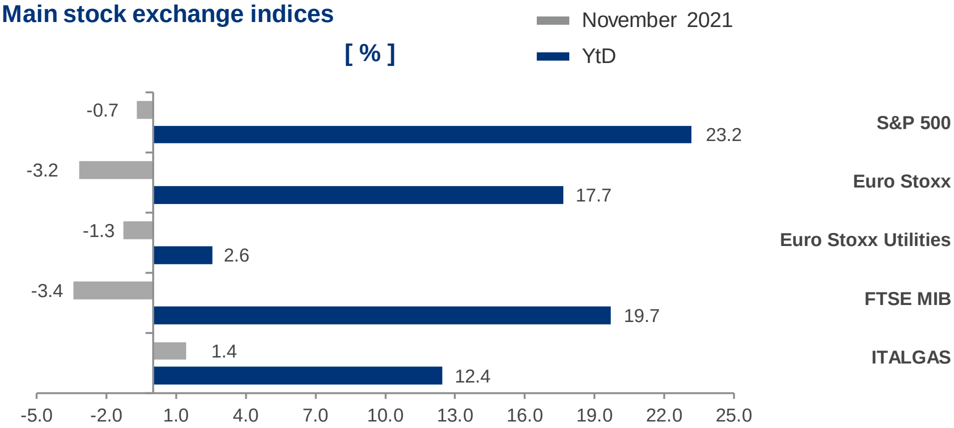
November 2021

Financial Markets Review

First contraction in 9 months for global equities with new Covid variant. Consequent decline in real and nominal core yields despite US CPI at highs since 1991. Peripheral spreads extend bullish movement, while EUR/USD updates 17-month lows

Financial Markets

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

After an initial extension of all-time highs reflecting continued support induced by quarterly results and generally better-than-expected macro data (initial US jobless claims hit lows since 1969), global equities show their 1st contraction in 9 months due to the new Covid variant identified in S. Africa and potentially capable of neutralizing vaccine protection. Despite the appreciation of the dollar against the euro, the Euro Stoxx and the FTSE MIB dropped by c3% compared to a decline of 1% for the S&P 500; the different dynamic was probably induced by the 4th pandemic wave already underway in several European countries, with Austria and Germany announcing restrictive measures. As a consequence of the risk-off phase, the German real yield showed a significant contraction, more moderate instead in the case of the Treasury due to the start by the FED of the reduction in QE with a frequency that should lead to the termination of the purchases by June 2022, together with US CPI at its highest since 1991. The real yield curve, in particular the US one, consequently shows moderate flattening. In light of an almost unchanged breakeven inflation, the dynamics of nominal yields reflected the real component, with 10y Bund -24 bps (at -0.35%) and UST -11 bps (at 1.44%). Despite better than expected Italian manufacturing PMI, the BTP-Bund spread widened by 4 bps (132 bps) reflecting the aforementioned risk-off phase, at its highs since November 2020. On the currency side, the EUR/USD is down 1.9% (1.13) as a result of the aforementioned start of tapering by the FED and the US CPI at the highest levels since 1991, as well as inverse correlation between the dollar and the oil price. Instead, the EUR/GBP (0.85) rose by 0.9% due to the unexpected BoE decision to keep the reference rates unchanged at an all-time low and not to early terminate the QE.

The oil market

Despite OPEC + having communicated that the October production increase was more than 50% lower than the established quota, as well as the rejection by the same organization of the US request to increase production more rapidly to mitigate the rise in prices, and joint release of strategic reserves (around 70-80 mboe) by the USA, China, Japan, India, South Korea and the UK, oil prices recorded a sharp decline (Brent -17% to 70 USD/b; minimum from over 3 months), reflecting the expectations of mobility restrictions induced by the new pandemic variant. On the other hand, the prices of the TTF rose by 40% due to further delays expected in the entry into operation of Nord-Stream 2, as well as increased Russian domestic demand induced by the weather factor.

