October 2019

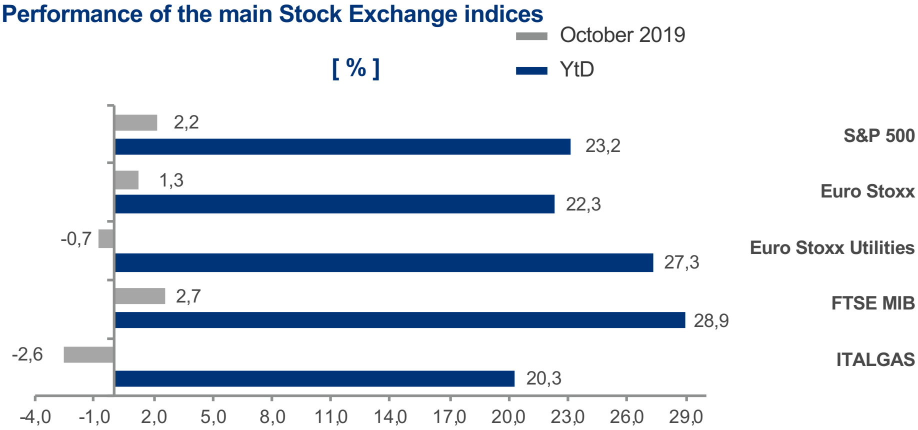
Financial Markets Review

Stock market at all-time/period highs with improved trade newsflow and increasing expectations concerning a Brexit agreement. Core yields continue to rise after the lows reached in August with risk-on, ECB divided on re-launch of QE and tax stimulus expected

Financial markets

Continuation of the rally in the global stock markets due to the resumption of trade negotiations between the US and China after they were abandoned in May, with the removal of US tariff increases planned for the end of the year in exchange for higher imports by the Chinese, as well as growing expectations of an agreement regarding Brexit. With prices adjusted for the detachment of dividends, the Euro Stoxx and the FTSE Mib (+1.3% and +2.7%) reached their highest levels since August and May 2018, with a moderate outperformance for the Italian index due to the further contraction of the sovereign spread. The S&P 500 (roughly +2%) reached all-time highs. On the fixed income side, the yield on the 10y Bund rose significantly (+16 bps) as a result of the above-mentioned risk-on phase, and the minutes of the ECB meeting confirmed a significant divide in relation to the launch of the new round of QE, with roughly 1/3 of the board members voting against it, as well as the convergence of Eurozone policy makers in favour of the adoption of expansionary fiscal policies in response to the loss of effectiveness of the ultra-accommodating monetary policy. The rising Treasury yield (+3 bps) was instead mitigated by weak macroeconomic data (manufacturing ISM below the recession threshold, at its lowest levels of the last 10 years) and the 3rd Fed rate cut in the course of 2019. The contraction in the BTP-Bund spread (-6 bps, its lowest level since 05/2018) continued as a result of rumours concerning the change in rules by the ECB for the purchase of bonds in the QE that will begin in November, with purchases to be concentrated on peripheral government bonds due to the scarcity of eligible securities in Germany and other core Eurozone countries, as well as the approval by the Council of Ministers of the 2020 budget law. EUR/USD +2.3%, reflecting factors underlying the different Bund vs UST yield trend. EUR/GBP -2.8% due to meetings to avoid a no-deal Brexit and surveys in favour of conservatives over labour for the 12/12 elections, mitigating fears of nationalisation by the latter party.

