

# Financial Markets Review



Financial Markets  
page 1

Sector Performance  
page 2

Italgas and its  
peers page 3

Corporate News  
page 3

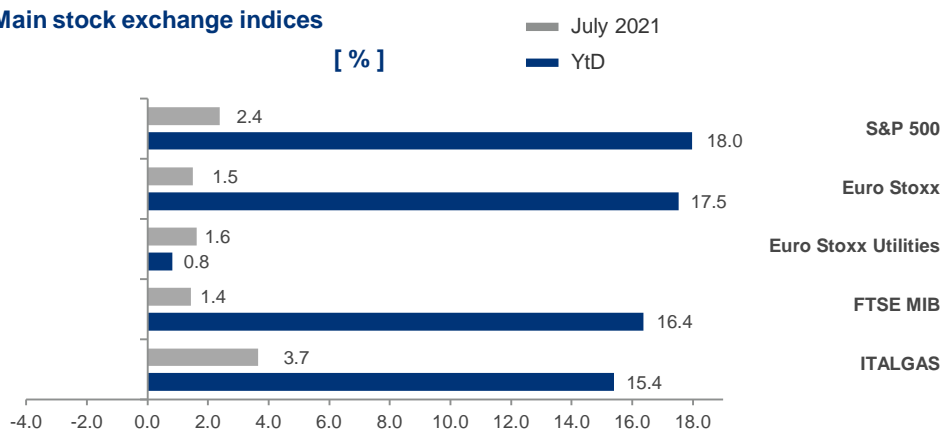


Despite the rise in infections, global equities extend historical highs supported by repeated commitment from central banks and sound quarterly results. Real yields extend historical lows despite US core inflation at 30-year highs

## Financial Markets

Extension of the historical highs for global equities, with the growing risks of a slowdown in the expansion phase induced by the rise in infections and consequent strong deterioration of the German confidence index ZEW (which fell by more than 20% m/m, also due to recent inflationary pressures) more than offset by the reiteration of the hyper-expansionary approach by central banks and quarterly results overall better than expected. The Euro Stoxx and the FTSE Mib advanced by around 1.5% vs +2.4% for the S&P 500, still supported by the exposure to the technology sector and "stay-at-home" stocks, which thanks to healthy quarterly results and cited fears of a rise in infections were among the best performers of the month. Despite US core CPI at the highest level in 30 years, sovereign yields showed a sharp contraction reflecting the overall reiteration of the hyper-expansionary approach by central banks, also in order to counter the increased risks induced by the resumption of contagions. The German and US sovereign yields declined by 25 bps (respectively to -0.46% and 1.22%), entirely induced by the real component, which extended the historical

### Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

lows. The ECB increased to 2% the medium-term inflation target, with a consequent revision of the forward guidance on the reference rates, while the FED, although recognizing progress in the economy towards an overall reduction of monetary stimuli, indicated that the US job market still needs substantial improvement before actually starting tapering. Despite the aforementioned confirmation of a hyper-expansionary

approach, the BTP-Bund spread rose by 5 bps (108 bps) due to the new sovereign issues required to finance public spending to tackle the recessive effects induced by the pandemic. On the currency side, the EUR/USD is stable (1.19) with reiterated expansive approach by both the ECB and the FED vs EUR/GBP -0.4% (to 0.85), as a consequence of the aforementioned increase in inflation target by the ECB.

## The oil market

Oil prices were stable (75 USD/b), with the downward pressure induced by the resumption of infections and fears of introduction of new restrictions on tourist flows, as well as the OPEC+ agreement, which in addition to the upward revision of production for 2 mbd by the

end of the year has increased the reference production (the values on which the actual output is calculated) to levels significantly above those expected (1.6 mbd approximately as from May 2022 vs an increase estimated at 500 kbd) offset by the extension of the risk-on

phase and lower US inventories also due to the driving season, as well as persisting stalemate in the US-Iran negotiations for the resumption of the nuclear agreement, which weakens the prospects of a rapid removal of US sanctions on oil imports from Iran.



