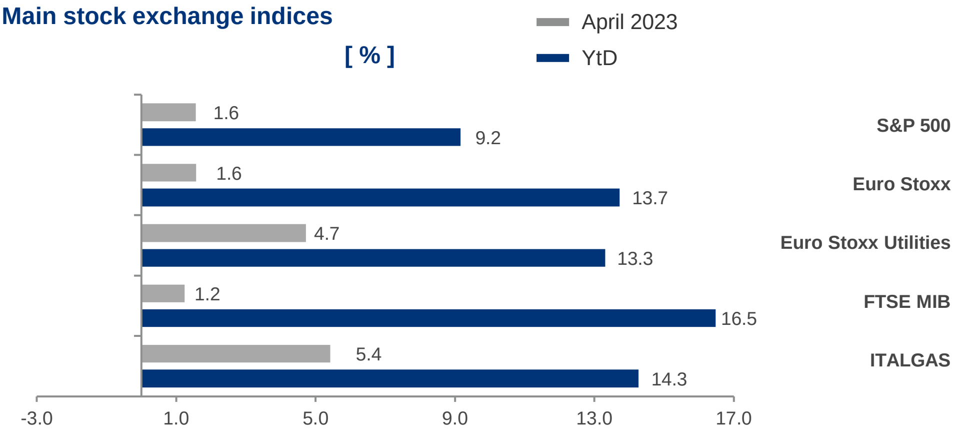
April 2023

Financial Markets Review

Mainly thanks to better-than-expected quarterly results, global equities continued the recovery posted at the end of March. The French index reached an all-time high, supported by luxury operators. Core sovereign yields were stable due to mixed macro data, typical in periods of economic slowdown

Financial Markets

EQUITY: After the strong performance at the end of March, which led to fully recover the losses of the month, global equities extended the upwards movement essentially due to better-than-expected quarterly results (with particular reference to LVMH and Hermes, among the main operators in Eurozone in terms of capitalization), despite mixed macro data (mainly the US and Eurozone Q1 GDP below expectations vs US industrial production and U. Michigan confidence index above expectations, and US unemployment rate close to its historical lows of last January). This is a typical event in phases, such as the current one, of economic deceleration following the marked monetary tightening which brought FED rates in the 4.75%-5% range, the highest since September 2007. The Euro Stoxx and the S&P 500 advanced by around 1.5%, but when adjusted for currencies the eurozone benchmark outperformed the US one by around 1.5%, as the latter was penalized by Tesla (-21%) due to Q1 results below expectations. Driven by LVMH and Hermes, the French index (CAC 40 +3%) was the best performer in Eurozone, the only one updating the historical highs.



Source: Italgas' elaborations on Bloomberg data

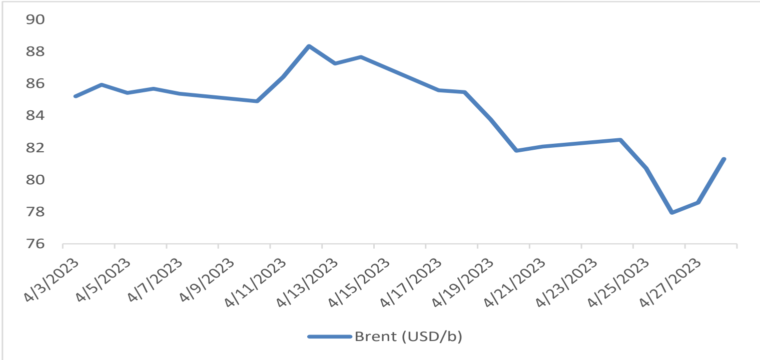
BONDS: The core yields were overall stable (Bund +2 bps at 2.31%, UST -5 bps at 3.42%) reflecting the discrepancy in the macro data mentioned above. The Italian spread was up 6 bps mainly due to the new issuance of green BTPs for a double size (10 bn euro) than expected. After 3 months of broad stability, some tensions could materialize in the medium term on peripheral debts reflecting the update of the stability pact mechanism by the EU Commission, which for highly indebted countries provides an annual budget adjustment of at least 0.5% of the GDP.

