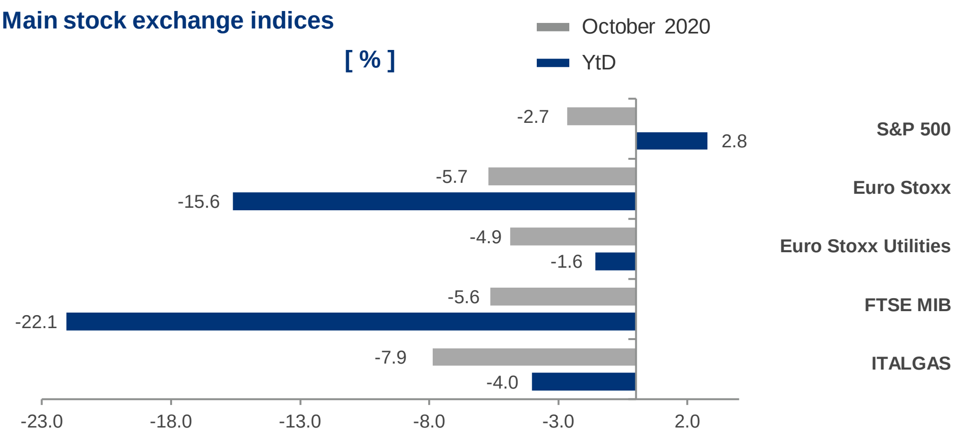
October 2020

Financial Markets Review

Large eurozone equity contraction with escalation of contagions and fears of new restrictive measures; Bund yield at its lowest since March with risk-off and ECB opening new expansionary measures

Financial market

After an initial rally driven by progress in talks on the new US fiscal stimulus package and overall better-than-expected macro data (US jobless claims and German industry orders), with US indices returning to their highs since early September, Eurozone equities fell back to its lowest levels since the end of May due to the strong recovery in infections and the consequent adoption of restrictive measures, with France, Germany, Italy and the UK introducing lockdown measures for at least 1 month. Despite expectations of further monetary easing by the ECB aimed at mitigating the new economic slowdown, the Euro Stoxx and the FTSE Mib lost almost 6%, while the S&P 500 halved the losses (-3%) as the new containment measures concerned essentially Europe and macro data remained better than expected. The aforementioned different amplitude of the falls in Eurozone vs US equities, together with expectations of further monetary easing by the ECB and a sequence of US macro data better than expected have produced strong divergence of respective yields, with Bund down 11 bps (-0.63%, at its lowest since March) vs UST



Source: Italgas' elaboration on Bloomberg data

+19 bps (0.87%). High volatility for the BTP-Bund spread, which however closed overall unchanged (139 bps); the initial contraction still induced by the lower political risk perceived following the electoral outcome at the end of September, with the Italian yields that have updated the historical lows, as well as by (confirmed) expectations of S&P improving its outlook (stable from negative), was offset by the risk-off phase which developed in the 2nd half of the month as a result of the rise in infections. Generalized weakening of the euro vs dollar and pound (-0.6% and -0.8%, respectively at 1.16 and 0.90) as a result of the ECB meeting, which highlighted downside risks for the eurozone economy, opening up to new expansionary measures.

The oil market

Brent -10% (36.9 USD/b) reflecting fears of contraction in demand induced by increasing restrictive measures, rapid growth in Libyan output following the cessation of force majeure on the main national field and expectations of further recovery by the end of the year. The downward pressure was mitigated by Russia / Saudi Arabia's willingness to postpone OPEC+ output hikes scheduled for 01/01, as well as formation of new tropical storms in the GoM. Divergence in gas prices (TTF +6%) reflecting: 1) an increase by the EU Parliament target in terms of CO_2 emissions reduction by 2030, which strengthens the competitiveness of gas-fired power generation vs coal; 2) intensified tensions over the completion of Nord Stream 2 after a fine to Gazprom by the Polish Antitrust; 3) start of the thermal season.

Performance by sector

Absence of underlying sector dynamics with generalized sell-off also on defensive sectors; performance reflected specific sector news and quarterly results

Despite a strong resurgence of risk aversion, defensives did not outperform, as generalized profit taking impacted the sectors that had performed better so far. The movements reflected specific sectorial newsflow and quarterly results; in particular, the travel & leisure sector was the best performer due to the strong increase in online gambling (pandemic), while media benefited from better than expected results at Vivendi. Despite a cyclical profile, banks and automotive outperformed as a function of better than expected results (UBS/Barclays and Daimler / Renault). On the other hand, the technological sector underperformed, led by the -31% of SAP on the back of a guidance cut and the declaration of business in difficulty at least until H1 2021.

