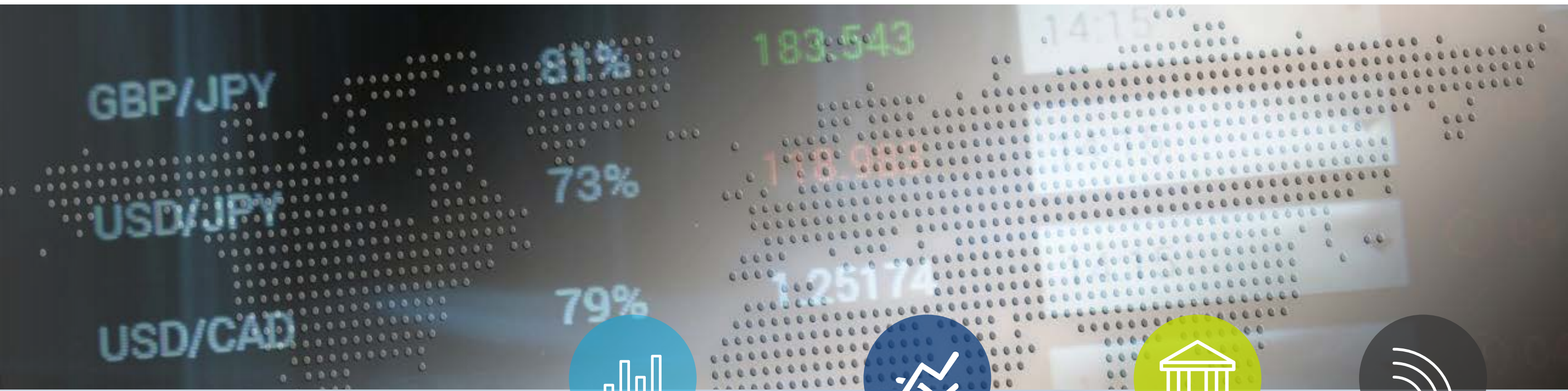
August 2022

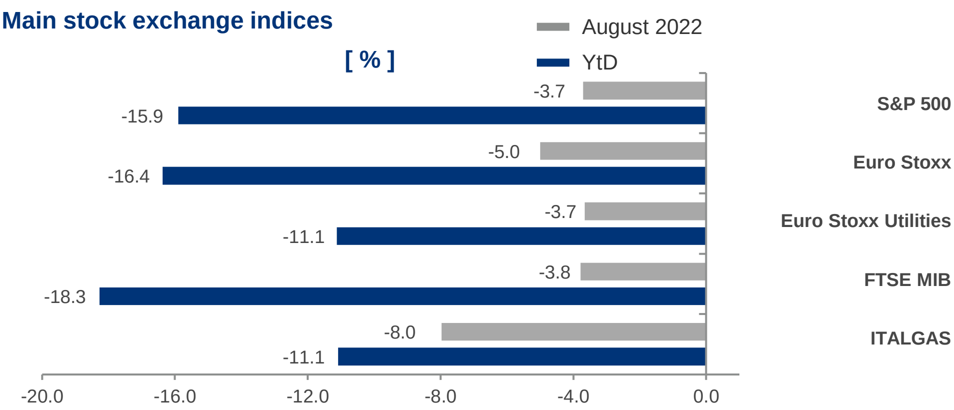
Financial Markets Review



Global equities declined with re-emerging expectations of accelerated monetary tightening; the eurozone CPI extended the all-time highs, fueled by the energy component. Core sovereign yields approached their mid-June multi-year highs

Financial Markets

Global equities moderately declined in August after the rally of July, essentially as a consequence of resurfacing expectations of accelerated monetary tightening due to the inflationary pressures generated by rising gas and electricity prices, confirmed by the new all-time high of the eurozone CPI and overall hawkish indications by the Fed Chairman at the Jackson Hole meeting. Despite the further decline in the EUR/USD rate, the Euro Stoxx continued to underperform the S&P 500 due to the higher recession risks in the eurozone associated with the dynamics of energy prices, as the TTF was trading at more than 7 times the equivalent US benchmark (Henry Hub). Moderate outperformance for the FTSE Mib (-4%) supported by the exposure to financials and ENI, which respectively benefited from the positive correlation to bond yields and the rally in gas prices. After the contraction in July, core sovereign yields resumed the upwards trend, reflecting the generalized increase in energy prices that has supported a growing consensus among ECB representatives on a 75 bps rate hike in the September meeting