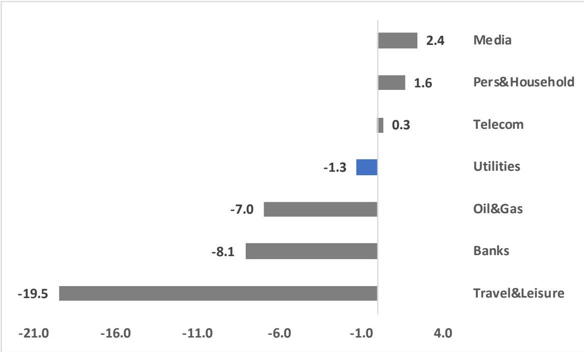
Performance by sector

As a result of the new pandemic variant, sector dynamics are in favor of defensive and "stay-at-home stocks" vs cyclicals and travel/leisure worst performers

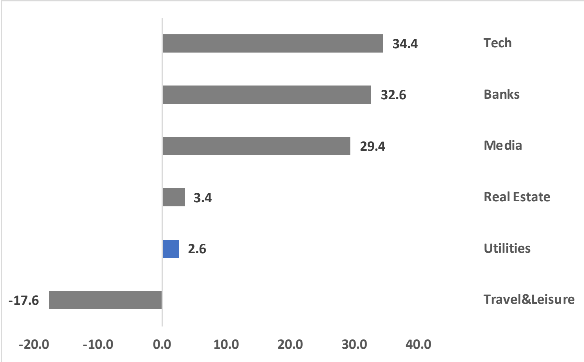
Consistent with the fears of reintroducing restrictions in contrast to the new pandemic variant, the sector dynamics highlighted an overall advantage for defensive and "stay-at-home stocks". Consequently, the media sector was the best performer with +10% of Wolters Kluwer due to the business focused on home entertainment, as well as better than expected 9M results. This was followed by the personal goods sector, based on the reduced correlation with the economic cycle, as well as the telecoms sector, which benefited from the improvement in guidance by Deutsche Telekom, and the non-binding offer submitted by the US fund KKR on Telecom Italia. On the other hand, due to the cyclical profile and fears of mobility restrictions, the travel/leisure sectors (-19%), banks (-8%) and oil (-7%) are the worst performers.

Sector performance; utilities e 3 main ups/downs

Nov. 2021 [%]



YTD 2021 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities outperform the Euro Stoxx with its defensive profile; regulated operators lead the sector

Utilities sector performance

Due to its defensive profile, the utilities sector limited the decline to 1%, and coherently with the risk-off phase and the sovereign core yields contraction, regulated operators reported moderate outperformance. Amongst integrated operators, Enel dropped following quarterly results below expectations. On the opposite side, Naturgy benefitted from continuation of the purchases by the Australian fund IFM, Engie from the agreement for the sale to Bouygues of the subsidiary Equans (active in the supply of services), and RWE following the announcement of the energy-environmental program by the new German government coalition.

