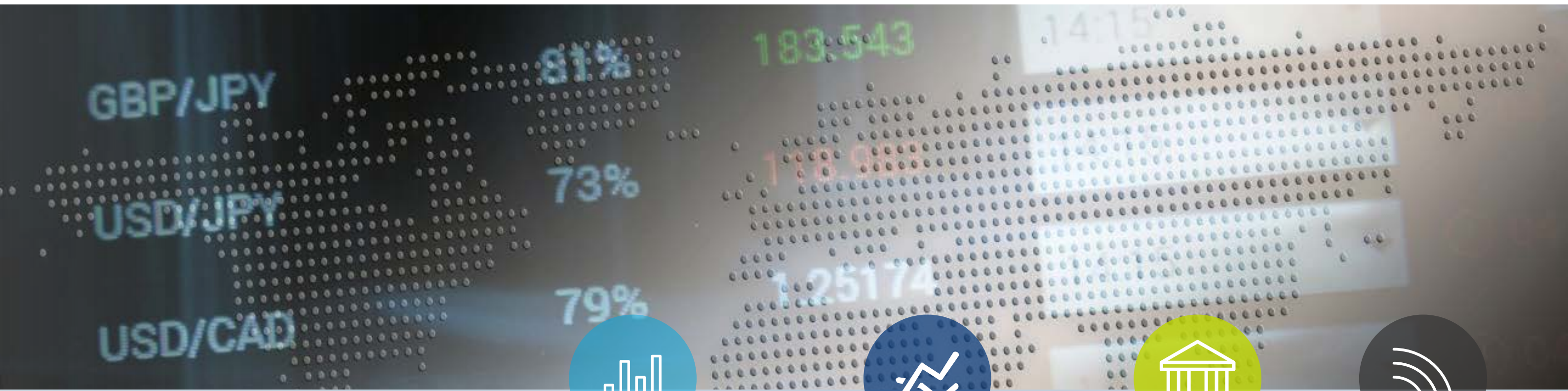
January 2023

Financial Markets Review

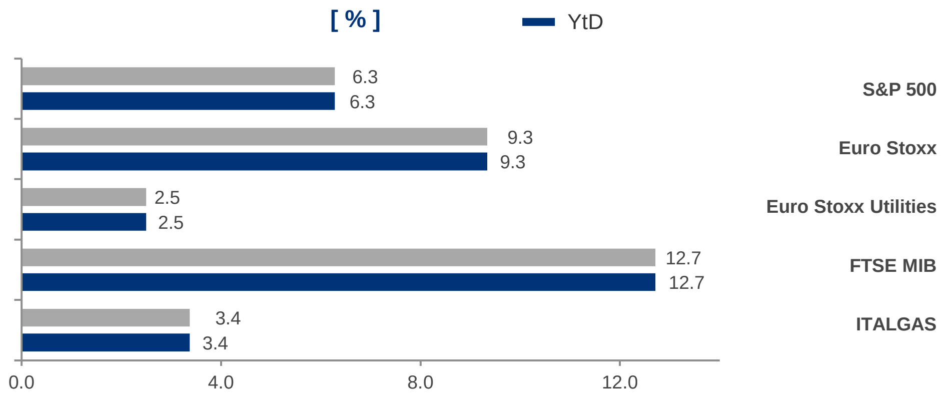


Eurozone equities update their highs from 02/2022 with inflation slowdown, macro data resilience and quarterly results. Extension of outperformance vs US stocks as commodity prices declined and Germany has opened to a Eurobonds funded plan for the development of green technologies. Core yields were down with mitigated expectations of monetary tightening

Financial Markets

EQUITY: Large rise for global equities induced by: 1) overall mitigation of monetary tightening expectations due to inflation slowdown triggered by further contraction in energy commodities price; 2) resilience of macro data despite the ongoing economic deceleration (GDP Q4 and US initial jobless claims) and corporate newsflow, particularly in the banking and technology sector, where results above expectations were recorded respectively by Unicredit and UBS, Nokia and STM. The Euro Stoxx advanced 9%, to its highest level since February 2022, with FTSE Mib significantly outperforming (+13%) due to its exposure to banks and STM vs +6% for the S&P 500. Adjusted for currency dynamics, the outperformance of the Eurozone benchmark compared to the US one is around 5 percentage points, widening the trend already underway since the end of last year, supported not only by the ongoing contraction in energy commodities price, as the Eurozone is much more exposed than the US to overseas supplies, but also thanks to Germany's openness to issuing Eurobonds to finance a plan aimed at developing the green technologies.

