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Quarterly results: possible surprises. Industry performs well, energy rings alarm bells

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BANK STOCKS ARE STILL STRUGGLING, AND LUXURY GOODS ARE GIVING CAUSE FOR CONCERN. BUT THE ANALYSTS SEE THE ENTIRE STOCK MARKET AS UNDER-VALUED

Milan

Positive surprises are possible on the industry front, but bank and energy stocks are still struggling. That's the third-quarter scenario analysts are expecting for companies listed in Milan's Piazza Affari.

When the analysts turn their gaze to the future outlook, there's a widespread feeling that the Milan stock exchange is markedly under-priced. But there's also a strong conviction that we're not near the turning point yet, given the uncertainty over the outcome of Italy's referendum on 4 December and the difficulties in overcoming the problem of non-performing loans that's such a burden for banks.

After the quarterly results from the United States brought conflicting signals, now it's the turn of Italian companies to draw back the curtain on July-September. In the spotlight today are COIMA RES and Sogefi while tomorrow it's Fiat and Saipem's turn, with all the others to follow.

"The third quarter results come after a modest slowdown in Italy and Europe, which should be followed by moderate growth", observes Francesco Previtiera, strategist and research director at Banca Akros-ESN. "In general, we're in a scenario characterised by weak demand". The expert underscores that with expected global growth of around 3%, a figure that's by no means negligible, Europe remains the world's "sick man". Our continent is struggling to pick itself up and needs to come to grips with the political non-reaction to Brexit.

FCA-Fiat: the view is positive

All of this said, Previtiera expects positive signals, especially from industrial companies with a more international focus like FCA-Fiat, Ferrari and Brembo, but doesn't see Prysmian and Cnh (formerly Fiat Industrial) turning the corner yet. A view shared by

Piergiacomo Braganti, discretionary portfolio manager at Banca Albertini SYZ. "The positive tone of European car sales casts the specific weaknesses of the summer quarter into the background", he explains. Although he points out that on the road back to profitability, the Italian car-maker is lagging well behind its major international competitors.

In Braganti's opinion, the luxury sector (starting with Moncler and Yoox) could hold out some unpleasant surprises, given the cooling off in some Asian markets and the growing competition at the international level. Fabio De Gaspari, head of asset management at Invest Banca, agrees that there are no signs on the horizon of luxury goods companies picking up speed. "The industrial sector, on the other hand, could benefit from a global stabilisation in manufacturing", he adds.

Banks: the weak link

The segment most under pressure is banking. "The outlook as we see it is gloomy, with margins under pressure, low fee income, write-downs still high and profitability at rock bottom", underscores Previtiera. "This goes hand in hand with the low stock market valuations: Italian banks are trading at a 12-month price/earnings ratio of 8.3 with respect to 9 for the sector in Europe. And in equity multiplier terms, they're trading at a discount of 40%.

De Gaspari also takes a prudent approach to banks' results, but shows more confidence in asset management firms' quarterly results, "especially Banca Generali and Fineco". So "selective" is the keyword for portfolio managers, after a period when strategies of diversifying within the different sectors seemed to predominate.

Angelo Meda, head of equities at Banor SIM, also takes a pessimistic view of the banking sector, with the exception of Intesa Sanpaolo, "which is very sound". He also recommends caution on the energy side. "The rise in oil prices began in late September, so it's early days for any impact on the third quarter results", he explains. And Braganti extends this view to suppliers of equipment and services to the oil sector, "with Saipem and Tenaris showing low earnings with respect to their historic averages".

Obstacles on the road to recovery

With the numbers giving us a snapshot of the past, we still need to gauge whether Piazza Affari has the stamina to recover at least some of the ground lost since the start of the year – more than 20%. "Stocks in Milan are showing discounts of 20% to 50% compared with their European peers, with the gap widest in

financial stocks”, comments Meda, who doesn’t expect a change in direction any time soon.

Two issues continue to give investors cause for concern. The first is macro. “The market is basing its position on a victory for the ‘No’ campaign in the Italian constitutional referendum. So a victory for the ‘Yes’ vote could give share prices a new boost”. The second issue regards capital increases in the banking sector. “The scenario will be clearer come December-January, when the situation of Montepaschi and Unicredit will be clarified”. Meda sees a flat outlook for utilities, with the exception of the former municipally owned companies, “which could be involved in the consolidation process that’s expected in the sector”. Previtiera also talks of “clear under-valuation” in the Italian stock market, “which could be put back on the right track only when we see a recovery of profitability in the medium-long term”.