Main sectors performance, October 2020

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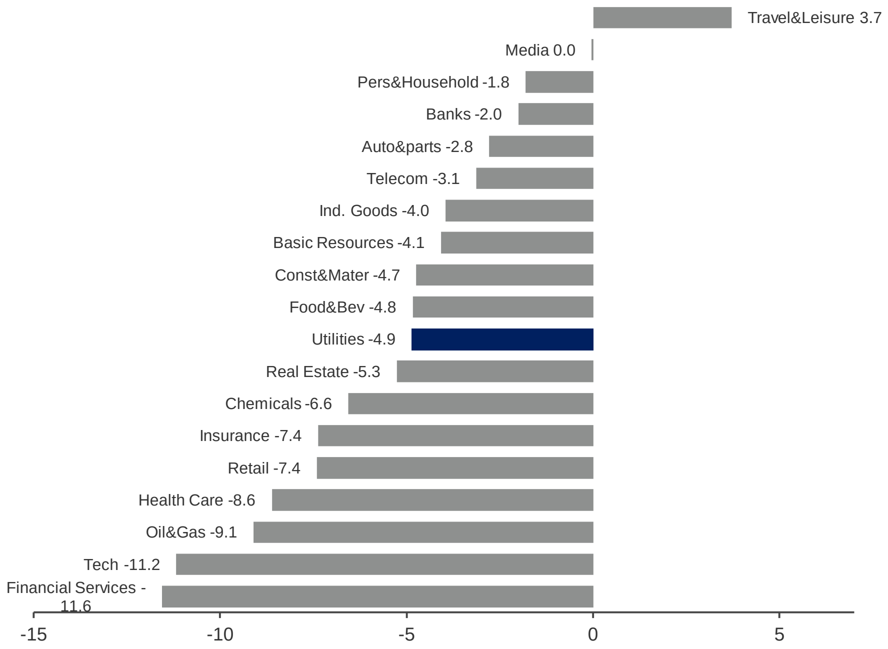

Source: Italgas' elaboration on Bloomberg data

Despite the defensive profile, widespread profit-taking impacted utilities post YTD outperformance

Utilities sector performance

5% contraction for the utilities sector. Despite its defensive profile, the sector did not offer a significant outperformance vs Euro Stoxx due to profit-taking after the YTD outperformance. Regulated operators were aligned to integrated; among the latter, those with greater exposure to renewables or very low marginal production costs stood out (EdF +10%, Verbund +6%) due to the decision of the European Parliament to extend the CO2 emissions cut to 60%. Stronger decline for water and environmental operators, reflecting -13% of Veolia after the Court of Paris decided that the merger with Suez must be preceded by consultations with the latter's unions, with consequent potential obstacles or delays in the timing of the integration.

October 2020 – sector and subsectors performance

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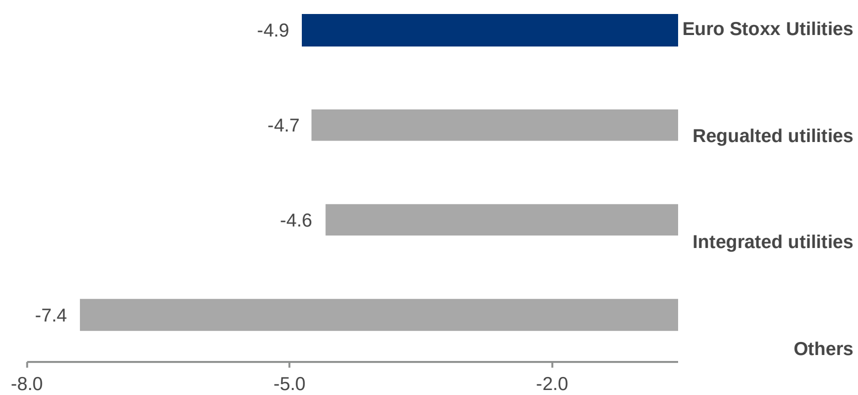


