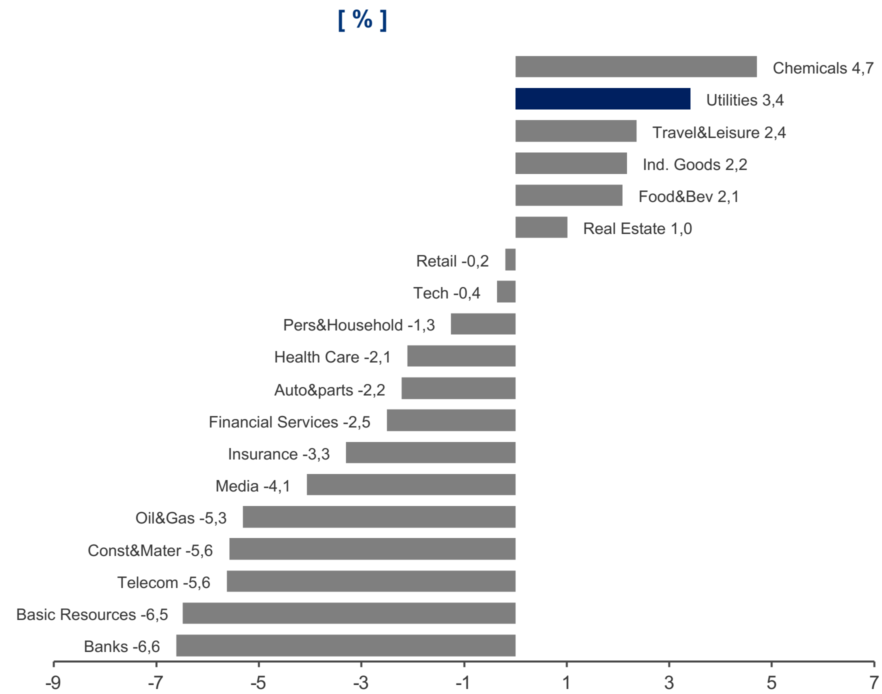
Oil prices recovered further (Brent + 5% at 43 USD/b, new highs since the beginning of March), supported by US crude oil inventories down by about 15 mboe in the month and new 11-year lows recorded in the number of active US drills. The bearish effect induced by last April's decision of OPEC+ to reduce production cuts by 2 mbd starting in August (from 9.7 to 7.7 mbd) was mitigated – although 1 month later than originally planned – by the imposition of gradual reabsorption of the previous production excesses achieved by some members of the organization, including Iraq and Nigeria.

## Sectors performance

**Chemicals best performers thanks to exposure to hydrogen production and storage. Utilities followed, with energy transition focus and electricity prices back to pre-Covid levels**

Against the overall lack of underlying sector dynamics, the movements reflected specific corporate/sector newsflow and quarterly results. With an increase of 5%, the chemical sector was the best performer lead by Linde and Air Liquide (+10% and +9%) both supported by exposure to technologies for hydrogen production and storage and Q2 results above expectations. Chemicals were followed by utilities (+ 3%), which in addition to the growing focus on energy transition and decarbonisation benefited from forward electricity prices back at pre-Covid levels. On the other hand, banks (-7%) were negatively impacted by the ECB formalization of its invitation not to pay dividends and interrupt buybacks at least until the end of the year. Oil & gas (-5%) sector was penalized by the write-downs made by the main operators at 1H.

**Main sectors performance, July 2020**



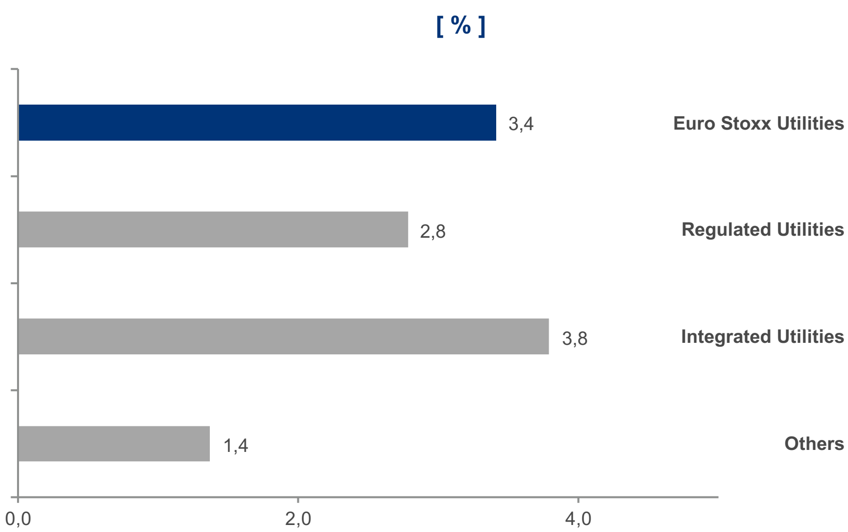

**Source:** Italgas' elaboration on Bloomberg data

**Utilities among best performers with energy transition focus and electricity prices back at pre-Covid levels**

## Utilities sector performance

With an increase of 3%, the utilities sector was among the best performers. Integrated operators slightly outperformed due to the energy transition focus and consequent decarbonisation, as well as forward electricity prices in Central Europe returning to pre-Covid levels due to the new historical highs of CO2 prices and clean spark spread at the highest levels over 10 years. Despite the contraction in core yields, regulated operators under-performed the sector index, affected by the 2nd draft of UK 2021-202 electricity regulation coming below expectations, with lower proposed allowed return and totex cut. Further behind were the environmental operators (+ 1%) as a result of Veolia's Q2 results (-4%) lower than expected.