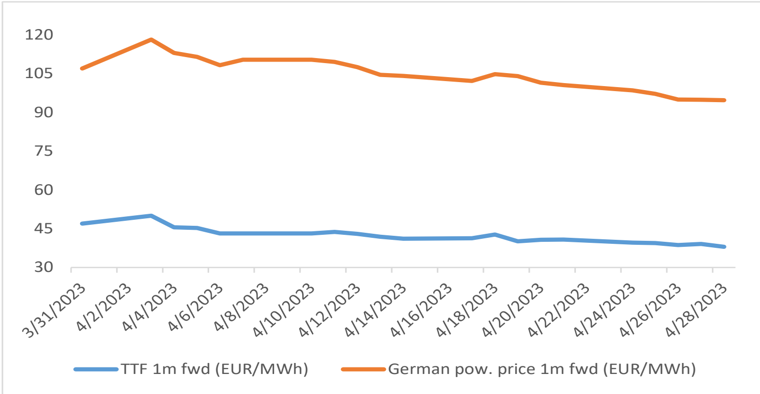
CURRENCIES: The EUR/USD was up 1.7%, reflecting: 1) extension of the risk-on phase; 2) expectations of an early end to the monetary tightening by the FED vs ECB, as the latter started later the monetary tightening process and is therefore behind the US authority (from March of last year the FED raised rates by 475 bps vs 350 bps by the ECB from July last year); 3) a larger deviation vs expectations in terms of GDP recorded by the US compared to the Eurozone. The EUR/GBP fell by 0.3%, due to the aforementioned Eurozone GDP softer than expected vs the UK CPI in March which instead came above the consensus.

The oil&gas market

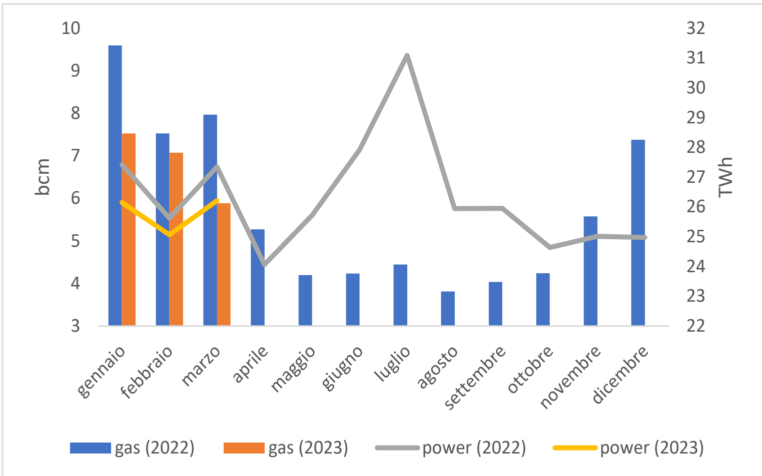
OIL MARKET: Oil prices rose by 2% (to 81 USD/b). After returning to their highs since November due to: 1) the unexpected decision by OPEC+ to cut production by around 1.2 mbd starting from May until the end of the year; 2) Chinese imports returning above 12 mbd in March, the highest since June 2020; 3) a roughly 10 mboe drop in US crude inventories in the month, they gave up most of the gains due to the notable recovery of Russian crude oil exports by sea (despite the country's commitment to reduce the output of 0.5 mbd until the end of the year), close to the highest level since the start of the conflict in Ukraine.

GAS MARKET: Extension of the downwards path for TTF prices (-19% to 38 EUR/MWh), back to their lowest levels since July 2021. The reduction of the Norwegian output as a result of the scheduled maintenance cycle at the Troll field was offset by the strong rise in LNG imports in Europe as French terminals restarted operations after being affected by strikes against the pension reform, and by the end of the thermal season with the consequent start of the storage refilling. The average level of European inventories rose to 60% at the end of April from 56% at the end of March, 20 percentage points above the average level of the last 5 years for this period of the year.