Performance of the main Stock Exchange indices



Source: Italgas elaboration of Bloomberg data

The oil market

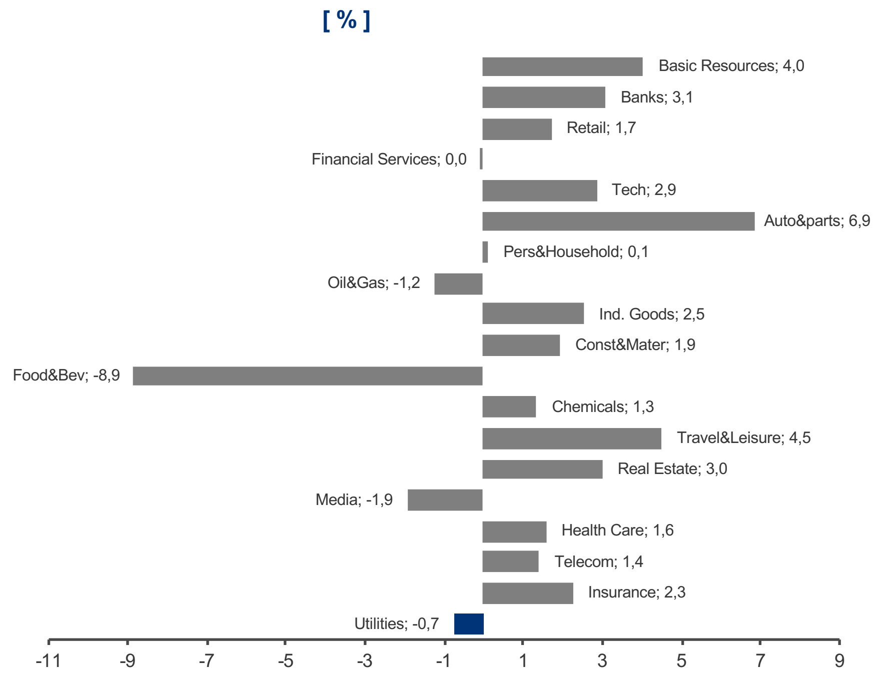
Oil prices unchanged on the whole (-1%) but very volatile. The initial decline caused by: 1) almost complete recovery by the Saudis of the interruption in output caused by the mid-September attacks; 2) Ecuador's withdrawal from OPEC in order to achieve greater operational autonomy; 3) maritime freight rates rising to all-time highs after the attack on an Iranian oil tanker (the higher transport costs are transferred to commodity sale prices, weakening demand); 4) IEA expectations of an increase in global crude oil stocks in 2020 were offset by the described risk-on phase and rumours concerning an increase in production cuts compared to the current level of 1.2 mbd by the OPEC+ cartel at the December meeting, as well as the disruption in the Forties pipeline system in the North Sea following a power outage.

Trends by segment

Overall sector rotation towards cyclicals is confirmed, reflecting improved risk appetite

Sector trends reflected the improved risk appetite, with a resulting overall outperformance of cyclical sectors, particularly automotive and mining (+7% and 4%, respectively) due to the expected trade truce between the US and China, as well as banking (+3%) due to the continuing rise in core sovereign yields. On the other hand, weakness can be observed in the food and media sectors (-9% and -2%) due to quarterly results not meeting expectations and the cut in FY guidance by several operators (in particular, the alcoholic beverage manufacturer Anheuser Busch (-18%) and the advertising group Publicis (-15%)).

Trend of the main sectors, October 2019



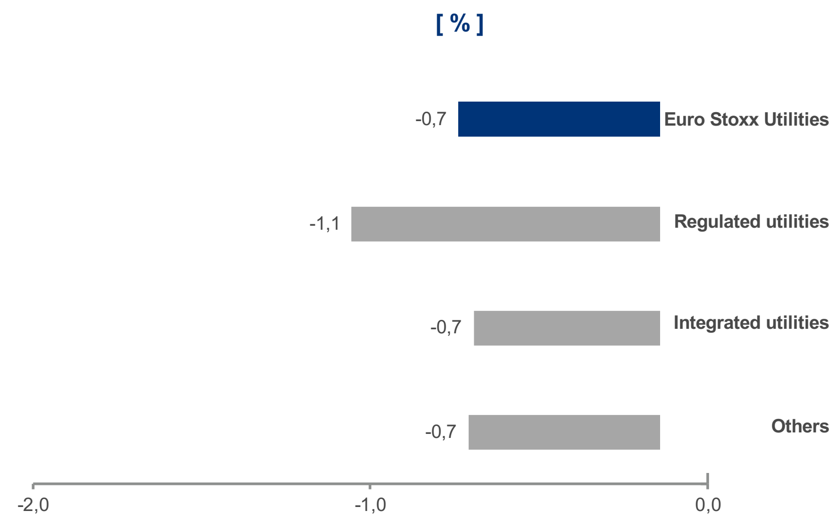
Source: Italgas elaboration of Bloomberg data

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

Performance of the utilities segment

In line with the stronger risk appetite and the continued rise of core sovereign yields, the utilities sector (-0.7%) was one of the worst performers, resulting in an overall underperformance by regulated operators. The integrated operators segment in any event showed high volatility as a result of gas prices close to their lowest levels in 10 years due to the general oversupply situation, with a resulting impact on electricity prices in Central Europe (lowest levels in 6 months) and the profitability of renewable sources.