Source: Italgas' elaborations on Bloomberg data

after the 50 bps operated in July. The bullish dynamic was also induced by Powell's indications at the Jackson Hole meeting, as the FED Chairman reduced the expectations of a rapid end of the monetary tightening. Supported by the real component, the German and US 10y yields rose by 72 bps (to 1.54%) and 54 bps (at 3.19%) respectively. The EUR/USD is down by 1.6% due to the aforementioned hawkish statements by the FED Chairman, mitigated by a growing consensus on a 75 bps rise also by the ECB. The EUR/GBP, on the other hand, rose by 3.1% as a function of the aforementioned upward pressures on the ECB, while despite a 50 bps increase in the reference rate, the BoE forecasted lower future hikes due to growing expectations of recession in the UK.

The oil market

Oil prices declined by 11% (96 USD/b), returning to levels prior to the start of the conflict in Ukraine essentially as a result of the possible Iranian nuclear agreement, which, although proceeding less quicky than expected, could still result in additional 1 mbd on the market. Worthwhile to be mentioned also a notable recovery in the Libyan production, which returned to 1.2 mbd vs 0.7 mbd in mid-July, and Bloomberg statistics on the consistent increase in combined exports by Saudi Arabia and the UAE, more than offsetting the production difficulties of the other OPEC+ members. The TTF rose by 18%, with prices supported by: 1) new maintenance of the only working turbine at the compression station of the Nord Stream; 2) exceptional drought in several European regions, which reduced the hydroelectric output and the availability (cooling) of the French nuclear reactors.

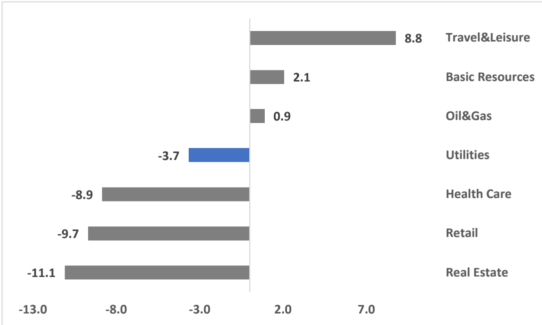
Performance by sector

The sector performance reflected the re-emerging tensions on bond yields; bond-proxy and defensive worst performers

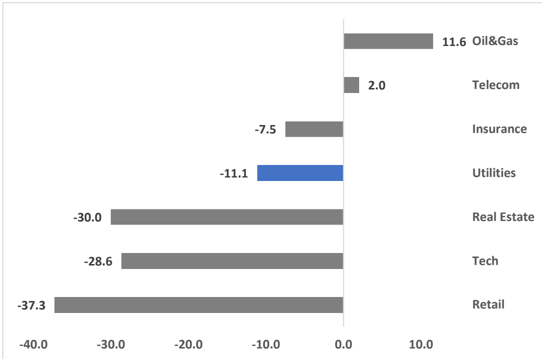
Consistently with the rise in core yields, bond-proxy and defensive were the most penalized sectors, with pharmaceuticals, retailers and real estate being the worst performers. On the opposite side, the travel&leisure sector (+9%) was supported by airlines due to the drop in oil prices (which returned to levels prevailing before the start of the conflict in Ukraine), which represents the main source of costs for the operators in the sector. The mining sector (+2%) followed, supported by higher-than-expected 2022FY earnings (reaching the historical highs) by the Australian group BHP, mainly driven by the all-time highs of coal prices reflecting the equivalent dynamics of gas quotes (the 2 sources are substitute for thermoelectric generation).

Sector performance; utilities e 3 main ups/downs

August 2022 [%]



YTD 2022 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities penalized by rising bond yields and expected revision of renewables remuneration

Utilities sector performance

The utilities sector declined by 4%, with the underlying weakness being mainly driven by the rise in bond yields, as evident in the dynamics of the regulated operators. Despite the new all-time high in electricity prices, integrated and renewable operators have not diverged significantly from the overall trend of the sector as they were penalized by growing expectations of: 1) decoupling (vs gas prices) of prices aimed at remunerating renewables and nuclear power; 2) increase in the tax levy on extra-profits. In the water and environmental sector, Veolia lost 9% after the UK Antitrust Authority (CMA) decided that the company will have to sell several assets to fix the market distortions induced by the takeover on Suez.

