November 2019

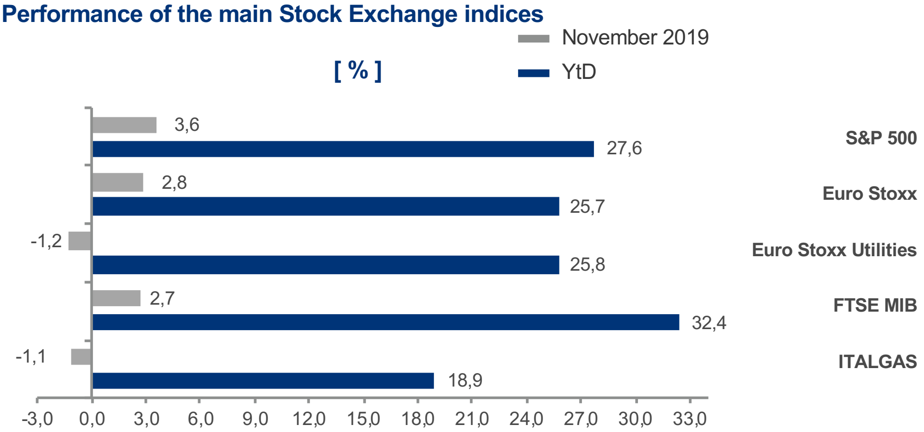
Financial Markets Review

Stock market at all-time/period highs with improved trade news. Core yields continue to rise after the lows reached in August with risk-on. Spread rises in response to government stability fears

Financial markets

The global equity market reached new historical and period maximums supported by trade news flow, after the US and China expressed optimism on reaching a trade agreement, with potential disapplication of new customs duties also on US imports of motor vehicles from the EU and Japan. On the other hand China increased sanctions against violations of intellectual property, a central issue for the US administration, in consequence improving the possibilities of a trade agreement in spite of fears of reprisal induced by the confirmed US support of the Hong Kong independence movement. The bullish trend was also supported by a new wave of mergers and acquisitions reflecting the risk-on phase. The Euro Stoxx and the FTSE MIB rose by around 3%, up to the January and May 2018 maximums compared to the approximately 4% rise for the S&P 500, up to new historical maximums. Moderate rise for core sovereign yield (10y Bund +5 bps, US Treasury +8 bps), with the abovementioned greater risk appetite mitigated by macro data still overall below expectations, in particular the German industrial output, retail sales and the Chinese industrial output, as well as the Japanese GDP. After retreating to the minimums of May 2018, the BTP-Bund spread experienced renewed strong growth (+26 bps) reflecting fears relating to the stability of the government, which experienced divisions in relation to financial management and the Ilva case, as well as the fragmented post-election Spanish political landscape, with the growth of sovereign groups. The EUR/USD exchange rate dropped by 1.2% due to the abovementioned below expectations German industrial output against the virtual reduction to almost zero (at the meeting of end October) of the probability of a new FED rate cut in December. The EUR/GBP exchange rate (-1.1%) returned to the May minimums as a result of new surveys confirming the advantage of the Tory party against the Labour party in the elections of 12 December, with a solution to the Brexit stalemate without the risks of nationalisation posed by a Labour manifesto.