October 2019 - Trend of the sector and sub-sectors



Source: Italgas elaboration of Bloomberg data

The Italgas stock and its peers

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

Moderate downturn for Italgas (-2.6%), which like the sector index reflected the continuation of upward pressure on core yields and the ensuing sector rotation to cyclicals. On the other hand, A2A instead recorded +7%, benefitting from expectations of robust Q3 results, and Enagas posted +4% (worst performer until September) with press rumours concerning a considerable improvement in the rate situation (reduction to 1/3 of the revenue cut proposed for gas transport), while the allowed WACC was confirmed in electricity transmission activities (Red Electrica -3%).

Italgas and its peers

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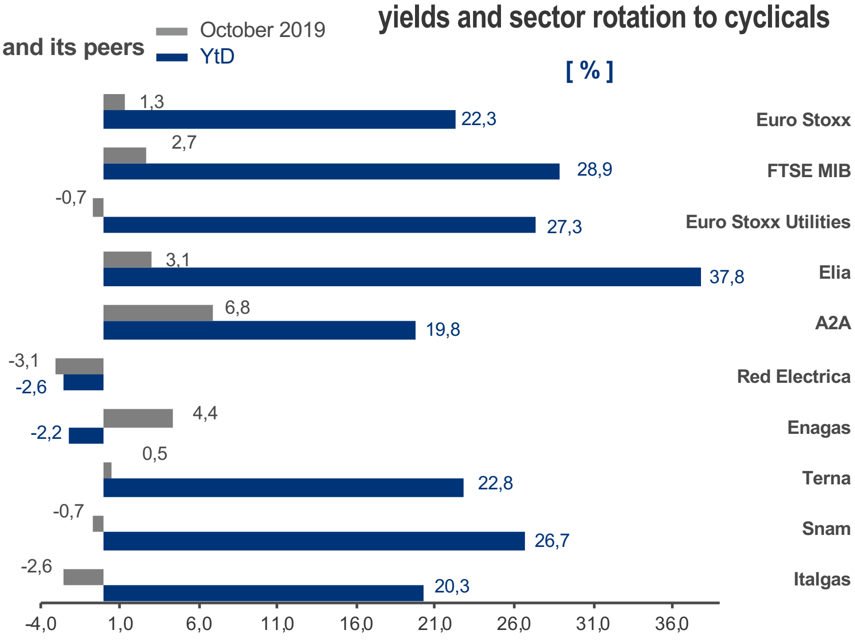

Source: Italgas elaboration of Bloomberg data

Agenda
Corporate events

7 November	Board of Directors Q3/9M results
8 November	Press Release and Conference Call

Corporate News

Acquisition completed of majority of Toscana Energia

On 01/10, Italgas completed the acquisition of 1.98% of the share capital of Toscana Energia, for which the Municipalities of Bientina, Buti, Calcinaia, Casciana Terme Lari and Palaia had previously exercised the right of withdrawal. Due to this transaction, the share capital held by Italgas increased from 48.68% to 50.66%. As a result, Italgas will consolidate the accounts of its subsidiary Toscana Energia line by line.
Toscana Energia is a leader in the natural gas distribution sector in Tuscany, with an RAB of roughly €833 million at the end of 2018. It owns 102 gas concessions, manages around 8K kilometres of network with 800K users and in the last year distributed more than 1.1 bcm of natural gas.
The 2018 consolidated financial statements of Toscana Energia, drafted in compliance with Italian GAAP issued by the Italian Accounting Organisation (OIC), show total revenue of €148 million, EBITDA of €104 million, EBIT of €58 million and a net profit of €41 million. At the end of 2018, the net financial debt amounted to €398 million.

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