Utilities sector and subsectors

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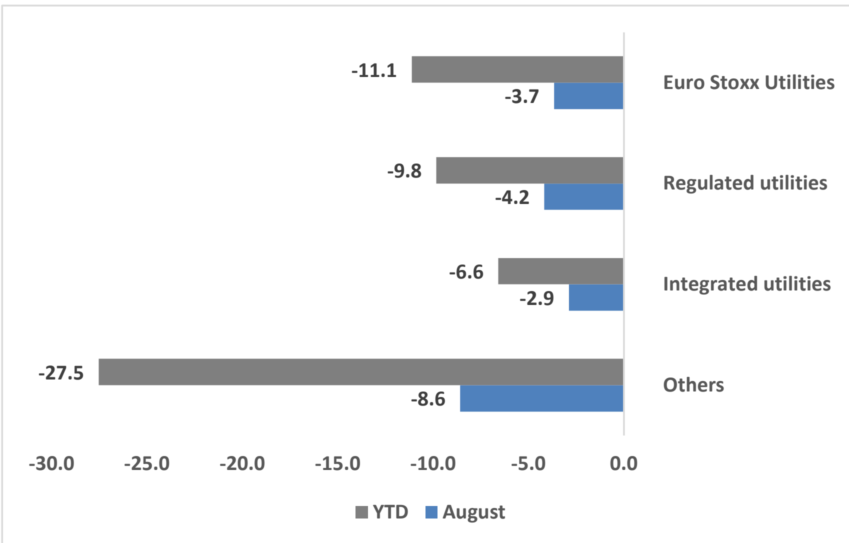
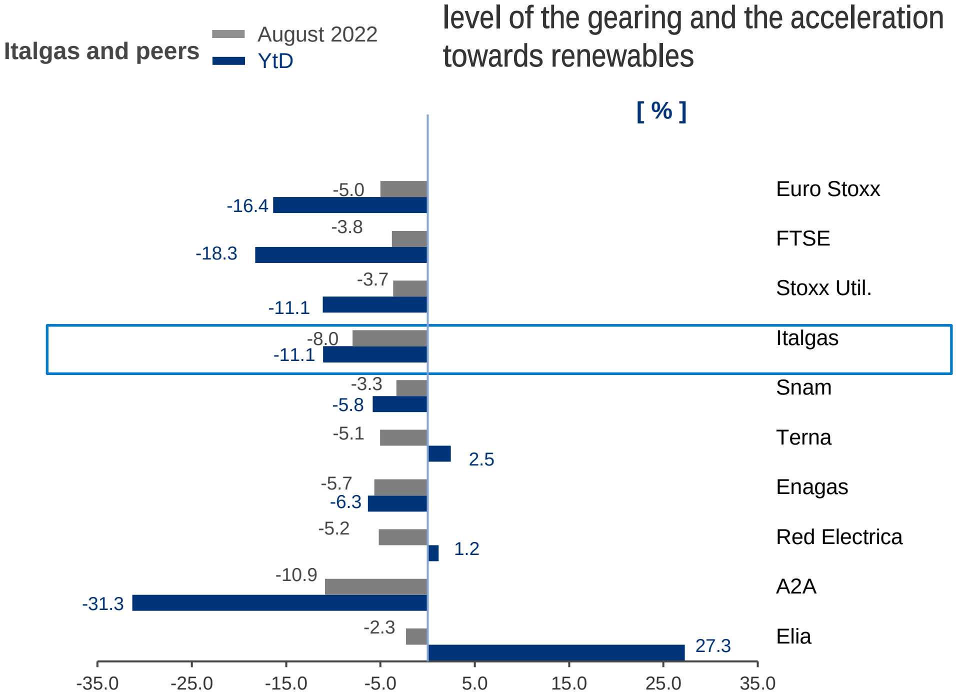


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Despite cheaper multiples, Italgas extended its underperformance vs regulated peers, probably reflecting the level of the gearing and the acceleration towards renewables

Italgas declined by 8% (to 5.159 euros), mainly affected, similarly to other regulated players, by the bond yields rise. Despite the considerably cheaper valuation in terms of multiples, the stock reiterated its overall underperformance (in place since the beginning of the year) compared to other operators in the sector, probably reflecting the higher level of gearing and the acceleration of the transition towards the renewables potentially induced by the gas price rally. A2A (-11%) was the panel's worst performer, reflecting also in this case the high gearing and the aforementioned expectations on decoupling vs gas prices of the remuneration for renewables.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

26 October	BoD on Q3/9M consolidated results
27 October	Press release & conference call

Links to Corporate News

Italgas Group strengthens its presence in Sardinia: 12 new municipalities acquired 03 august 2022

Moody's Investors Service (Moody's) affirms Italgas at 'Baa2', Outlook changed to Negative from Stable 09 august 2022

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