Italy: gas and power demand



Key news energy sector April 2023

1. **OIL:** The OPEC+ approved a production cut of around 1.2 mbd from May until the end of the year. This cut adds to the extension throughout 2023 of the 0.5 mbd output reduction that Russia had decided to apply for the months from March to June in response to the embargo on its oil products applied by the G7 countries. Overall, starting from July, the theoretical cut amounts to approximately 1.7 mbd, or 1.7% of the average daily oil demand expected globally for the current year. However, it should be noted that the actual cut could be lower than the theoretical one, as some countries, including Nigeria and Angola, are already producing below their quotas (nearly 1 mbd in total according to the IEA's Oil Market Report of March (with data referred to February))
2. **COAL:** imports recovery from China and India, that in March reached their highest levels since January 2017 and August 2022 respectively
3. **GAS:** strong rise of LNG imports in Europe (cumulative level of UK, Germany, the Netherlands, Belgium and France following restart of operations of the terminals in the latter country, previously affected by strikes against the pension reform), back in the month to 341 mcm/d, close to the historical highs of 356 mcm/d recorded at the end of February
4. **POWER DEMAND IN ITALY:** -5% y/y in March, with net production -9% and net imports +22%
5. **GAS DEMAND IN ITALY:** -26% y/y in March, with net imports -12%, national production -7% and inventory changes -79%

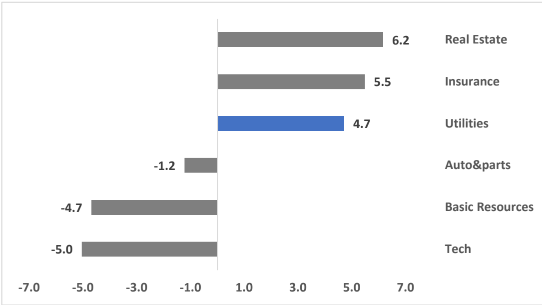
Performance by sector

In a context characterized by stable bond yields and limited increase in stock prices, the performance of the sectors reflected specific topics, not a common underlying trend

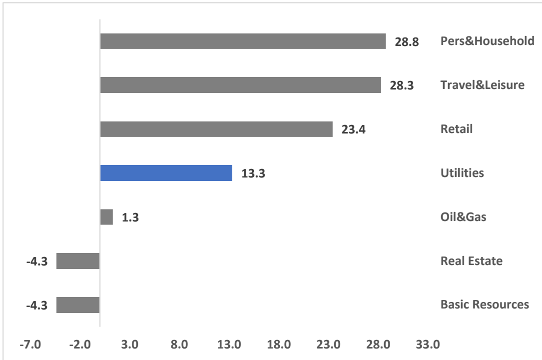
Due to the limited increase in stock prices in a context characterized by substantially stable bond yields, the performance of the sectors mainly reflected specific topics, not a common underlying trend. The real estate is the best performer with a physiological recovery after the weakness recorded from the beginning of the year, namely in March, when due to fears of credit crunch it was the worst performer. The sector was also supported by the sale by the German operator Vonovia (+13%) to the US investment fund Apollo of assets for a 1 bn euro value, sale which brought interest back to the sector. Techs are on the opposite side due to results from Tesla and Samsung below expectations, and -21% at STM after the company guided for a possible downwards pressure on chip prices in the second half of the year despite better than expected Q1 results.

Sector performance; utilities e 3 main ups/downs

April 2023 [%]



YTD 2023 [%]



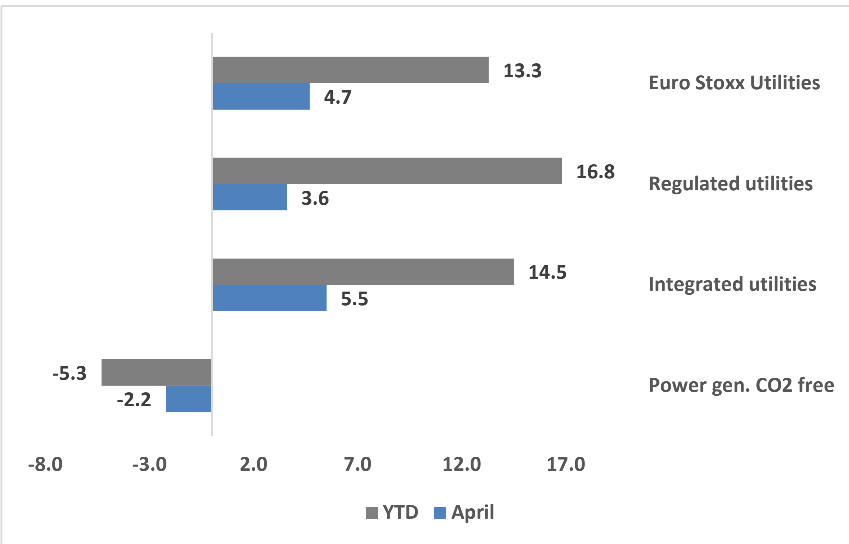
Source: Italgas' elaborations on Bloomberg data