**July 2020 – Sector and Subsectors performance**

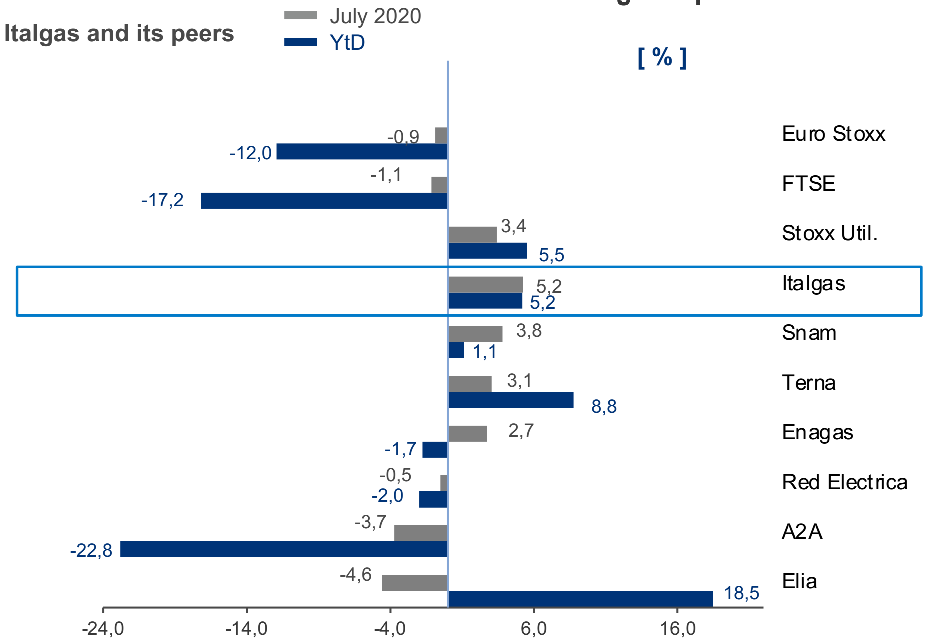



**Source:** Italgas' elaboration on Bloomberg data

# Italgas and its peers

## Italgas (+5%) best performer with Q2 results supported by operational efficiencies. Profit taking continues on Elia after a large outperformance

5% increase for Italgas (to € 5.44), best performer vs sector index and peers following solid Q2 results supported by operational efficiency, as well as expectations of possible government actions to accelerate ATEMS allocation in order to support investments in the sector. On the opposite side, for the 2nd consecutive month Elia (-5%) was the worst performer due to profit taking after being by far the best performer YTD, as well as A2A (-4%) on the emerging contraints to the merger project with the multiutilities of Verona and Vicenza.




**Source:** Italgas’ elaboration on Bloomberg data

# Agenda

Corporate events

| | |
|---|---|
| **29 October** | Board Meeting Q3 results and Strategic Plan 2020-2026 |
| **30 October** | Press release and Presentation |

# Corporate News

### Consolidated results as at 30 June 2020 approvedQ2/H1 2020

Italgas’ Board of Directors, chaired by Alberto Dell’Acqua, met today and approved the consolidated results for the first half of 2020 that saw total revenues of 46.8 mn euros (+6.1%), Ebitda of 462.7 mn euros (+6.6%), Ebit of 252.8 mn euros (+11.2%), net income of 153.4 mn euros (-7.7%), technical investments of 369.5 mn euros (+16.3%), Net Debt of 4,625.8 mn euros (+215 mn euro vs end 2019).

In the first half of 2020, around 486 km of new pipelines were laid, compared to around 379 km in the corresponding period of 2019. Construction of the distribution networks continued in Sardinia, with the laying of around 216 km of new networks, for a total of more than 680 km overt a total of about 1.100 km to build. Despite the difficulties arising from the health emergency, the traditional meter replacement plan continued, with the installation of 0.6 million smart meters, also taking affiliates into account, bringing the total number of smart meters installed as at the end of the first half of 2020 to approximately 7.1 million. The plan, which is expected to be concluded in 2020, is part of the wider project for the digital transformation of the entire network operated. To date, this project has already upgraded the technology of over 400 distribution networks. .

Paolo Gallo, CEO of Italgas, commented: “The performance in the first half of 2020 shows the capability of Italgas to react to exceptional situations – like the one we are currently experiencing due to Covid-19 - by continuing to produce solid results. Regarding ATEM tenders, we hope for an important acceleration, to release new investments in our sector for over than 3 billion euro per year, essential for the restart of our Country. In the meantime, we are reaping the fruits of our work with the the further award of the Belluno Atem to Italgas and we we are getting ready to start in the coming months all the investments planned – on this Atem and the other Atems assigned to us. Technological innovation, digitisation, efficiency, investments and a close relation with the community will characterize even more Italgas in the next months. “

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