

IL SOLE 24 ORE PLUS

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Small caps. New opportunities up for grabs on the Milan exchange

Lucilla Incorvati

Companies in markets with high barriers to entry are top of the list

This year, there appears to be a line separating two performance classes in Piazza Affari. On the one hand, the FTSE-MIB is doing very well indeed at around 10%, driven mainly by banks and cyclicals; and on the other, we see the medium and small caps lagging decidedly behind. In a predominantly volatile environment, it is reasonable to wonder if the trend will continue and if it is worth investing in these types of stocks. Many commentators say that if you are comfortable with higher risk, getting Italian mid and small caps with solid fundamentals in your portfolio can produce good diversification over market trends. “European stock markets mirror what happens in the US”, emphasises [Luca Riboldi](#), Head of Investments at [Banor](#). “When you examine Italy and Europe, it’s a good idea to see what’s already been happening in the US, because that’s the largest market in the world and it’s where many trends start. It’s therefore the most important point of reference. So if we analyse the S&P, which has gained around 10% since the beginning of the year, we see that the best results came from the large caps; the other stocks have done little or nothing. The same thing has happened in Europe: the best performers were the big luxury companies (Kering, LVMH) and, in Italy, a few growth stocks such as Campari and Amplifon. Some

sectors were stronger than others, such as banks, which benefited from the interest rate effect. Thus, many small caps suffered, mostly those with a more regional and industrial business base.”

Guillaume Chieusse, Head of Active Equity Strategies at ODDO BHF Asset Management, argues that small cap performance has been affected by Italian market uncertainties arising from political changes since the beginning of the year. “The downgrading we have seen in other industrial countries, such as Germany,” he points out, “has given investors the opportunity to once more target the companies they know best. On the other hand, the inflow of new money has not been so good for investors exposed to the Italian market, because the economic outlook is improving sooner in other European countries. Sectoral exposures in the Italian market are often considered more cyclical,” he notes, in conclusion.

Looking ahead

In [Riboldi](#)’s view, the valuations of some of these companies are very interesting right now. “In this phase it’s easier to find value in small caps than in the big ones,” he adds. But of course, you have to be careful because if recession looms, it’s easier to sell a big cap than a small one. If a recession does materialise, the market falls and buyers switch to large caps, so if you want liquid stocks it’s a good idea to go for those with the highest capitalisation. But on the other hand, with these securities you

have to be patient and wait it out.” As [Riboldi](#) explains, there are interesting stocks among the small caps (Biesse, Mondadori, Cairo, Esprinet), and even the mid caps (Brembo, Ariston, De Longhi, Anima and Tecnogym) have good cash generators that will not be too risky in the event of an economic slowdown.

Industrial leaders

The outlook is positive also for Guillaume Chieusse. “Bank liquidity and the liquidity ratio also seem to be stronger in Italy than in the US,” he offers. The credit squeeze seems to have been priced in by the relative decline in small caps. As a result, the risk of bad news seems unlikely, unless a recession and/or a banking crisis really does appear on the horizon.” Chieusse reckons that good investment opportunities are to be found in niche markets with high barriers to entry. Efficiency in terms of use of resources and innovation will remain the key factor. These attractive valuations will be accompanied by a resurgence of M&A activity in quality companies that have not been revalued. He says, “In a market with better visibility, we see clear opportunities for Italian industrial leaders that can offer competitive solutions. We expect some luxury companies to undergo revaluation, as has happened with their French counterparts. We remain confident in the need for digitalisation of countries, for optimisation of workflows and creation of value.”

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The difficulties of small caps

Year-to-date performance of the Italian small cap, mid and big cap indices (02/01/2023 = 100)



THE ANALYSTS' ANGLE

Consensus

So how do analysts feel about Italian small caps?

The consensus – an indicator of analysts' outlook expectations

for a listed stock – is that out of a total of 98 opinions, strong buys prevailed with 38 ratings, followed by 31 buys and seven holds. The analysts are therefore generally positive towards Italian small caps. The buy

ratings included Algowatt, Banca Sistema and Saes Getters, GPI and Landi Renzo, while the strong buy ratings went to Equità, Cairo, Cellularline and Newlat Food, among others.

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