Main stock exchange indices



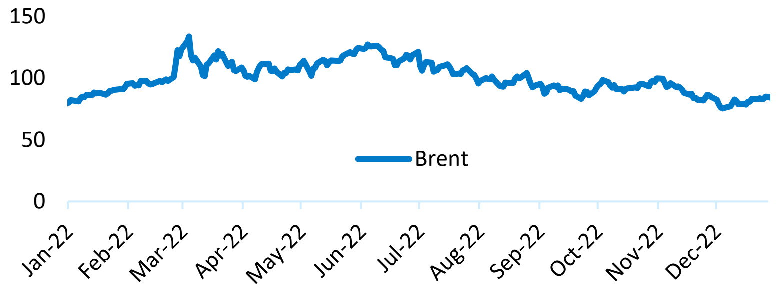
Source: Italgas' elaborations on Bloomberg data

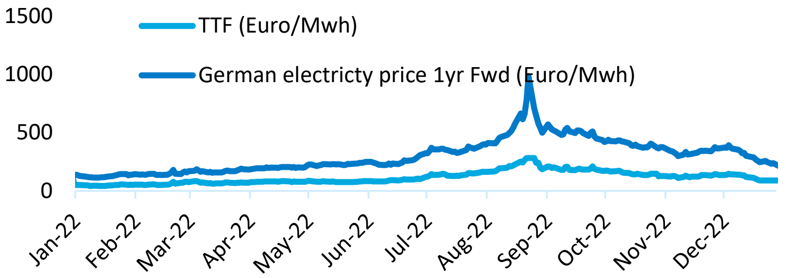
BONDS: Significant decline of sovereign core yields (Bund -32 bps to 2.28% when adjusted for the extension of the benchmark maturity from 08/2032 to 02/2033, UST -37 bps to 3.51%) following the mitigated expectations of monetary tightening induced by inflation slowdown. The Italian spread also contracted remarkably (-24 bps when adjusted for the aforementioned extension of the maturity of the Bund, to 187 bps) to reflect on the one hand the receding expectations of monetary tightening, and on the other one the Germany's openness to Eurobonds issuance to finance an EU program aimed at replicating the US incentive measures for renewable energy production.

CURRENCIES: The EUR/USD is up 1.5% (1.09) on the back of the aforementioned opening by Germany to the issuance of Eurobonds, which increases the level of cohesion in the EU. The EUR/GBP, on the other hand, was substantially stable (-0.4%, at 0.88) as the said effect was offset by the resilience of UK core inflation in December, which stood above estimates (+6.3% y/y vs +6.2% estimate) and overall unchanged compared to the peak since 1992 recorded in September (when it reached +6.5% y/y), as well as stronger than expected UK wage dynamics (+6.4% y/y in the last 3 months vs +6.2% estimate).

The oil&gas market

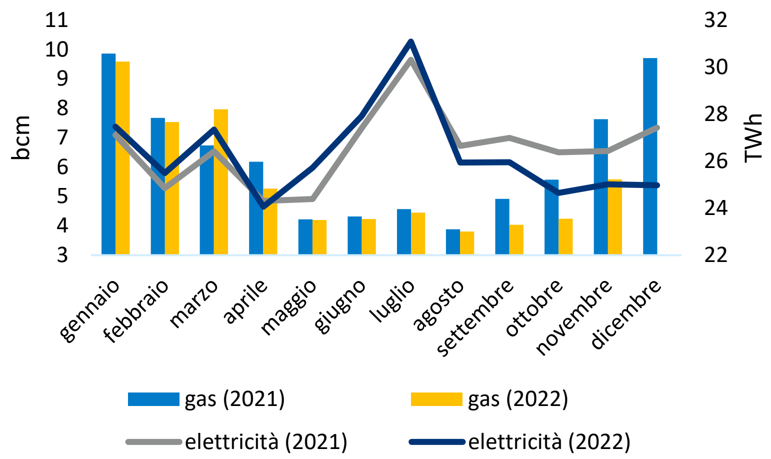
OIL MARKET: The oil price was overall stable (85 USD/b), at its low since January 2022, as the further downward pressure generated by the extension of gas price slump, implying lower demand of fuel oil for heating purpose, was compensated by the IEA (International Energy Agency) upward revision to 101.7 mbd of world demand (+0.1 mbd, to +1.8 mbd (+1.8% y/y)), an all-time high, as well as expectations of China consumption expansion due to the continuation of reopening policy, despite the increase in infections. According to a Bloomberg report, after the contraction in 2022, Chinese demand is expected to increase by 0.8 mbd this year (+5%) due to its reopening policy, with consumption at historical highs, estimated at 16 mbd.