## Performance by sector

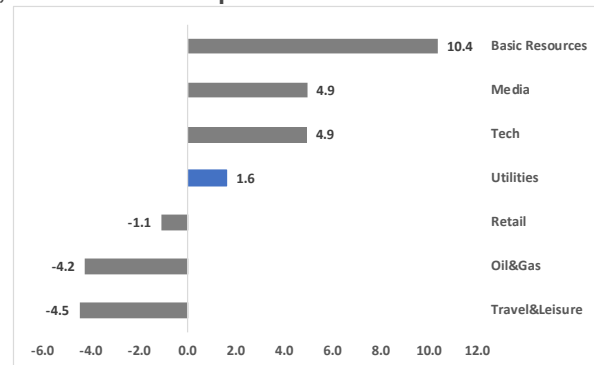


Sector dynamics reflect quarterly results; basic resources best performer with main commodity prices close to all-time highs

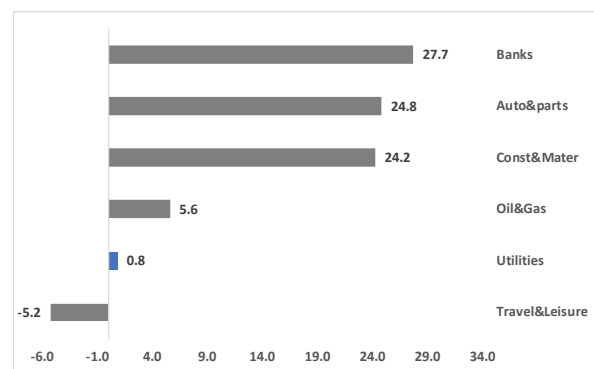
The sector dynamics essentially reflected the trend of quarterly results. The basic resources sector was the top performer thanks to strong earnings reported by all the operators (ArcelorMittal +14%, also due to new share buy-back), supported by prices of the main commodities close to all-time highs. Media and technology followed, with several operators improving their FY guidance and in some cases starting buy-back programs. Oil&gas and travel&leisure on the opposite side, with quarterly loss recorded by Technip, downward revision of output by Galp and lack of buy-back reactivation for Repsol. Travel&leisure reflected -9% of La Francaise des Jeux and Sodexo, respectively due to the EU investigation on the exclusive assignment of the rights related to the management of lotteries and replacement of the CEO.

### Sector performance; utilities e 3 main ups/downs

July 2021 [ % ]



YTD 2021 [ % ]



Source: Italgas' elaborations on Bloomberg data



Integrated operators underperform the sector with fears of interventions to mitigate power prices hike

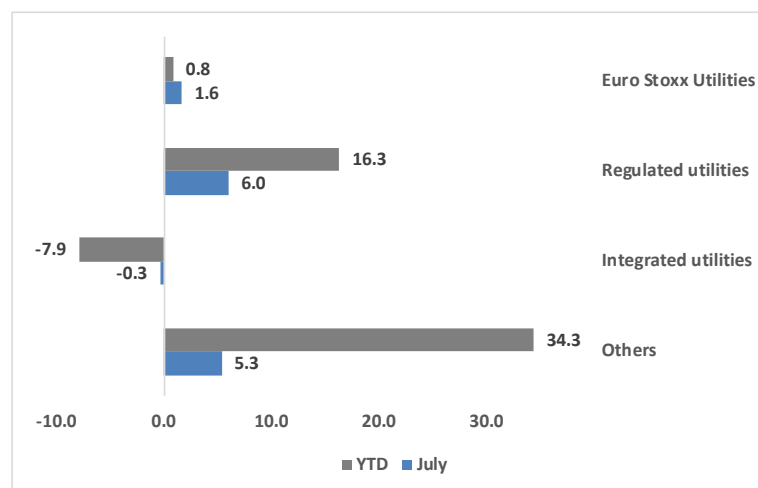


## Utilities sector performance

Utilities sector aligned with the Eurozone benchmark. Despite German forward electricity prices at the highest level since 10/2008, similarly to the previous 2 months the integrated operators underperformed the sector due to fears of regulatory interventions to mitigate the upward pressure induced by this trend on corporate profits and tariffs for end consumers. On the opposite side, with a 6% rise regulated operators were best performers in the sector thanks to strong quarterly results and further contraction of real sovereign yields, extending historical lows. The water and environmental sector ("Others") shows a 5% increase due to +9% of Veolia, induced by the upgrade of the FY guidance and the AMF's green light for the offer on Suez.

