

Italian Equity Strategy Monthly

Macro & Mixed Earnings Momentum to Drive Markets

by Intermonte Research Team

Italian Equity Market

- **Market outlook.** April was a volatile month for equities, ending with a slightly negative market performance at ~-2%/-3% for most indexes. The small caps index outperformed large caps, marking a modest reversal of the very negative relative performance of the last 12-24 months. The best performing stocks were banks and some utilities, while the worst performing were industrials and some energy names.
- **Investment strategy.** Focus remains largely on interest rate trajectory, with prospects for central bank cuts receding further following stronger-than-expected growth and inflation momentum in the US and some European countries. The geopolitical outlook remains uncertain, but recent developments have reduced the risk of the situation spiralling out of control, although uncertainty is still high. The FED announced the start of a higher-than-expected liquidity injection, with monthly reinvestments lifted to \$35bn to prevent liquidity risks for regional banks, and avoided reference to a scenario of raising interest rates (hawkish pivot): markets should react favourably to these indications. ECB interest rate decisions are expected to continue to be driven by macroeconomic data, with indications from Germany and France cooling expectations for an inversion on rates as early as the June meeting. There are signs of improvement in the situation in the Middle-East, but uncertainty on the final outcome of the conflict remains high. Russia's decision to seize the assets of some Western companies is exacerbating uncertainty for those with operations in the country. So far, the US earnings season has provided some disappointments for large tech groups; overall it has been a mixed bag to date.
- **Corporate:** the 1Q24 reporting season has been patchy so far, with the number of European companies reporting results intensifying in the coming days. EPS revisions last month were driven by negative revisions for some industrials (semis, autos) being partially offset by positive revisions for energy, utilities, asset management and some capital goods names. Overall, EPS was revised downwards last month (-3.8%, YTD - 2.9%). At this stage, and ahead of full rollout of 1Q results, 2024 earnings momentum points to an EPS decline of almost 6%, while a slight increase is expected in 2025 (+3.2%). On our estimates, the Italian market is trading at 9.9x/9.6x 2024/2025 earnings. There was a further push towards delisting announcements in April, a sign some valuations on mid-caps look appealing for insiders or other investors, while some placements are expected, mostly involving stakes in companies owned by the Italian Treasury (Poste, ENI, BMPS). A flurry of dividends is on the way, providing some backing for the overall liquidity picture.
- **Portfolio selection:** Interest rate trajectory clearly remains a key focus for investors in the current environment, but we think that with the approaching rate reduction in Europe some of the most penalised value sectors like utilities offer a decent proposition, although in the short term, banking is expected to remain the best positioned sector for earnings momentum in 1Q24. We also reshuffled our preferences within the energy sector, upgrading ENI and downgrading Tenaris and Maire.

Below is our stock selection for May:

Large caps to overweight: we add ENI and A2A, both upgraded and having issued solid guidance. We remove Saipem after a very good performance.

Mid/small caps to overweight: we add Anima and Banca Generali as we expect good 1Q24 results, RAI Way for speculative appeal on a possible merge with EI Towers and TXT. We remove Salcef following the recent VTO on the stock, and Fine Foods.

Stocks to Underweight: we add Tenaris following our recent downgrade, while removing ENI, A2A and Recordati, which we upgraded to OUTPERFORM.

Italian Equity Market - Asset Allocation by Sector

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

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.

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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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NEUTRAL:	10.20 %
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Emittente	%	Long/Short
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