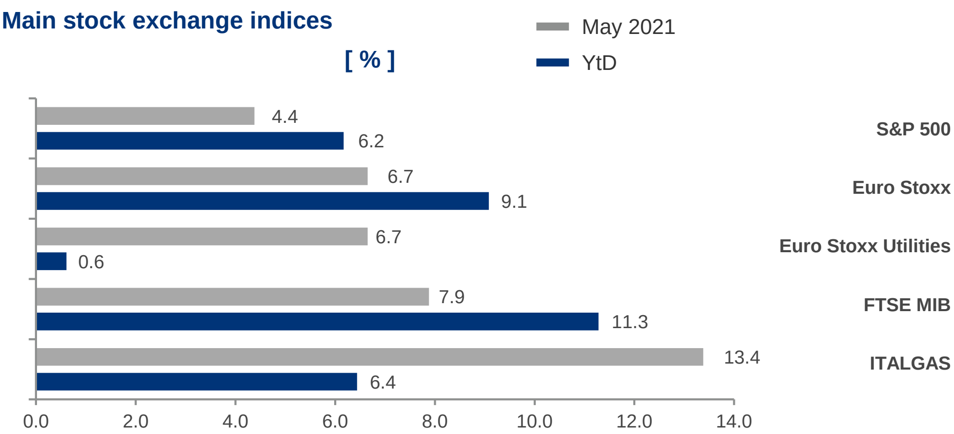
May 2021

Financial Markets Review

Global equity extends all-time highs with positive outlook consolidation due to macro data and restart of production activities, expected acceleration of US public spending and confirmation of central banks expansive approach, with moderate contraction in real yields

Financial Markets



Source: Italgas' elaborations on Bloomberg data

Global equities continued to update historical highs, supported by the consolidation of the positive outlook induced by the planned restart of economic activities, further improvement of macro data, with the German confidence index ZEW at its highest in 21 years (as far as the prospective section is concerned) and initial US jobless claims to new lows since the start of the pandemic, as well as expectations for a sharp acceleration in public spending by the US federal administration, which over the next decade expects to bring the D/GDP ratio from the current 108% to 117%. Several FED/ECB representatives also reiterated the ultra-accommodative approach, confirming their view on the transitory nature of the current rise in inflation. Euro Stoxx +3% vs S&P 500 +1%, with the difference due to the latter index being more exposed to the technology sector, among the worst performers due to the inverse correlation to the inflation (being characterized by cash flows production more shifted forward over time, it is more sensitive to the discounting factors). On the other hand, the FTSE Mib (+5%) showed a significant outperformance due to its exposure to banks, among the main beneficiaries of the strengthening of inflationary dynamics. Despite strengthening inflationary expectations, with US core personal consumption deflator (main FED reference for inflation detection) in April at the highest since 03/1992, core yields showed overall stability (Bund +2 bps, UST -3 bps), with consequent contraction of the real component (-8 bps for UST) due to the aforementioned reiteration of the dovish approach by central banks. Stable BTP-Bund spread (-1 bp to 110 bps). EUR/USD +1.7%, reflecting the inverse oil/dollar correlation vs EUR/GBP -1.1% after the elections for the renewal of the Scottish Parliament did not give an absolute majority to the nationalist party, mitigating the risks of a referendum for the secession from the UK.

The oil market

Oil prices increased by 3% (68.7 USD/b), close to the highs of March, which also represent highs since 05/2019, with increased risk appetite induced by expectations of a gradual reopening of the economies, as well as declarations by Iran on uncertainties over the timing for the restoration of the 2015 nuclear agreement. On the gas side, TTF prices, which at the mid of the month updated the highs from 09/2018, are up by 7% (25.4 EUR/MWh) due to all-time highs in CO2 prices, incentivizing the switch from coal to gas in the powergen and, on top of that, and similarly to what happened in April, due to Gazprom's decision to quit an auction for larger transport capacity launched by the Ukrainian TSO, probably due to the growing tensions between the 2 countries.

