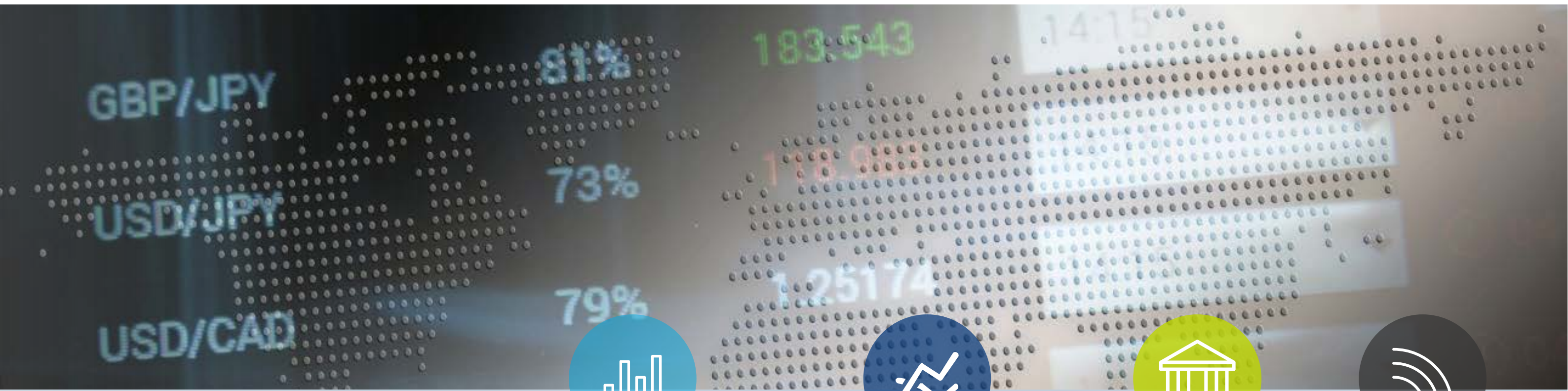
January 2022

Financial Markets Review



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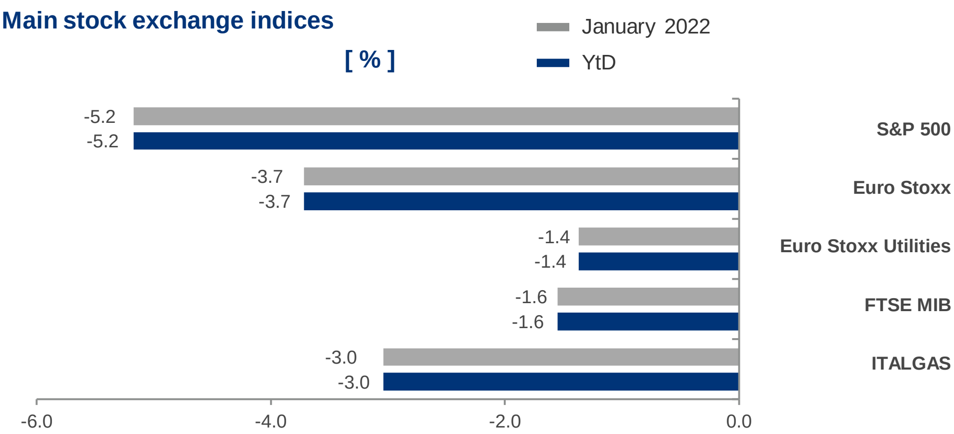
After reaching new all-time highs, global equities retreated with expectations of accelerated FED monetary tightening and geopolitical tensions. As a consequence, the US sovereign yield rose sharply. Uneven performance of the single indices, largely impacted by sector exposure

Financial Markets

After updating the all-time highs supported by Omicron variant being less severe than expected, global equities turned lower due to increased expectations of monetary tightening by the FED as well as increasing tensions between the US and Russia over Eastern Europe. The performances of the different indices were uneven, largely impacted by sector exposure. Due to the high exposure to the technology sector, which was the worst performer as a function of the inverse correlation to bond yields, the S&P 500 fell by 5 percentage points, underperforming the Euro Stoxx by one and a half percentage points also as a result of the currency effect (appreciation of the dollar against the euro). On the other hand, the FTSE Mib (-1.6%) significantly outperformed the eurozone benchmark as a result of the exposure to banks and oil companies, the best performers of the month. The sovereign yields reported a remarkable increase due to expectations of faster FED monetary normalization, initially supported by the proposal of quantitative tightening by some FOMC representatives, and then confirmed by the central bank's meeting of January, with Powell highlighting the presence of ample room in terms of rate hikes without this having a significant impact on the labor market. The 10-year Treasury yield increased by 27 bps (to 1.78%), the highest since January 2020 vs +15 bps for the German equivalent adjusted for the extension of the benchmark maturity, back in positive territory (0.01%) for the first time from 05/2019. Despite the risk-off phase and expectations of more rapid monetary tightening, the BTP-Bund spread fell by 11 bps (to 128 bps) to reflect the continuity in the institutional framework, with Draghi remaining in the office of prime minister. The EUR/USD decreased by 1.2% (1.12) due to the aforementioned outcome of the FED meeting. The EUR/GBP was also down (-0.7% at 0.84), reflecting better than expected UK macro data (manufacturing PMI and industrial production).



