

Italian Equity Strategy Monthly

Jubilee Year in Italy: Reasons to be Cheerful... and to Worry

by Intermonte Research Team

Italian Equity Market

■ **Market outlook.** 2024 turned out to be another good year for equities. The slower-than-expected downward trend in interest rates was a boon for banks, with the M&A frenzy towards year-end adding some additional spice to the sector. AM stocks and insurers also performed well, with a modest positive trend for utilities. At the other end of the scale, industrials, consumers and mid/small caps were the losers, on the back of steep earnings declines.

■ **Investment strategy.** The new year is as uncertain and unpredictable as ever. The combination of pertinent themes for the coming year makes drafting medium-term strategies a tricky proposition. In our view, the main elements to monitor in 2025 are:

Positives themes: the ongoing conflicts in the Middle East and Ukraine could come to an end in 1H25, offering support for various sectors; China's recovery should gain momentum, lifting the mood on luxury and other exposed sectors; US is showing strong economic growth and earnings momentum is set to remain solid; Europe is widely expected to continue to underperform, so improvements to the current political and industrial decline could spring a positive surprise while ECB monetary policy should remain supportive.

Risks: inflation is still a concern in the US, limiting room for interest rate cuts; excessive expectations on AI could lead to disappointment if they fail to translate rapidly into real earnings gains; the future evolution of current trade tensions between the US and China remains unpredictable.

■ **Corporate newsflow.** Earnings momentum for Italian stocks is expected to remain quite poor in early 2025 while we are expecting earnings to increase mildly YoY in 2025. The key items to watch are the turning point in earnings in cyclical sectors, which we generally expect in 2H25, and financial sector earnings trends, which mostly depend on interest rates and asset quality developments.

■ **Portfolio selection:** for the beginning of 2025 we confirm most of the stocks in our selected list. Our selection therefore falls on some stocks that can benefit from company-specific situations in the financial sector, while we maintain favourable positions on utilities thanks in part to declining Eurozone interest rate trends, and on mid/small cap stocks that enjoy high visibility.

Our model portfolio was little changed in December and its overall performance was broadly in line with the market, allowing it to close the year with an outperformance of almost 300bp over the benchmark.

Our list of preferred stocks to over/underweight is detailed on page 4 of this report

Large caps to overweight: we are adding Buzzi following the stock's re-admission to the FTSEMIB and recent weakness. Buzzi is expected to benefit from US exposure and a good pricing environment for cement in its key regions. We are removing DiaSorin on a lack of newsflow momentum and uncertainties in the US linked to the new administration.

Mid/small caps to overweight: we are adding Lottomatica following the recent initiation of coverage. We are removing Fila after it recently completed the placement of part its Indian subsidiary.

Stocks to underweight: we are removing Prysmian after recent weakness and on potential positive newsflow from the CMD in March, and also Amplifon after the poor stock performance and the absence of expectations for further bad news.

Italian Equity Market - Asset Allocation by Sector

Positive	Neutral	Negative
UTILITIES	BANKS	INDUSTRIALS
ASSET MANAGEMENT	ENERGY	CONSUMERS
MEDIA	TELECOM	
	INSURANCE	

Source: Intermonte SIM

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GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	50.70 %
OUTPERFORM:	29.58 %
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