

Investments

Italian stock exchange tested by interim reports to see who has survived the crisis

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The season of financial reports begins on 30 June, with the market waiting to understand how far we are from pre-COVID levels. All eyes are on sectors such as energy, financials and luxury goods

Tomorrow is Ferragamo's turn, Wednesday Covivio and Geox, and next week, big companies like Telecom Italia, Enel and Eni. The season of interim financial reports is under way at Piazza Affari and investors are waiting with bated breath to understand whether, following the race between February and early June and the partial correction in recent weeks, there will be room for a new bullish trend in the stock market. With the awareness that the Milan listing is above historical averages, but with lower multiples than the majority of other western stock exchanges. This is as far as the certainties go, given that in light of the trend in infections, inflation dynamics and geopolitical matters, the scenario remains shrouded in mystery.

"With the end of restrictions and the recovery of international travel, Italy is well placed for a summer recovery led by consumption", observes Emilio Franco, Chief Executive Officer of Mediobanca Sgr. Who notes that the upcoming months will show recovery thanks especially to the drive in investments linked to the Recovery Plan, the largest in absolute terms in Europe: "Higher public investments and reforms to stimulate the offer improve the business context by also attracting private investments", he reflects.

Given the macro context, the question for investors is how many of these new developments have already been discounted in the prices, given that since last November the FTSE All-Share (the widest index of Piazza Affari) gained 40%, based on a real economy in recession up to the first quarter of this year. A stark sign that the Italian market is currently dealing with a thirteenfold ratio between the stock market price and expected profits in 2022, a couple of points above the historical average, a level still much lower than other western listings: the German DAX is trading at 16 times, the French CAC at nearly 18 and the American S&P 500 at 22. Also aided by lower returns on bonds, the result is that Milan continues to attract attention. "We are seeing opportunities in sectors with multiple content like financial, oil and raw materials, while luxury and technology should already have incorporated much of the expected improvement into the prices", he underlines. Generally, the preference of asset management company Mediobanca ranges from bank to insurance securities: "We are expecting pleasant surprises in terms of commissions and the quality of credit, then in the ratio between non-life claims and premiums", adds Franco.

"This time the comparison will have to be made with the results of the second quarter of 2019, so we can understand who has successfully absorbed the pandemic", notes Alberto Villa, Head of Equity Research at Intermonte. "We are expecting positive indications from sectors like luxury, consumer goods and digital payments, as well as energy, supported by strong recovery in the price of oil".

Villa sees a more ragged scenario for the industrial segment: "Faced with positive expectations linked to recovery in demand, it will be necessary to understand how much the uptrend in raw materials and the difficulty in procuring materials and semi-finished products will impact on costs

and revenue growth. While for non-life insurance companies, following the significant benefits linked to the lockdown, we are expecting a gradual normalisation of claims”.

So what securities still have room to grow? “The banks still have very dejected valuations and the same goes for energy securities”, retorts the Intermonte analyst. Whose interest is piqued by infrastructure and utilities, based on valuations that do not incorporate the benefits expected by the PNRR (Italy’s national recovery and resilience plan).

“We also remain positive about mid and small cap securities, where the numerous delisting operations in recent months show how the stock exchange valuations are lower than what industrial or private equity investors are prepared to acknowledge”.

Beyond budgets, the moves of the central banks are then considered, which in recent years have been decisive in guiding the markets. In particular, in 2020 the ECB set a series of ceilings on the distribution of dividends and the security buyback plans by banks, in a prudential move to tackle the recession. Measures that will be subject to discussion and possible review at the Eurotower meeting scheduled for Friday. “Intesa Sanpaolo could be the first beneficiary in the event of a slowdown in restrictions”, is the analysis by Angelo Meda, Head of Equities at [Banor](#) SIM. “We are also expecting positive indications from the interim financial reports of energy securities, which therefore have room for their prices to grow in the second half of the year. Securities like Eni, Saipem and Tenaris have been forgotten about in recent months due to environmental evaluations and the uncertainty around the trend in the oil price, which are now trading at sacrificed valuations as they wait for a strong improvement in the profits, following the uptrend in the Brent”. In particular, Meda highlights that in the last six months the Eni listing has not followed the good performance of oil, thus interrupting a very strong historical correlation. In his opinion, this should be enough to expect a rapid recovery for the security. Lastly, the Head of Equities at [Banor](#) SIM expresses his confidence in industrials, thanks to the strong growth in global GDP and the process in place of restoring stocks. “We are expecting pleasant surprises especially from the interim financial reports of Brembo, CNH Industrial (subsidiary of the holding Exor, as well as the publishing house of *La Repubblica, Ed.*) and Biesse”, he concludes.

Opinion

Since November the Milan listing has risen by 40 per cent, without reaching the price multiples of other more dynamic markets

Now that the accounts are coming in, analysts and managers are on the hunt for surprises



40

PER CENT

Performance since November of the Milan FTSE All-Share index

13

TIMES

Ratio between prices and expected profits in 2022 of the Milan securities, compared to 22 on Wall Street

[1] Palazzo Mezzanotte, at Piazza Affari in Milan, home of the Italian stock exchange

