

Equity Focus

3Q24 Shopping List: Earnings Divergence

by Intermonte Research Team

Italian Equity Market

■ **Market performance and macroeconomic backdrop in 3Q24.** Another quite interesting quarter, with markets on a rollercoaster in early September to then return to positive trends on the back of expectations of lower inflationary pressure. FTSEMIB posted a positive performance overall in 3Q, closing above 34k, driven by the positive performances of financial stocks but also the utilities sector. Equity markets were positive globally, with S&P and Nasdaq at all-time highs.

■ **Market earnings direction and market multiples.** We are expecting overall revenues for the panel of companies we cover to show the following macro trends: aggregated revenues expected up 1.6% and up 8% QoQ, but margins seemingly shrinking with operating profits expected down 2% YoY and 7% QoQ. At the same time, our aggregate 3Q24 estimates show profits down 7% YoY and 9% QoQ. Looking at sectors is quite interesting in these divergent times: banks are forecast to deliver another strong set of results, with total income +2% YoY and adj. net profit +5% YoY. Similar trends are foreseen for AM (total income and adj. net profit seen +11/+10% YoY respectively). The opposite is true for energy (adj. net profit -34% YoY), industrials and consumer stocks, with wildly varying trends on a stock-by-stock basis. For utilities, we expect the predominant theme to be resilience, with results almost in line with last year in terms of adj. net profit.

In 2024 we expect a 10.9% YoY decline in overall profit for our coverage panel, with a 4.4% increase forecast for 2025. This reflects a continuing strong contribution to earnings by banks: excluding banks the 2024 earnings decline would be 18% YoY. The Italian market is currently trading at a 12-month forward P/E of 10.3x, catching up from below 10x in previous months but still below the 10Y average of 12.6x.

■ **Our expectations for 2Q24 results and selected list.** Another quite interesting quarter: there is expected to be a wide spread in the earnings direction of market participants. We think we have seen the end of the massive post-Covid revenue resurgence and earnings momentum in cyclical sectors, while interest rates are declining at a slower pace compared to early expectations. This is an environment that is still favourable for financial stocks, which can count on support from market yields and no tangible deterioration in asset quality for the time being. Recent guidance and business plans point to resilient earnings trends for banks to continue to leave scope for positive expectations on short-term results and capital management (dividends + buybacks). On the other side of the coin, we see stocks exposed to the economic cycle as the most at risk of earnings disappointments. These trends depend on many factors, however, and are not hitting all companies equally. Various large & mid-cap industrial and consumer stocks are expected to continue to thrive despite the challenging macro environment.

In this context, we think there is some complacency considering that companies are facing headwinds that could hamper revenues and margins, at least temporarily. The coming weeks are also likely to be influenced by macro factors and the outcome of the upcoming US Presidential election. In any case, we think this market offers opportunities to pick stocks with solid fundamentals, and intra-sector pair trades are a possible way to play these divergent trends. Some stocks will also announce interim dividends, with yields providing healthy support in a phase of declining interest rates. Below we list our best bets on results, featuring companies we expect to show positive earnings momentum and potential increases in consensus expectations. On the other hand, our least preferred names are mostly those expected to suffer from poor operating performance that could drive estimates downwards.

Our stock selection, detailed on page 2 of this report, is based on our expectations for 3Q24 results and the expected outlook for the current year compared with consensus.

Our main LONG on large stocks: **Banca Mediolanum, BMPS, ENEL, Diasorin, Mediobanca, Pirelli**

Our main LONG on mid/small stocks: **Anima, De' Longhi, Fincantieri, Intercos, MFE, TXT**

Our main SHORT: **Amplifon, Brembo, ENI, ERG, Fineco, Inwit, Marr, Moncler, Piaggio, Stellantis**

3Q24 reporting season is starting off in Italy in the coming days and will run until mid-November, with a heavy concentration of results in the week of 4-8 November.

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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&P500 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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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

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OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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