Source: Italgas' elaborations on Bloomberg data

The oil market

Despite the risk-off phase and the decision by OPEC+ to continue increasing the production levels (further 400 kbd in February), oil prices are up by 17% (91 USD/b), the highest level since October 2014, supported by the sharp decline in US crude oil inventories (around 21 mboe) following 7 consecutive weekly reductions, as well as concerns regarding supplies from Russia due to possible extensions of US sanctions reflecting geopolitical tensions over Eastern Europe, production slowdowns in Canada/North USA (low temperatures) and Kazakhstan/Libya (internal unrest), as well as the interruption of an oil pipeline of about 0.5 mbd connecting Iraq to Turkey.

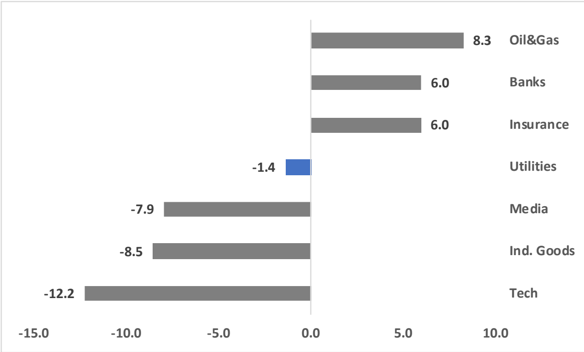
Performance by sector

The sector dynamics reflected the rise in bond yields: financials amongst best performers vs tech stocks on the opposite side

The sector dynamics reflected the rise in bond yields, with financials (banking and insurance stocks) best performers thanks to the consequent upward pressure on the differential between return on assets and cost of funding, together with oil & gas, which benefited from the multi-year highs of oil and gas prices. On the other hand, the technology sector was the worst performer, being represented by “growth” stocks, ie with the production of cash flows more shifted forward over time. Otherwise, the sell-off mainly affected the sectors most exposed to the economic cycle (industrial) and, consequently to the improved prospects on the containment of the Omicron variant, those most closely linked to the “stay-at-home” model (including media).

Sector performance; utilities e 3 main ups/downs

Jan. 2022 [%]



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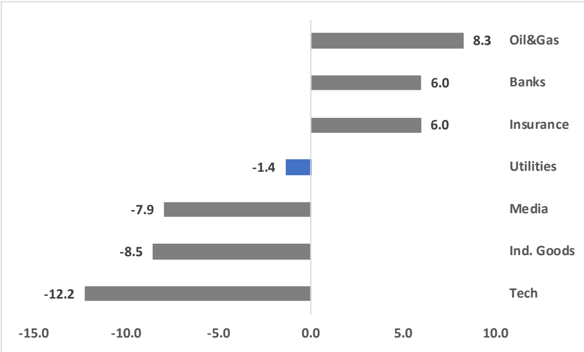

Source: Italgas’ elaborations on Bloomberg data

Utilities mitigated last year’s underperformance; regulated stocks more penalized by bond yields

Utilities sector performance

Despite the bond-proxy profile, the utilities sector retreated by 1.4%, consistently outperforming the Euro Stoxx probably as a mitigation of the large underperformance recorded in 2021, as power prices remain close to the all-time highs. Regulated operators reported moderate underperformance vs the sector index due to their higher correlation to bond yields, as well as some profit-taking after the previous year's outperformance. EdF (-18%) was the worst performer following a downward revision of nuclear output, as well as a 12-month freeze of part of the tariff increase, otherwise expected from 02/2022, in order to limit the rise in electricity prices to 4%, as already established by the government.