GAS MARKET: Further drop of TTF price (-20%, to 59 EUR/MWh), to its low since September 2021 due to the level of European inventories (72% on average at the end of the month), which, also due to the high wind output in central-northern Europe (the peak available during the month in Germany alone was over 45 GW), and despite the drop in temperatures, remains about 20 percentage points above the average of the last 5 years, with storage level expected to be around 60% at the end of winter. In addition, the Freeport (Texas) liquefaction plant has applied to regulators for clearance to resume operations, with the first shipments of LNG expected in February and the return to normal operations in March.

Italy: gas and power demand



Key news energy sector January 2023

1. **OIL:** the IEA (International Energy Agency) has revised upwards by 0.1 mbd, to +1.8 mbd (+1.8% y/y), on record levels (or 101.7 mbd) the global oil demand for 2023
2. **OIL:** Chinese demand expected to grow by 5% y/y in 2023, at 16 mbd (historic high)
3. **GAS:** the liquefaction plant in Freeport (Texas, closed since June 2022) has asked to resume operations. First loads of LNG expected in February and return to normal operations in March
4. **ITALY:** 2022 electricity demand -1% y/y, with December at -9% due to seasonality
5. **SNAM:** 2022-26 business plan presented, with 10 bn euro of investments
6. **ENAGAS:** presentation of hydrogen prospects in Spain and related Spanish backbone: estimated 6 bn euro of investments (before any contributions) in the period 2026-2030 for the company
7. **ENAGAS:** agreement for the purchase of a further 4% in TAP for 168 mn euro, to be added to the 16% stake already held
8. **FLUXYS:** purchase of 24% of Open Grid Europe (12,000 km of grids in Germany). The disbursement was not disclosed

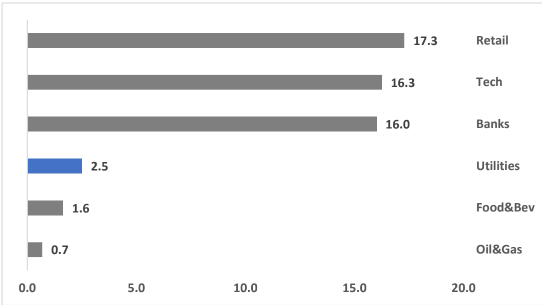
Performance by sector

Overall advantage for cyclicals vs defensive sectors on the opposite side given the strong risk-on sentiment. Techs and banks among best performers, supported by quarterly results

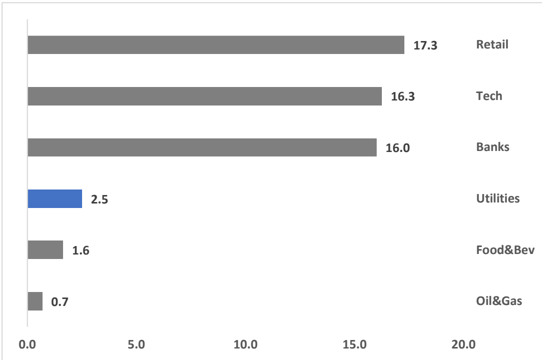
The sector dynamics reflected, on the one hand, the strong risk-on sentiment, with an overall advantage for cyclical sectors vs defensive ones, and, on the other hand, the quarterly results mentioned on page 1. Consequently, with an increase of 16%, techs and banks are among the best performers vs defensives (food and utilities between +2% and +3%) on the opposite side. Oil&gas is the worst performer due to extended decline of energy commodities price, as well as profit-taking after being the best performer in 2022. Conversely, despite the defensive profile, the retail sector (+17%) is the best performer, mitigating the significant drop recorded in 2022, when it was among the worst performers, with a recovery in particular of Zalando (+29%), the main operator in the sector, after the -53% reported in 2022, also supported by expectations of stabilization of commercial margins.

Sector performance; utilities e 3 main ups/downs

Jan. 2023 [%]



YTD 2023 [%]



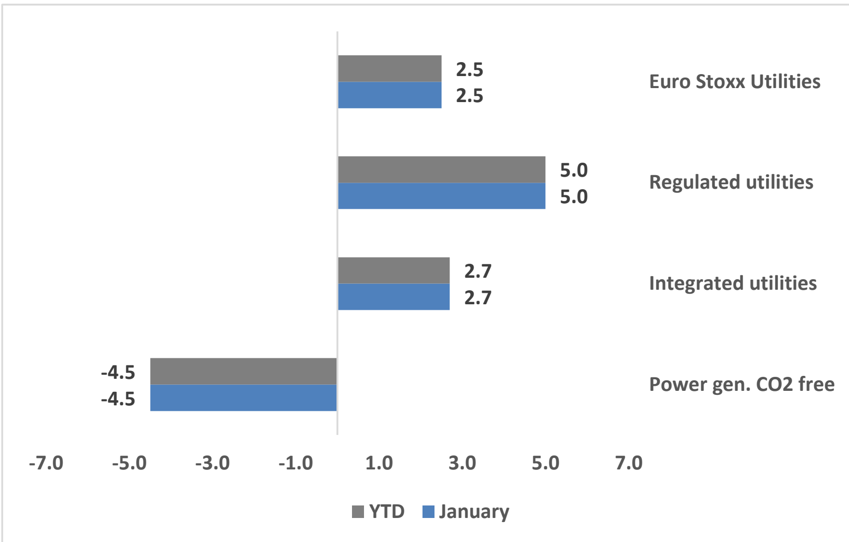
Source: Italgas' elaborations on Bloomberg data

