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MILANO FINANZA

THE HUNT FOR 10%. Milan's stock exchange has lost 17% [so far] in 2016. But there are many stocks which, thanks to brilliant results, have run against the tide. And there's no lack of shares waiting to be rewarded by the market. Here are the ones with the greatest potential to rise.

Those hidden pearls in the bourse

By **Paola Valentini** and **Rebecca Carlino**

The first few months of 2016 were not easy for Piazza Affari [Milan's stock exchange]. Since the start of the year the FTSE MIB has fallen by 17%. And yet there are stocks that since January have performed well, even into double figures – thanks to quarterly results that are entirely worthy of respect, because when visibility is low and speculation is high, as has happened in 2016, companies' financial statements are the beacon to follow to understand where to go next. A return to fundamentals that is necessary to keep equity investments on the right course during times like these, with a great deal of liquidity on the market.

It is no coincidence that Moncler has been the best performing stock on the MF Italy 40 index in 2016 (up 22.3% to 15.8 euro). The fashion group achieved sales of 237 million, +18% on an annual basis, and more than the 221.3 million expected by the markets. The signals for the current quarter are positive too, and have led the group to confirm its projections for 2016 as a whole. Three investment banks have therefore upped their target price for Moncler shares: Banca Akros has raised it from 19.1 euro to 19.6 euro, UBS from 17.2 to 17.5 euro, and Kepler from 17.5 to 18 euro. All three have confirmed their buy rating.

Another example is **Campari**, whose shares saw some of the biggest gains in the MF Italy 40 in the first four and a half months of this year (+6.8% to 8.5 euro). The margins of the group leader in the drinks sector (with over 50 brands distributed in 190 countries) grew more than expected in the quarter. The company closed the period with gross earnings adjusted for non-recurring costs of 40.2 million, +26.1%. The factor that surprised the market was earnings before interest, tax, depreciation and amortisation (EBITDA), which improved by 18.8% to 665 million. Bryan Gamier & Co. confirmed its recommendation to buy and a fair value of 9.3 euro, and stated that the organic growth in sales was higher than expected. Earnings before interest and taxes (EBIT) also outdid analysts' forecasts. Overall, the results for the first quarter of 2016 were well above expectations.

Examples of stocks whose brilliant performance in the bourse reflects their [companies'] excellent results can also be found when we extend our gaze to mid-caps outside the FTSE Italy 40 index. Starting with **Brembo**, whose stocks have risen 16% since the start of the year and are now at a historic high of 52 euro. At 31 March the group, a world leader in disc braking systems, posted sales up 9.5% to 563.6 million (+10.5%, adjusted for exchange rates), above the estimated 559 million. EBITDA was up 26.5% to 106.8 million, again exceeding analysts' forecasts, in this case of 94.90 million. The quarter closed with net earnings of 60.4 million, up 31.8%; this compared with the considerably lower expectation of 50.3 million. Lastly, although net investment in the quarter amounted to 51.5 million, financial debt fell more than predicted, to 154.8 million, 100.4 million less than the first quarter of 2015. The consensus was for a debt level of 198 million.

And the projected orders in portfolios confirm a healthy growth in earnings for the rest of the year. Over the quarter Brembo's EBITDA margin rose to a historic maximum of 19.5%. After the financial statements for the quarter were published, Mediobanca Securities increased its recommendation to outperform, and the target price from 48 to 56 euro. The broker recognised the company's ability in recent years to improve its operational performance and increase its profitability. For Equita too Brembo's target price is 56 euro. "During our conference call the management announced the acquisition of three new platforms, two for discs and one for braking systems: yet another sign of good visibility for future growth", says Equita.

That said, however, there is no lack of companies whose shares are still underperforming, even though their results are entirely deserving of respect. Hidden pearls in the stock exchange which could now provide satisfaction for shareholders. The focus is on shares both of large cap stocks and of smaller companies.

In the first group, for example, we have a big name of the calibre of **Poste Italiane**. The share of the company headed by Francesco Caio stands at around 6.7 euro, down 5.5% from the start of the year and below last October's IPO price (6.75 euro). The reasons? The possible sale of a second tranche by the Ministry of the Economy recently penalised the share's performance, notwithstanding the good quarterly result. "All three divisions of the group have posted a better performance, the dividend is increasingly visible, but the potential placement of a new tranche by the Treasury has kept the stock flat", confirms Angelo Meda, Head of Equities at Banor SIM. The Treasury holds 64.7% at present, and could decrease its holding to 60% of the capital. Poste Italiane closed the first quarter of the year with net earnings of 367 million, a rise of 18%.

The Istituto Centrale delle Banche Popolari Italiane (ICBPI) underscored that "the results were better than expected, thanks to the life business, which has again upped the pace after an excellent 2015". ICBPI confirmed its advice to buy and the target price of 7.6 euro. Kepler Cheuvreux also sees Poste as a stock to buy, with a target price of 8 euro, not least in view of the attractive dividend policy which, at current prices, guarantees a

return of 5.5% on expected earnings for 2016, since the management has confirmed that 80% of profits will be distributed.

In the meantime, Mediobanca Securities is placing its bets on a buyback to underpin the privatisation of a further tranche of Poste. Mediobanca confirmed the target price of 8.5 euro, with an outperform recommendation. According to the analysts at Mediobanca's headquarters in Piazzetta Cuccia, if the Treasury decided to place another tranche on the market the best solution would be a buyback by the group of 10% of its capital, which could be self-funded in cash. The advantages? In Mediobanca's view the "announcement effect" could trigger a positive reaction on the share price and then "the minorities could benefit from an increase in earnings per share".

Then there's Mediaset, which was giving out "excellent signals for April in the advertising segment, of +10%, compared with an expected +4/5%, but the market wants to see this recovery lasting", says Meda. After the accounts were posted, Equita increased its target by 5% to 4.4 euro (compared with the current 3.7 and -3% since the start of the year). It confirmed its "buy" advice, because "all sectors are increasing their advertising investment and because of the long-term speculative appeal, with the entry of Vivendi". Mediobanca Securities set a target of 5.13 euro (outperform) and also underscored the importance of the deal with Vivendi, which is "an important turning point in the history of this stock".

Better-than-expected quarterly results have also placed **ENEL** in the spotlight (4 euro, +2,9% since January), with net earnings up 15.9% to 939 million. Equita confirmed its buy advice and a target price of 4.6 euro, in line with ICBPI, whose target price is 4.07 euro. Kepler Cheuvreux also deems the results to be higher than expected and maintains a buy rating and target price of 4.4 euro. Banca Akros welcomed the confirmation of the target for 2016, starting with the minimum dividend of 0.18 per share (payout of 55%). The bank confirmed its overall rating with a target of 4.5 euro: "we reiterate our positive view of ENEL, given that the results for the first quarter have confirmed the quality of the company's business mix in a difficult environment". According to Banca IMI (hold rating and target of 4.5 euro), the confirmation of the 2016 targets "suggests that our estimates could be conservative for this year".