Intermonte

Milan, 20 May 2024

Italian Equity Research – Strategy Report

Italian Mid/Small Caps Monthly

Quarterly Results Prove Selectivity Matters

by Intermonte Research Team

Italian Equity Market

- **Performance (+/-).** The Italian equity market (prices as at 16 May 2024) has posted a positive 5.9% performance in the last month and is up 15.9% YtD. The FTSE Italy Mid-Cap index (+4.5%) has underperformed the main index by 1.4% in the last month (-7.2% YtD on a relative basis), with the FTSE Italy Small Caps index (+6.3%) performing 0.4% above the market, but still -11.7% on a relative basis since the beginning of 2024. Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has grown 7.1% in the last month, performing better than Italian mid small caps.
- **Estimates (=).** Since the beginning of 2024, we have implemented a -2.4%/-2.33% 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 -0.9%/-1.7%. Notably, the large cap estimate revision has been entirely implemented in the last month (-3.9%/-2.5% on 2024/25 EPS, mainly for downgrades on Stellantis, Tenaris and STM); the same metrics remained almost unchanged for our mid cap coverage (+0.3%/+0.0%), while it was similarly negative for our small cap coverage (-4.1%/-4.8%).
- **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 19.2% re-rating YtD (the same metric was +10.0% one month ago); mid-caps have re-rated by 8.7%, while small caps have re-rated by 18.1%. On a P/E basis, our panel is trading at a 26% premium to large caps, above the historical average premium (17%) but slightly below the level one month ago (27%).
- **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 36.7% higher than in the corresponding period one year ago and is up 18.7% from a YtD perspective. The picture is similar for mid/small caps: specifically, YtD liquidity is up 12.9% YoY for mid-caps and 15.0% for small caps. Notably, liquidity has particularly improved in the last month, thanks in part to an easy comparison.
- **Investment strategy.** In a very favourable month for the markets, newsflow from quarterly results, as we imagined, was a particularly significant catalyst in driving very different stock performances between winners and losers. Overall, the companies that reported good results still look at the coming months with a certain caution and the consensus estimates only rose in rare cases, otherwise the positive stock performances reflected the fact that the market expected worse scenarios, as in the case of technology stocks. From a flow point of view, between the cash-in of dividends and de-listings, fund managers seem to be looking for new stories, with a more constructive approach compared to previous months. We continue to think that a selective approach is the right one and we expect a benefit from the expected, albeit gradual, reduction in interest rates.
- **Changes to our recommended portfolio**. After our mid-cap portfolio posted a brilliant performance last month, we are taking out Salcef, following the announcement of a tender offer, Iren, due to possible short-term volatility related to governance issues, and Anima, taking profit from its very positive recent performance. On the other hand, we are including Technogym, which we recently upgraded, Cementir, on an attractive valuation, and transferring The Italian See Group, previously included in the small cap portfolio. Among small caps, apart from TISG, we are taking out GPI, taking a breather after a strong recent performance, while adding Antares Vision (the upcoming investor day should be a catalyst) and IGD, recently upgraded. **Our top calls for the current month are** De' Longhi, Sesa and Mondadori among mid-caps and Txt E-Solutions, Emak and Omer among small caps.

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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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As at 31 March 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

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

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

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

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