The utilities sector (+5%) outperformed the general index with quarterly results at Enel and Engie

Utilities sector performance

The utilities sector rose around 5%, significantly outperforming the market. In a context characterized by broadly stable bond yields, the trend was essentially supported by Enel and Engie (+10% and +9%, respectively the 2nd and the 3rd operator within the sector index) based on better than expected Q1 results (preliminary for Engie), and by the mitigation of the valuation gap highlighted by the two companies in terms of multiples vs the sector average. With a 2% drop, the operators most exposed to renewables confirmed their underperformance due to a further decline in electricity prices induced by the continued reduction of energy commodities.

Utilities sector and subsectors **[%]**

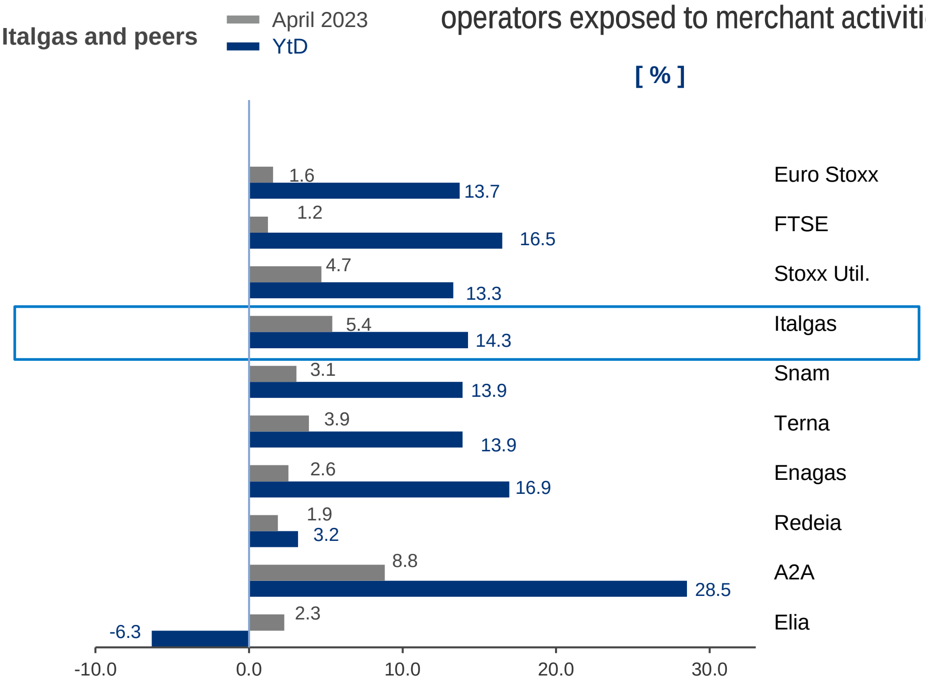


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Italgas (+5.4%) mitigated the discount on multiples vs peers. A2A was the best performer, supported by the general recovery of commercial margins for operators exposed to merchant activities

Italgas was up 5.4% (at 5.93 euro), outperforming the average of the peers in the panel by almost 2 pp, and the average of regulated stocks by almost 3 pp. The dynamics was mainly induced by the mitigation of the discount at which the stock trades compared to other operators, in particular vs the TSOs. At the end of April Italgas was the 3rd best performer YTD within the panel (2nd, behind Enagas, with exclusive reference to the regulated peers). A2A was the absolute best performer in the panel, reflecting an overall outperformance of the operators exposed to merchant activities, based on the improvement in commercial margins induced by the renegotiation of gas and electricity sales contracts during the second half of 2022 compared to the reduction of the respective procurement costs recorded YTD.



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

04 May Quarterly report as at 31 March 2023
Press Release and conference call

Links to Corporate News

Italgas: Shareholders' Meeting approves 2022 Financial Statements and dividend proposal 20 April 2023

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