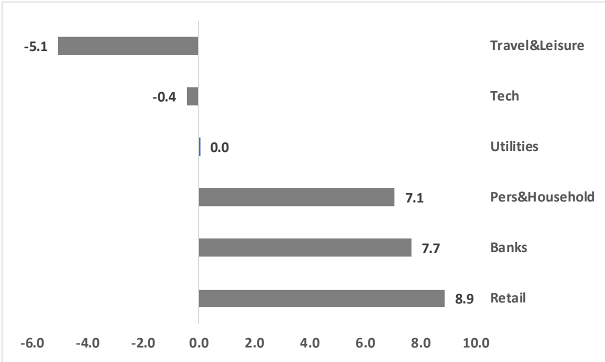
Performance by sector

Sector dynamics reflect further strengthening of inflationary expectations; technology and banks respectively amongst worst and best performers

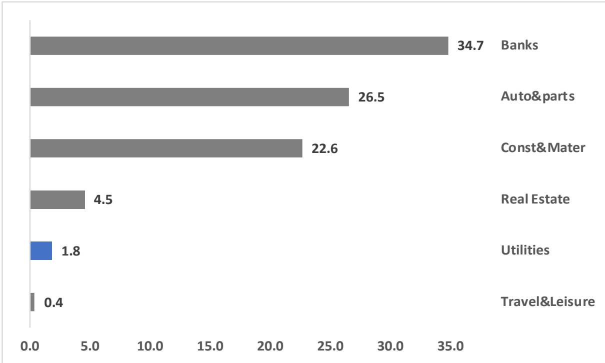
The sector dynamics moderately reflected the further strengthening of inflationary expectations as a function of the deflator related to US core personal consumption spending at the highest levels since almost 30 years, with technology and banks respectively amongst worst (-0.4%) and best performers (+7.7%), as highlighted above. With a decline of 5%, the travel/leisure sector is the worst performer, reflecting the -10% of Flutter Entertainment, the main operator of the sector, active in online gambling, due to the tightening of the US competitive scenario induced by the expansion of territorial coverage by competitors. On the other hand, retail and personal goods (+9% and +7%) continue to be supported by the development of e-commerce and quarterly results (Kering +13%, Adidas +17%).

Sector performance; utilities e 3 main ups/downs

May 2021 [%]



YTD 2021 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities penalized by integrated with rumors of increased taxation on CO2-free output in Spain

Utilities sector performance

Utilities sector overall unchanged, being the 3rd worst performer due to the weakness of integrated companies (-1.4%), which despite the extension of the rally in CO_2 prices (+6% to almost 52 EUR/ton), with consequent new multi-year highs of German forward electricity prices, were affected by press rumors on the increase by the Spanish government of taxation on hydroelectric, wind and nuclear plants to contain the extra-profits otherwise induced by zero or very low marginal costs compared to electricity prices supported by the aforementioned rally in CO_2 prices . Due to the domino effect, with fears of adopting similar measures in other European countries, the weakness has also extended to operators not exposed to the Spanish market.

Utilities sector and subsectors

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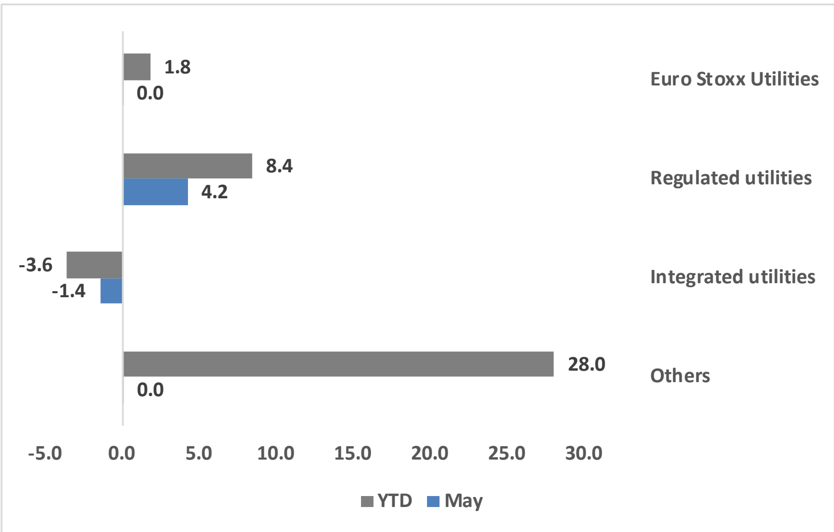
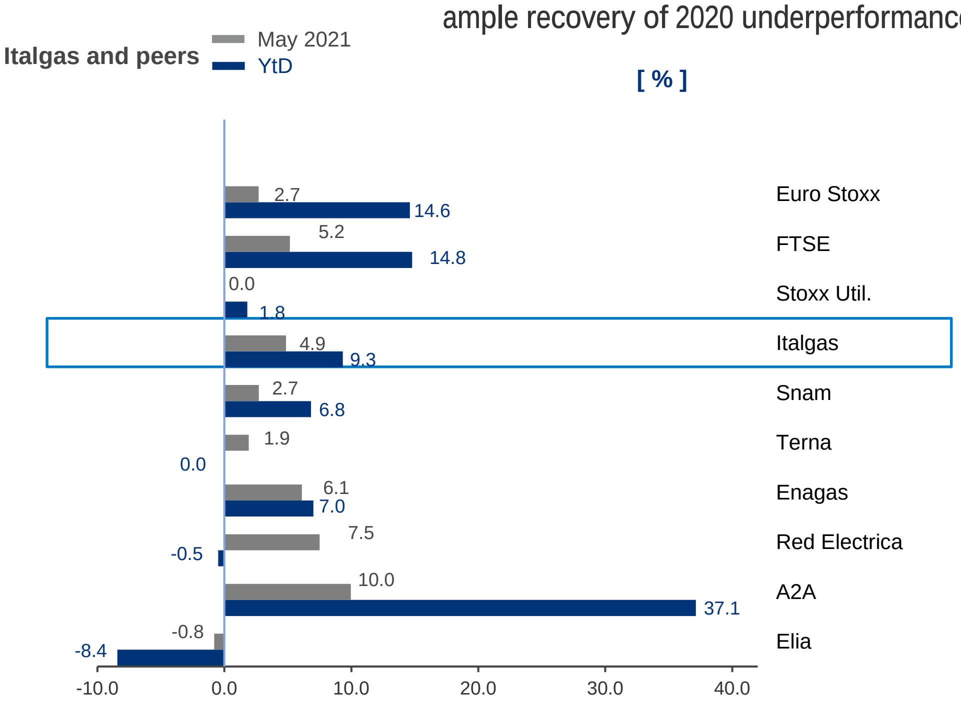