Performance of the main Stock Exchange indices



Source: Italgas elaboration of Bloomberg data

The oil market

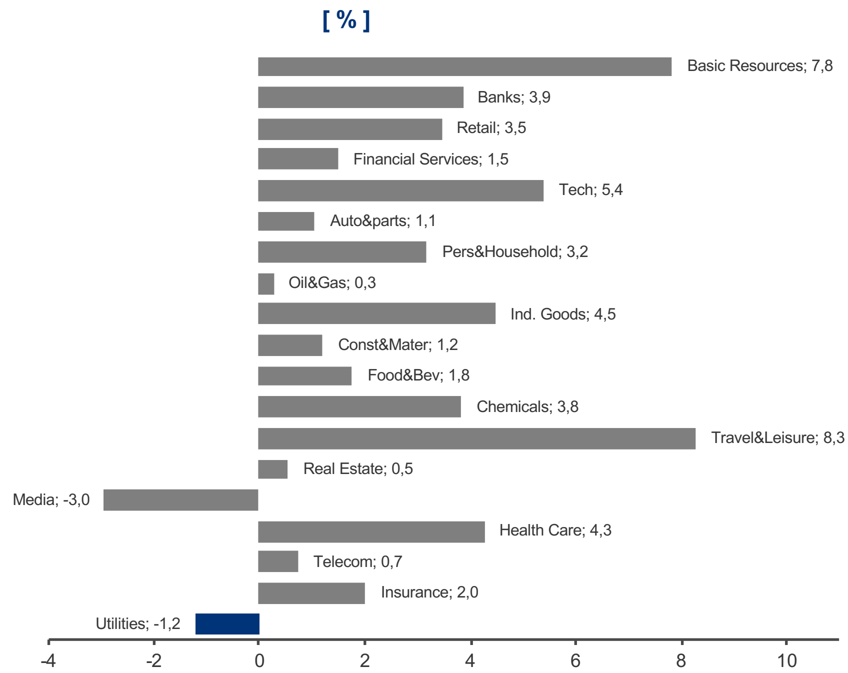
Oil prices were up 3% reflecting the increased risk appetite, as well as the anticipation by the OPEC Secretary of a reduction in the 2020 output forecasts in relation to US shale producers. This trend was offset by rumours relating to the fact that the OPEC+ cartel will not expand production cuts with respect to the current 1.2 mbd at the meeting of 5-6 December, limiting itself to request greater compliance from some members, in particular Russia, Iraq, Nigeria and Kazakhstan, which according to Saudi Arabia could in any case generate an offer reduction of around 0.5 mbd, as well as the announcement from Iran of the discovery of a maxi field of approximately 50 BBOE, which increases its own proven crude reserves by approximately one third.

Trends by segment

Net of the quarterly impact, the sector rotation towards cyclicals is confirmed, reflecting improved risk appetite

The sector's trend continued to reflect the increased risk appetite, with generalised outperformance of cyclical and industrial sectors (minerals +8%, technology +5%) compared to defensive stocks lagging behind in the indices (utilities -1%, real estate +1%). This background trend was affected by quarterly positive results, in particular for air carriers (Ryanair and Lufthansa +15% and 11%) against the continuing losses of media stocks. To be noted, at the other end of the scale, among cyclical stocks, the underperformance (+1%) of the automotive sector which, in spite of the abovementioned risk-on phase, was affected by a more cautious outlook from Daimler and Volkswagen due to a slowdown in demand and costs for the implementation of environmental regulations.

Trend of the main sectors, November 2019



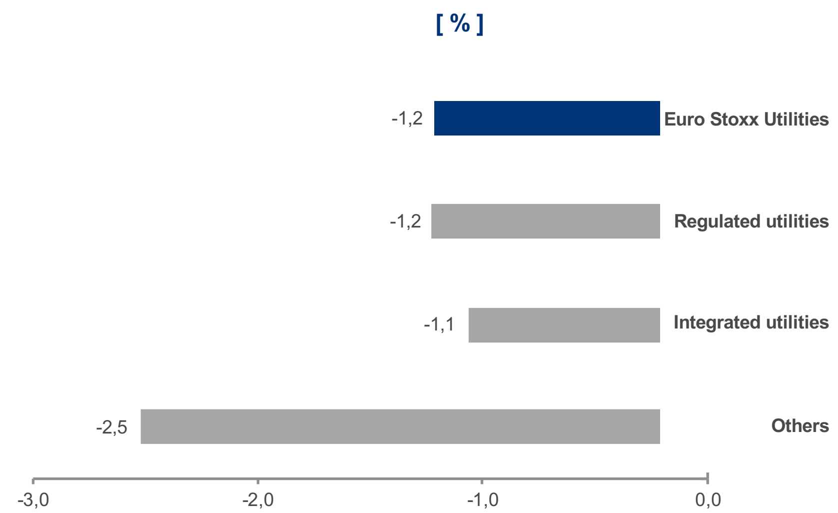
Source: Italgas elaboration of Bloomberg data

Utilities continue to underperform with risk-on and increasing core yields

Performance of the utilities segment

With a contraction of 1%, the utilities sector closed among the worst performers, due to a continuation of the sector rotation in favour of cyclicals brought on by the risk-on phase. There was a substantial alignment of integrated vs regulated stocks, with the former affected by the drops in Iberdrola and Engie stocks (-3% and -4%), respectively 2nd and 3rd contributors to the index, reflecting the fragmented Spanish political landscape following the elections and the weak Q3 results, while the latter benefited from the rise in Enagas, with an improved tariff adjustment. The water/environmental sector was affected by a drop in Suez stocks (-4%) due to the below expectations Q3 results of end October.