### Utilities sector and subsectors

[ % ]



Source: Italgas' elaborations on Bloomberg data



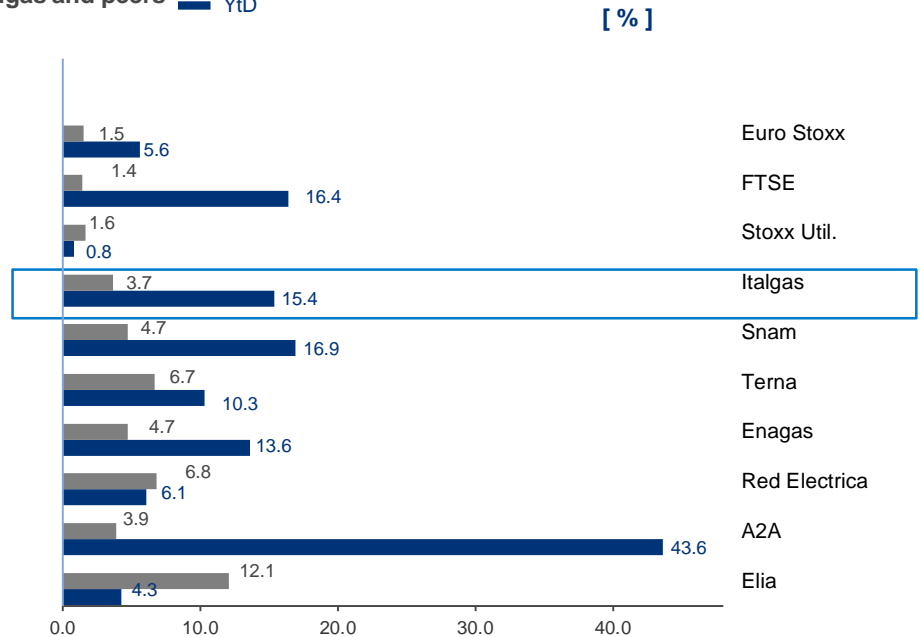
## Italgas and its peers

Italgas appreciated by 4%, supported by better than expected Q2 results. Compared to the eurozone peers, the Italian regulated operators have been overall penalized by the DCO 308 concerning the revision of the allowed return, which implies a very wide range of possible outcomes and a potential structural reduction of the recognized Kd. The Belgian TSO Elia was the best performer, supported by the upgrade of the FY guidance and historical lows extension of real core yields. Red Electrica and Terna followed, supported by quarterly earnings and, for the latter, improved visibility on the long-term capex after updating the 10y grid development plan, characterized by cumulative investments up by 25% due to the expected increase in power demand.



Italgas +4% with better-than-expected Q2 results; DCO 308 on allowed wacc review penalized Italian regulated operators vs eurozone peers

Italgas and peers July 2021 YTD



Source: Italgas' elaborations on Bloomberg data



## Agenda

Corporate events

26 October

BoD Q3/9M Results

27 October

Press Release and Conference Call



## Corporate News

### Q2/H1 consolidated results

On July 27, the Italgas BoD approved the consolidated H1 2021 results, which saw total revenues at 665.4 mn euro (+2.9%), EBITDA at 489.1 mn (+5.9%), EBIT at 279.4 mn (+10.0%), adjusted net profit at 176.1 mn (+14.1%), capex at 420.4 mn (+14.1%) and net financial debt at 4,806.8 mn (+70 mn YTD). In a scenario characterized by ongoing concerns regarding the evolution of the health emergency and the resulting constraints on economic activity, but also by the strong impetus given by the European Union towards meeting the net zero climate targets by 2050, Italgas has confirmed its ability to produce solid results with extremely positive performance in all the main economic and financial indicators. Paolo Gallo, CEO of Italgas, commented: "The results of the first half of 2021 and the level of investments achieved demonstrate Italgas' ability to combine the objectives of continuous and sustainable growth with the commitment to decarbonization, providing an important boost for the restart of the Country's economy. We have exceeded 420 mn euro of investments mainly related to the digital transformation of the network and of the company as a whole, as well as the repurposing of the network and its further extension by more than 400 km. Digitization, technological innovation, sustainability and efficiency will continue to be the cornerstones of Italgas' daily activities, to support the energy transition process also through the ambitious goals for reducing emissions and energy efficiency contained in our Strategic Plan".

### Fitch affirms BBB+

On July 29 the rating agency Fitch affirmed Italgas long-term rating at 'BBB+', Stable outlook. The rating affirmation is based on Italgas' strong growth perspectives, well highlighted in its Strategic Plan 2021-2027. In particular, the agency emphasizes the continuous increase in the Company's investment plan despite the pandemic emergency not yet fully overcome and the solid cash flow generation. Moreover, the Group's commitment to the digital transformation, which will enable Italgas to achieve significant benefits in terms of operating efficiency, together with its attitude for strategic diversification towards water distribution sector and energy efficiency, were once again positively acknowledged.



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