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas appreciated by 5% (5.414 euros) in adjusted terms for dividend, largely outperforming the sector index and the average of eurozone fully regulated peers. The stock was supported by going ex dividend, which generally induces a flow of purchases by investors that want to keep the invested capital unchanged, and to benefit from the increase in the dividend yield otherwise induced by the equivalent price reduction. A2A (+10%) still best performer due to Q1 results above expectations, while for Red Electrica and Enagas the rise (+8% and +6%) probably reflects a recovery after the large YTD and 2020 underperformances. Elia is still the worst performer, with continued reabsorption of the marked outperformance achieved in 2020.

Italgas (+ 5%, supported by going ex dividend) confirmed as 2nd best performer YTD. A2A still the lead with Q1 results and ample recovery of 2020 underperformance



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

14 June	BoD Strategic Plan
15 June	Press Release and Strategy Presentation

Corporate News

Q1 consolidated results

On 04/05, the Italgas BoD approved the Q1 consolidated results, reporting total revenues of 333.3 mn euro (+1.9%), Ebitda at 234.4 mn euro (+3.3%), Ebit at 129.9 mn euro (+5.2%), adj. net profit of 81.2 mn euro (+7.8%), technical investments of 206.7 mn euro (+0.5%), net financial debt of 4,617.6 mn euro. Paolo Gallo, CEO of Italgas, commented: “The positive results of Q1 2021 demonstrate the solidity of our business and the actions implemented in terms of development and efficiency, despite an exceptionally difficult market context. Capex was up in the first part of the year, an indication of the great commitment to "digital transformation", which will make our network ready to accommodate a variety of different gases, favoring the energy transition and the decarbonization of consumption".

Consensual resolution of employment relationship with the General Manager Finance and Services; new CFO appointed

On May 31 Italgas informed that Mr. Antonio Paccioretti, General Manager Finance and Services, reached an agreement for the consensual resolution of his employment relationship with effect from 1 June 2021; moreover, Mr. Paccioretti resigned from all the other positions held in the companies of the Group. The Company is grateful to Mr Paccioretti for his positive contribution to the growth of the Group over the years and wishes him all the best for his future professional challenges.

On the same date Italgas informed that as of 1 June 2021, Mr. Gianfranco Amoroso, former Head of Finance Planning and Control and Head of M&A, will assume the position of Chief Financial Officer of the Company. Gianfranco Amoroso has a deep knowledge of economic and financial matters and a long experience in Italian industrial companies and investment banks where he has taken overtime increasing responsibilities. In Italgas since 2016, the year of its return to the stock market, Gianfranco Amoroso has held several positions of responsibility within Italgas' perimeter and is one of the main reference managers of the financial and M&A strategy that has effectively supported the growth of the Italgas Group in the last five years.

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