Utilities sector and subsectors

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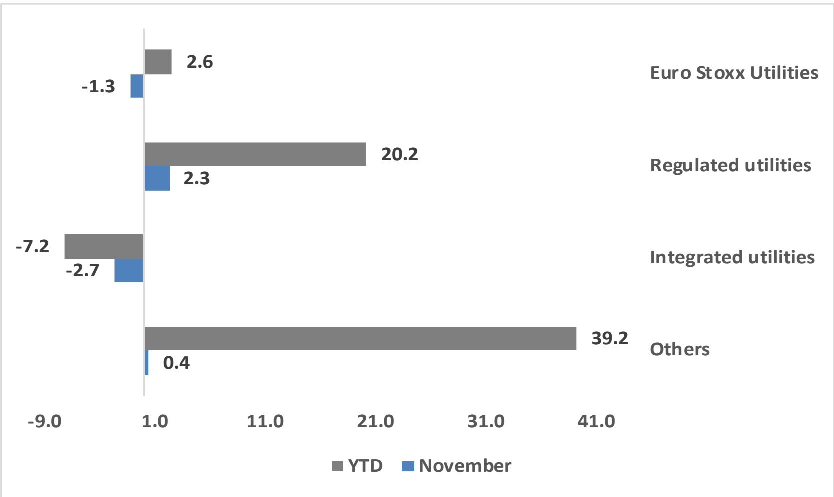
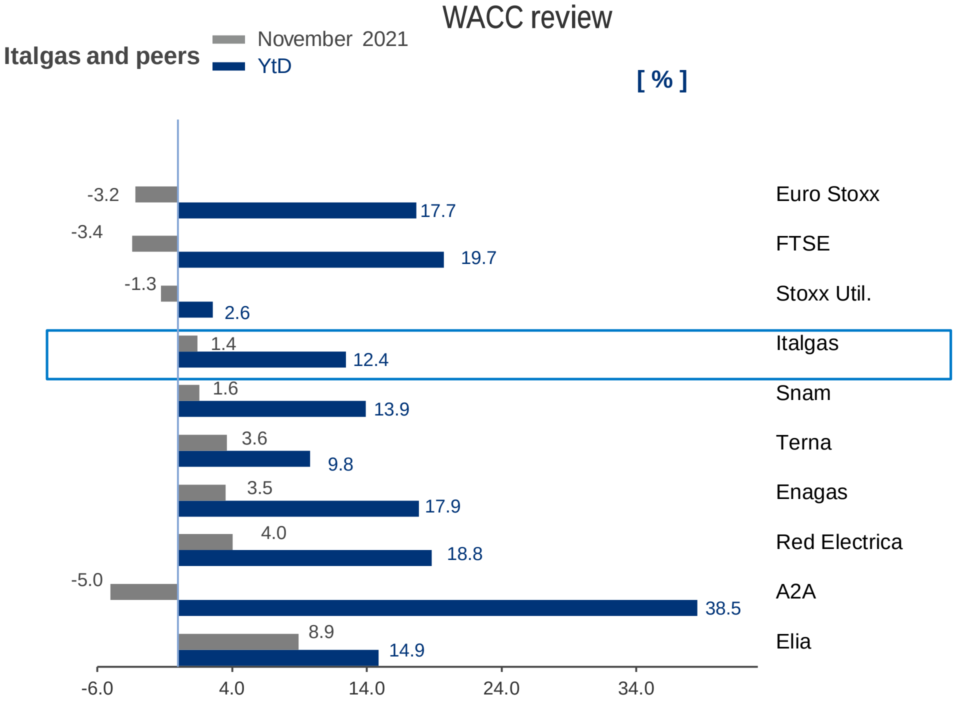


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas advanced by approximately 1% (5.568 euro), but Italian regulated operators overall remained at the bottom of the ranking of eurozone peers due to the uncertainties surrounding the outcome of the WACC review, even after the publication of the 2nd consultation document. By appreciating 9%, the Belgian electricity TSO Elia was the best performer of the panel after the upward revision of the RoE guidance for the current year, while on the opposite side A2A dropped 5% due to the mainly merchant profile of its assets, as well as physiological profit-taking after the sharp YTD rise.

1% rise for Italgas, but Italian regulated operators remain worst performers in the panel due to the uncertainty about the WACC review



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

Pending definition of the 2022 financial calendar

Corporate News

Italgas enters the DJSI Europe

On November 13 Italgas announced it was included for the first time in the Dow Jones Sustainability Index Europe and confirmed for the third consecutive year in the Dow Jones Sustainability Index World, confirming its position as one of the world's top sustainability leaders. The two indexes are managed by S&P Global and include companies that have excelled in Europe and globally on sustainability topics.

Italgas achieved the highest score (90 points out of 100) in the GAS - Gas Utilities Industry out of 28 companies assessed in the S&P Global Corporate Sustainability Assessment (score date: 12 November 2021), with an improvement of 8 points versus last year.

The result achieved is a recognition of the Company's strong commitment to all aspects of sustainability across its entire value chain, its daily activities and growth strategy. It also rewards the Company's ability to develop increasingly accurate and transparent reporting.

Moody's affirms Italgas at 'Baa2'

On November 25, Moody's Investors Service (Moody's) has affirmed Italgas S.p.A Long-Term Issuer rating at 'Baa2', Stable Outlook. The rating affirmation is based on the strong track record of operational efficiencies and on the solid financial position, as well as on the low risk profile of the gas distribution business.

In particular, the agency emphasizes the Company's steady focus on costs optimization, achieved through technological innovation and digitization activities, the ability to execute planned investments and the persistence of an extremely low cost of debt, thanks to which the Company is able to sustain its profitability and a robust cashflow generation.

Finally, Moody's highlights Italgas' appointment as preferred bidder for the privatization of DEPA Infrastructure, the Greek company managing 100% of the Country's gas distribution network.

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