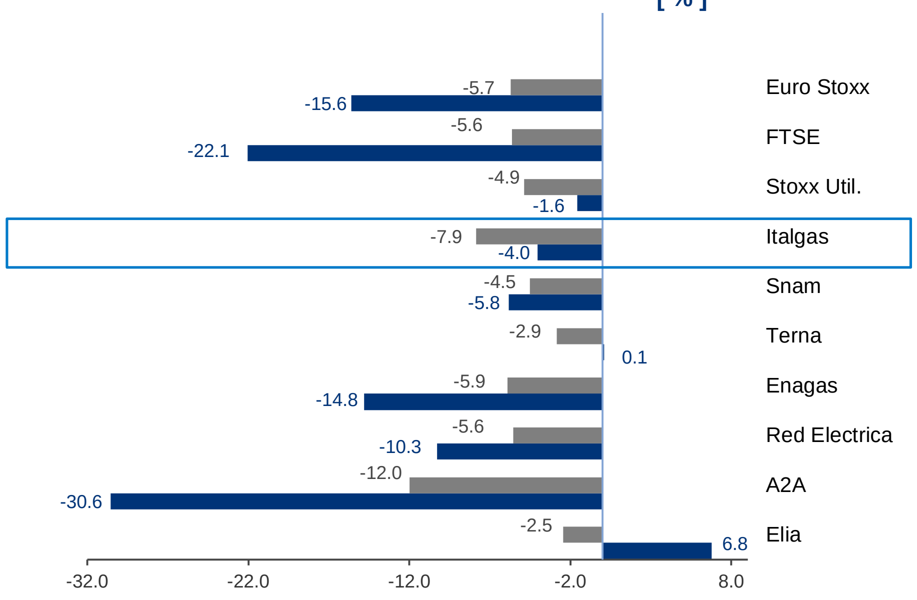
Source: Italgas' elaboration on Bloomberg data

Italgas and its peers

Italgas -8% as amendments to support the unlocking of gas tenders and Sardinia methanization did not pass; decrease mitigated by industrial plan

Italgas -8%, among the worst performers due to no transposition into the law converting the DL August of the amendments supporting the unlocking of gas tenders and methanisation of Sardinia. The expectation of such amendments supported the stock between the end of July and the beginning of August. The decline was mitigated by the 3% rise on 30 October with the announcement of the new business plan. A2A (-12%) was the worst performer due to its high exposure to merchant activities in a risk-off context. On the opposite side Elia and Terna after the previous underperformance, respectively induced by profit-taking after rally and increasing focus on hydrogen, which weakened expectations of massive electrification of energy consumption.

Italgas and its peers



Source: Italgas' elaboration on Bloomberg data

Agenda

Corporate events

Corporate News

EMTN programme renewal

On 5th October, Italgas' Board of Directors met, chaired by Alberto Dell'Acqua, and approved the renewal of the EMTN Programme launched in 2016, furthermore raising the Programme maximum amount from 5 up to 6.5 billion euro. As of today, under the current EMTN Programme the notes outstanding are in nominal amount equal to 3.85 billion euro. The Board of Directors has also approved the issue of one or more bonds to be placed only with institutional investors within one year by the signing date of the Programme. The total amount of the bonds issued may not in any case exceed the abovementioned maximum amount. The newly bonds issued may be listed on the regulated markets. The EMTN Programme will also allow Italgas to launch bonds issued specifically for the financing of "Green", "Social" or "Sustainable" projects.

Consolidated results Q3/9M

On 29 October Italgas' Board of Directors approved the 9M results, with total revenues of 978 mn euro (+6.7%), EBITDA of 715.7 mn euro (+8.3%), net profit of 246.5 mn euro (-6.1%), technical investments of 556.6 mn euro (+12.4%) and net debt of 4,770.9 mn euro. Paolo Gallo, CEO of Italgas, commented: «The results as at 30 September 2020 confirm the effectiveness of the strategic choices made by the Company also in the face of the protracted health emergency and the strongly penalising effects of the tariff regulation in place since 1 January. This performance increasingly reflects the contribution of the digital transformation launched in recent years and of the new technologies developed in our Digital Factory, which enable more efficient management of the network, services and all associated activities and make it possible to ensure a safe, uninterrupted service while safeguarding the health of our staff, suppliers and all our customers.

Strategic Plan 2020-2026

On 29 October Italgas' Board of Directors approved the Strategic Plan 2020-2026. The new Plan provides for total investments of 7.5 bn euros, of which about 2 bn euros dedicated to gas tenders and dividend policy for the next four years increasing based on a 65% pay out and with DPS minimum equal to that distributed in 2020 increased by 4% per year.
"The core of our Plan remains the digital transformation – commented the CEO Paolo Gallo – a process that, in just three years since its start-up, has already profoundly changed the Group's DNA, making it a reference model in Italy and Europe to which other operators - also from different sectors - are inspired to formulate their strategies".

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