Utilities (+3%) among worst performers due to their defensive profile in a risk-on context; renewables still penalized by the contraction in electricity prices

Utilities sector performance

The utilities sector was up by around 3%, resulting amongst the worst performers due to its defensive profile in a context characterized by a strong risk-on sentiment. The sector was impacted by the -3% of Engie following the downgrade to Sell by BofA due to higher provisions for nuclear power estimated in Belgium and the impact of the French price-cap system, and by the decline in generators more exposed to renewables, which, despite the support induced by Germany's openness to the aforementioned plan for the expansion of renewables and green technologies, have been affected by the noticeable drop in electricity prices. The regulated operators were best performers essentially due to the +7% of E.ON, which, being exposed to sales activity, benefited from the improved commercial margins induced by the drop in gas and electricity supply prices.

Utilities sector and subsectors **[%]**

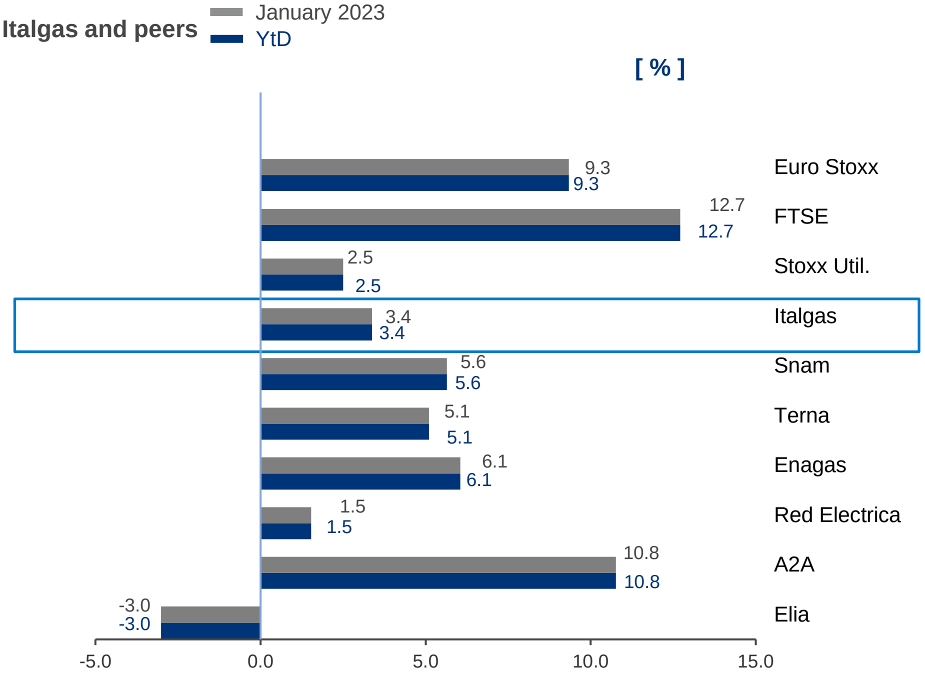


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Increase of roughly 3.5% for Italgas. The stock, overall in line with the average of the panel of Eurozone TSOs, underperformed the sector of regulated operators (+5% in the month) essentially due to E.ON (+7%), which due to its exposure to the sales activity, benefited from the expansion of trading margins induced by the rapid decline in wholesale gas and electricity prices. With an increase of 6%, Enagas is the best performer in the TSO panel, driven by the presentation of a 6 bn euro plan of potential investments (2026-30) for the construction of the Spanish infrastructure dedicated to the transport and storage of hydrogen, as well as the mitigation of the significant underperformance recorded in the previous year. On the opposite side, the Belgian TSO Elia is down 3%, likely on profit-taking after the large outperformance in 2022.

A roughly 3.5% increase for Italgas, overall in line with the average of the Eurozone TSOs



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

09 March BoD on 2022FY consolidated results and DPS proposal
Press Release and Conference Call

Links to Corporate News

Italgas: 2023 financial calendar 20 January 2023

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