Italian Mid/Small Caps Monthly

Mid/Small Caps May Be Less Exposed to Euro Political Risk

by Intermonte Research Team

Italian Equity Market

- **Performance (+).** The Italian equity market (prices as at 14 June 2024) has posted a negative 6.8% performance in the last month, but it remains up 7.2% YtD. The FTSE Italy Mid-Cap index (-3.8%) has outperformed the main index by 3.0% in the last month (-3.1% YtD on a relative basis), with the FTSE Italy Small Caps index (-4.7%) performing 2.1% above the market, but still -7.1% on a relative basis since the beginning of 2024. Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has declined 2.4% in the last month, performing better than Italian mid small caps.
- **Estimates (=).** Since the beginning of 2024, we have implemented a -2.2%/-1.8% revision to our 2024/2025 EPS estimates; on the other hand, focusing on our mid/small cap coverage, we have reduced our 2024/2025 EPS by -1.3%/-2.1%. Notably, in the last month the large cap estimate revision has been slightly positive (+0.1%/+0.4% on 2024/25 EPS); the same metrics remained unchanged for our mid cap coverage, while they were similarly positive for our small cap coverage (+0.4%/+0.6%).
- **Valuations (=).** If we compare performance YtD to the change in FY24 estimates over the same period, we see that FTSE MIB stocks have recorded a 9.9% re-rating YtD (the same metric was +19.2% one month ago); mid-caps have re-rated by 4.1%, while small caps have re-rated by 18.9%. On a P/E basis, our panel is trading at a 29% premium to large caps, above the historical average premium (17%) and slightly above the level one month ago (26%).
- **Liquidity (+).** Looking at official Italian index trends, we note that liquidity for large caps in the last month (measured by multiplying average volumes by average prices in a specific period) is 33.6% higher than in the corresponding period one year ago and is up 20.7% YtD. The picture is similar for mid/small caps: specifically, YtD liquidity is up 20.6% YoY for mid-caps and 15.6% for small caps. Notably, liquidity has remained fairly positive in the last month, thanks in part to an easy comparison.
- **Investment strategy.** In recent days, the market has undergone a major correction following the result of the European parliamentary election, losing more than 5%. In particular, the French President's decision to call snap elections on June 30th has triggered an important risk-off. In this context, mid/small caps did better than large ones, being perceived as less directly exposed to political risk. In particular, we prefer stocks with low leverage, good cash generation and exposure to solid international trends. Once again, we think the subgroup of "digital enablers" can benefit from rather resilient prospects. The liquidity picture remains challenging for mid/small caps but with some signs of improvement compared to recent bleak trends. Moreover, the Italian government is working on a state-backed investment fund (through CDP) that could revive interest in the battered liquidity picture of listed mid/small caps. We think the fact that a new mid-cap is expected to list on the main market this week is an encouraging sign.
- **Changes to our recommended portfolio**. After our mid-cap portfolio posted a brilliant performance last month, we are removing Intercos, taking profit from its very positive recent performance in light of more limited short-term upside. On the other hand, we are adding Buzzi at an attractive valuation based on fairly visible consensus forecasts. Among small caps, we are removing Antares Vision, taking a breather after a very strong recent performance, while adding WIIT in light of reassuring hints on current trading and share issue risk after dropping the offer for Redcentric. **Our top calls for the current month are** Buzzi, De' Longhi, and Sesa among mid-caps and Fila, Emak and Unidata among small caps.

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- 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)

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Frequency of research: quarterly.
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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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