Italian Equity Strategy Monthly

Liquidity under the Spotlight after Mixed 1H Reporting

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** Global equities posted a good month, despite a very turbulent start to the month, on renewed hopes that an economic soft landing would materialize, with inflation pressure retrenching and CBs close to reducing interest rates and boosting liquidity. The FTSEMIB posted a ~2% positive performance, lagging other markets but still among the best performing YtD at +13%. The main index is continuing to outperform the others, with the STAR still in negative territory YtD, albeit with some signs of improving interest, also thanks to the possible cut in interest rates.
- **Investment strategy.** The months ahead are pivotal for a return of liquidity as a main factor for investors. There is a lot happening on the macro front that suggests it might offset some lacklustre expectations from earnings. The ECB on 12 September and the Fed on 17/18 September are now largely expected to cut interest rates and to provide more indications for the next steps.

  Looking ahead, we remain constructive on equities during 2H in view of the good support expected from liquidity in the fourth quarter. In September, there could be further temporary turbulence related to the liquidity drain corresponding to the US tax deadline of 16 September and any data indicating a quickening of the US slowdown. In particular, the data on the labour market due out on 6 September should be monitored: these figures could increase the expectation of Fed cuts and bring forth a second wave of the closure of carry trades that hit markets at the beginning of August.
- **Corporate.** 2Q reporting translated into a mixed set of indications. Following some adjustments to our expectations, we are now forecasting a 10% decrease in 2024 EPS, mostly due to energy and industrials. Last month, estimates were slightly increased on the back of higher expectations for financials and the trimming of estimates, with some exceptions, for industrials and energy stocks. The Italian market trades at ~10x PE FY24.
- **Portfolio selection**: Our portfolio reported a slightly positive relative performance last month, taking the outperformance YtD to ~250bps. The positive relative performance at the beginning of the month was offset by the return of some poor performances by cyclical stocks, which are underweight in our model portfolio for the time being.

  Our list of favourite overweight and underweight stock picks for September are detailed on page 4 of the report.

  Large caps to overweight: we add Campari following the poor stock performance, and BMPS, which we still believe is largely undervalued, in place of Mediobanca and Unipol, which, after the recent performance, offers more limited upside. We also bring in Diasorin to replace Recordati, while confirming a positive bias for the healthcare sector which has benefitted in the past from an improving liquidity outlook. Among financials, we also confirm BMED, while we remain overweight on utilities like A2A and Enel, and Saipem and Eni in the energy space.

  Mid/small caps to overweight: we are not making changes this month as we think our selection remains valid for the months ahead. 2H24 outlook should be favourable for mid-small caps. In this context, we confirm our preference for stocks with good cash generation and exposure to solid international trends. Once again, we think the subgroup of "digital enablers" like Reply, Sesa and TXT could benefit from rather resilient prospects. Datalogic performed well in August as it seems the bottom of the cycle is now behind it, but we believe there is still upside here. We also confirm De' Longhi among consumers.

  Stocks to underweight: no changes to our selection. We keep a conservative view on some stocks that we think are more vulnerable in a selective sectorial scenario.

Italian Equity Market - Asset Allocation by Sector

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

Source: Intermonte SIM

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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&PMIB40 Index, most of those on the MIDEX 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.

Explanation of our ratings system:

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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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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