November 2019 - Trend of the sector and sub-sectors

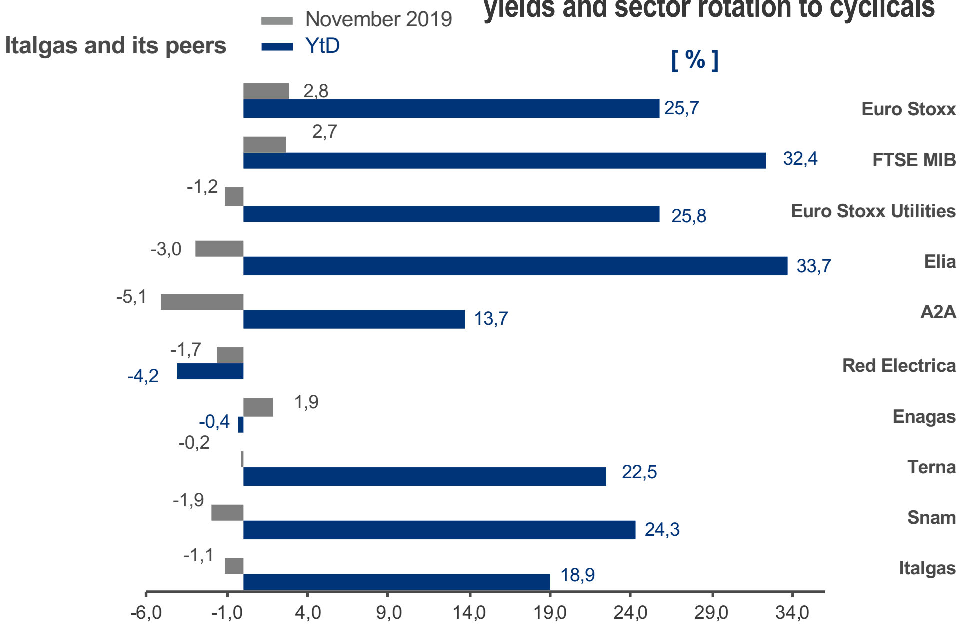


Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers on the Stock Exchange

Moderate downturn for Italgas due to the continuation of upward pressure on core yields and sector rotation to cyclicals

There was a 1% drop for Italgas which, with the rest of the sector, continued to be affected by the upward trend on core yields and the consequent sector rotation towards cyclicals driven by mitigation of trading risks. A2A was the worst performer, with a drop of 5% due to the partial slowdown in outperformance of the previous month driven by the expected Q3 results. On the other hand, Enagas was the best performer, with a rise of 2%, after the Spanish regulator confirmed the substantial improvement of the proposed tariffs for gas transport and distribution activities.



Source: Italgas elaboration of Bloomberg data

Agenda
Corporate events

11 March	Board of Directors results Q4/FY; 2019 proposed dividend
12 March	Press Release and Conference Call

Corporate events

Board of Directors Q3/9M results

For the 11th consecutive quarter, Italgas improved on all main indicators, with double digit growth for EBIT and net profit, demonstrating its ability to continue to improve. With 495 million Euro in organic investments over 9M (+42%), Italgas continues to develop and renew its networks and their digital conversion. The replacement of all traditional meters continued, with 1.5 million smart meters installed, reaching a total of around 6.2 million units (corresponding to 73.1% of the entire meter stock, also including subsidiaries) for the number of intelligent meters activated as at 30 September 2019. In Sardinia, the construction of the distribution network continues at full pace; as at 30 September, with worksites active in all the catchment areas under concession to the Group, the extent of the laid network was of over 300 km, for which more than 18,000 new connection requests have already been received. Net of financial liabilities in accordance to IFRS 16, the net financial position as at 30 September 2019 was of 3,978 million Euros, up by around 160 million Euros compared to the end of 2018. The EBIT for the first nine months of 2019 amounted to 377 million Euros (+12.9% y/y) and net profit was 263 million Euros (+16.0% y/y). Paolo Gallo, CEO of Italgas, commented: "Growth for 11 consecutive quarters demonstrates the ability of Italgas to combine the solidity of a company with over 180 years of experience with a start-up approach to promote innovation and great attention to costs. Digital conversion remains our main objective: one year after its start, the Digital Factory has already produced various digital solutions that are changing the way in which we manage our network, with a significant improvement in the quality of our service."

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