

Italian Equity Strategy Monthly

Liquidity Boosters vs Profit Warnings

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** Global equities were slightly down for the month despite the booster from the FED's aggressive rate cut and China's massive liquidity actions. Financial markets cheered the cut in interest rates by the FED and ECB and the comprehensive liquidity actions implemented by China to boost confidence but at the same time many profit warnings in cyclical sectors hit the market. Market movers involved stocks exposed to China but also to company-specific relevant newsflow as was the case of Moncler (LVMH entering capital), Stellantis (massive profit warning), Tenaris (CMD) and UniCredit (stake building in Commerbank).
- **Investment strategy.** Liquidity has been a booster lately and the weak oil prices look to support a moderation of inflation, leaving room for further declines in interest rates. This month, investors will focus on implications from the upcoming US presidential elections as well as the evolution of the conflicts in Ukraine and Middle East. We still believe liquidity represents a support for markets. However, earnings momentum is weak, especially for cyclical stocks, with cuts to estimates expected for sectors like autos, energy and some consumers, meaning that it is still preferable to focus on high visibility sectors and stocks that may benefit from declining interest rates.
- **Corporate newsflow.** There were many price-sensitive events in September. The auto sector was particularly hard hit, in part by a storm of profit warnings but corporate action was also quite interesting. In luxury, LVMH entered Moncler capital, confirming the appeal of strongly positioned brands. In the financial sector, the move on Commerzbank by UniCredit represents an attempt to accelerate the creation of pan-European financial institutions. We think the outcome of this potential integration could be pivotal for accelerating the consolidation process, with various potential deals on the table. Despite the process likely taking time, we are convinced that more deals are to be expected, with the main barrier being the unsupportive political landscape.
- **Portfolio selection:** Our portfolio suffered a recovery linked to China measures but reported a slightly positive relative performance last month, taking the outperformance YtD close to ~300bps. Our list of favourite overweight and underweight stock picks is detailed on page 4 of the report.
 - Large caps to overweight: we add Leonardo following a weakish stock performance and supportive environment while we remove Eni given the deteriorating earnings outlook. We remain overweight on utilities like A2A and Enel, and Saipem in the energy space. We stay selective on luxury and consumers, with our preference list including Cucinelli, Diasorin and Campari.
 - Mid/small caps to overweight: the positive correlation of mid/small cap performances to market yields should represent good support. We confirm our preference for stocks with good cash generation and exposure to solid international trends. This month, we add Intercos, which we believe enjoys strong momentum, replacing De' Longhi. 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.
 - 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	ENERGY	INDUSTRIALS
MEDIA	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&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;

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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OUTPERFORM:	51.02 %
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Emittente	%	Long/Short
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