

# Tables will turn for utilities thanks to green energy

Banks weighed down by fears of NPL risk  
Technology makes progress

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Strong counteractive forces are affecting the markets with varying impact on sectors and securities. On one hand, thanks to good third quarter results, the market has understood that the COVID factor is temporary and that the Italian industrial structure will hold. On the other hand, its surge continues to weigh on a number of sectors (travel, airlines, restaurants, retail, consumer cyclicals such as car manufacturers) and raises the bar for business credit risk, thus painting the banks into a corner. Country risk is dragging utility valuations downward, perhaps excessively. And where the strength of global business guards the valuations of pocket-sized multinationals, leaders in niche sectors (Interpump, Luvè and Saes Gatter), the demand for COVID vaccines and tests is leading to growth in the pharma and medtech sectors (Recordati, Pharmanutra and Diasorin).

## UTILITIES, OIL AND BANKS

"If, in terms of performance, Piazza Affari is in line with Europe (-20% versus approximately -18%), securities like Enel, Iren and A2A that make up 16% of the index have been overly affected by the negative impact in terms of valuation. Perhaps this is also due to the remoteness of the major international investors which are overlooking Europe", underlines Fausto Artoni, Chairman of Impact SIM. Some companies are still paying high dividends (between 4 and 7%), but, above all, they have decisively attractive development plans. Like Enel, one of the world's main players in renewable energy. So, it is a good sector to invest in. "Eni and other energy securities like Snam, all very valuable companies", adds Artoni, "have been affected by the collapse in the price of oil and the drive for green energy. But I expect a massive recovery once the

economic cycle resumes. This is not the case for Italian banks, which have also been penalised by the dividend effect. They have lost a lot of their value. In some cases, they have a very high discount on their tangible assets (UniCredit is at -70%, BPM at -75%). Even Intesa is at -30%, despite being considered one of the strongest Italian banks. However, the upsurge in asset management makes the profits more sustainable over time. Therefore, each company must be evaluated differently". "It is predictable that an increase in NPLs across the globe will affect the sector", echoes Paolo Rizzo, partner at Anthilia. "Because cases of bankruptcy will increase and impact the 2021 accounts. In addition, as a result of the low interest rates, the banks are affected by tough competition and an interest margin that is too low to profit from".

## RETAIL AND RESTAURANTS

Air carriers, tourism, retail and restaurants will continue to be very negatively impacted by the COVID crisis. "For retail, the final quarter of the year is the most important in terms of revenue. The Italian hotel sector is hit even worse because it does not have major listed groups that can better manage the financial aspect of a crisis of this extent", specifies Rizzo. "In the restaurant sector,

## WEIGHT OF THE DIVIDEND

# 4%

### PREMIUM TO SHAREHOLDERS

For Enel, the yield on the 2020 interim dividend was little less than 2.1%. The annual yield of the ENI dividend was 6.11%, and Snam's came to around 4%. The most generous included Intesa Sanpaolo, with a dividend yield close to 8%, though it was not paid this year.

one of our listed companies to feel the negative impact was Marr". One sector that had a remarkable surge was home furnishing. "One company that, cascade-like, will benefit from this uptrend is Biesse", underlines Luca Riboldi, Director of Investments at Banor SIM. "It is number two

in the world for producing machinery to process wood and its end customers include giants like IKEA. Given that its customers have more liquidity, we are expecting it to receive more orders. Another favourite is Esprinet, which operates in Italy and Spain in the distribution of computer equipment (PCs, laptops), hardware and electronics used considerably for working from home or during leisure time. It is a market leader with a 30-40% share". According to Riboldi, Mondadori should also benefit from the renewed lockdown. It offers a small escape for both seasoned and new readers. One of the sector leaders in Italy, the company is well managed, has strong cash flow generation and attractive valuations and is also increasing its educational range, while benefiting from the release of new titles and best-sellers.

## INFRASTRUCTURE AND GREEN ENERGY

A more expansive balancing policy will favour a number of sectors such as infrastructure, green energy and transportation. From this perspective, according to Rizzo, companies like Salcef are in a good position, as are Erg and Falck Renewables. Riboldi believes that, in relation to renewables, Prysmian will benefit from the push towards renewable energy and ESG issues because its cables transport wind and solar energy. For an asset manager with a long-term outlook, Eni, Tenaris and Saipem may also do well. "These are companies less constricted by the lockdown", adds Riboldi, "and securities that reap the benefits from waiting for the worst of the pandemic to pass and for an economic recovery in 4-5 months thanks to the arrival of vaccines in the coming spring".

## TECHNOLOGY AND CYBERSECURITY

Though our stock exchange has no technology giants and is mostly small caps, there are companies in digital carving out their way to success. The demand for the cloud should favour Replay and Sesa, two strong system integrators, but also a company like Esprinet. Meanwhile, the demand to tackle digital vulnerability means growth in business for CyberU and CY4gate.