Utilities sector and subsectors

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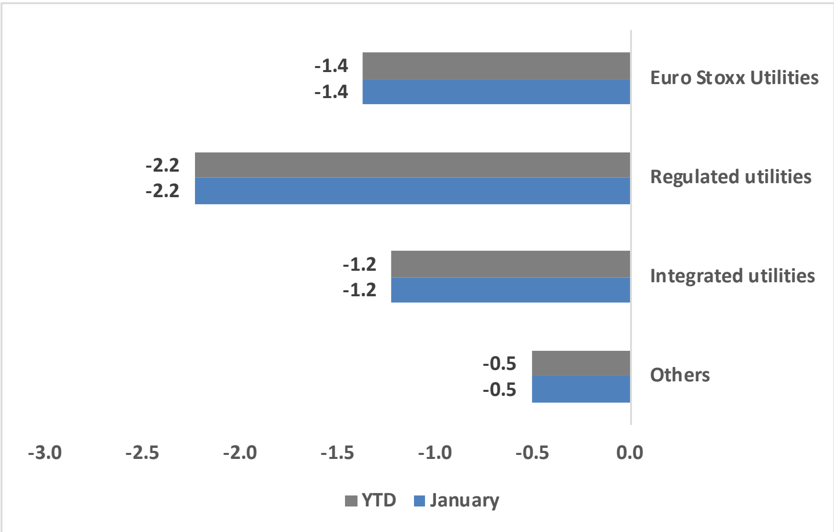
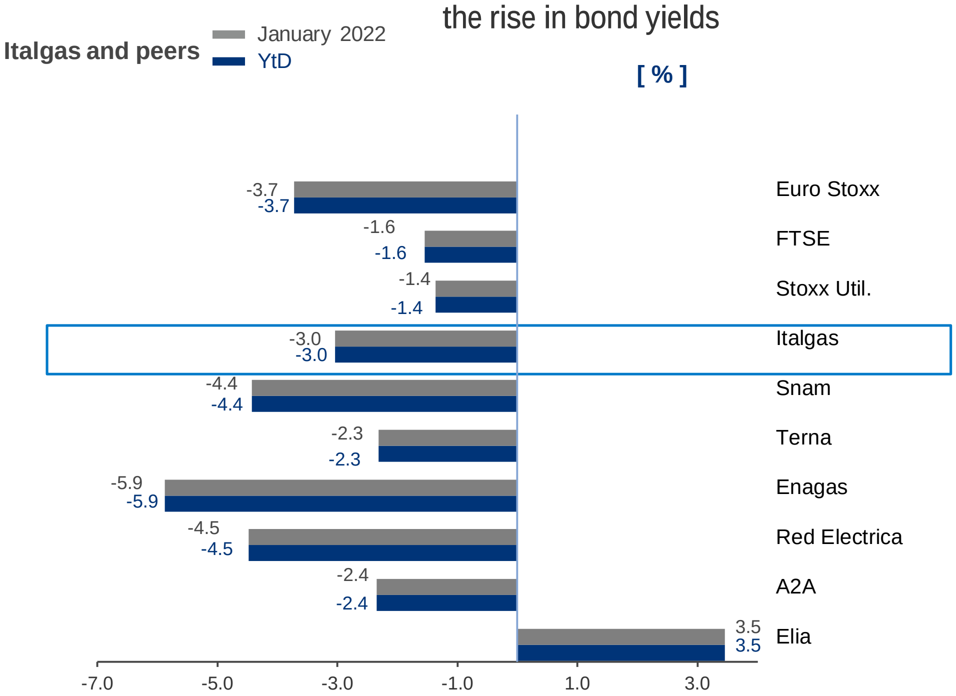


Source: Italgas’ elaborations on Bloomberg data

Italgas and its peers

Italgas declined by 3%; similarly to its regulated peers, the stock was affected by the rise in bond yields

Italgas declined by 3% (5.868 euro); similarly to the other regulated peers, the stock was affected by the rise in bond yields, as well as moderate profit-taking after the consistent outperformance vs the sector index achieved in 2021. Enagas (-6%) was the worst performer after being the best fully regulated stock in the panel last year (behind A2A, which however has a high exposure to merchant activities), with downgrades by Societe Generale and CaixaBank induced by the price level. On the other hand, with an increase in the region of 3%, the electric TSO Elia was the best performer of the panel after being upgraded from Hold to Buy by the Belgian broker KBC.



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

9 March BoD on 2021FY results and dividend proposal

10 March Press release and conference call

Corporate News

Italgas and Buzzi Unicem sign an agreement for the feasibility study of P2G plants in the cement industry

On January 18 Italgas and Buzzi Unicem have signed an agreement for the development of a feasibility study on the implementation of Power to Gas plants in combination with Carbon Capture Systems at Buzzi Unicem's production plants. The agreement leverages on the solid experience gained by Italgas with the development of a Power to Gas project in Sardinia to produce green hydrogen with the aim of testing its uses also in urban contexts, in public transport and in supplying local energy-intensive industries. "We strongly believe in Power to Gas technology – Paolo Gallo, CEO of Italgas affirmed - and in its strategic contribution to the energy transition in terms of sector coupling. The production of hydrogen from renewable sources enables the use of gas networks in the dual function of carrier and energy storage asset, ensuring greater flexibility to the system. The agreement represents a great opportunity for us to take a further step forward in the study of innovative solutions and technological best practices. Therefore, we are pleased to share with Buzzi Unicem the know-how we have developed in the design of the Italgas P2G plant that will be built in Sardinia, creating the first technological showcase of the green hydrogen production chain in Italy".

Italgas extends the methanisation of Sardinia

On January 28 Italgas announced the conversion from LPG to natural gas of the distribution networks serving the municipalities of Tortolì, Girasole, Loceri and Talana in the province of Nuoro (basin 22), which have a total of approximately 15K inhabitants. The operations in these 4 municipalities follow those already completed in December in Osini, Gairo Sant'Elena, Ulassai, Seui (basin 22) and Pattada (basin 10) for a total of 34 Sardinian municipalities already converted from LPG to gas natural. With the transition to methane by Gairo Taquisara and Cardedu, expected in the spring, Medea will complete its conversion program on the island which involves a total of 500 km of pipelines fed by 31 cryogenic LNG deposits.

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