EQUITA

RECOVERY AND REFLATION

Sector exposures and 10 ideas for a reflation scenario

Research Team | research@equita.eu

EQUITA

RECOVERY AND REFLATION

MARKET STRATEGY

Special Report

Analyst:
Equita Research Team | research@equita.eu

EQUITY RESEARCH

Italy

SECTOR EXPOSURES AND 10 IDEAS FOR A REFLATION SCENARIO

We believe we are approaching a historic turning point for inflation and interest rates, with a level of inflation in Europe that will be structurally higher than in the recent past, driven by economic recovery, but with a level of rates that will remain under control. For this reason, we believe the reflation trade witnessed in the recent months has legs and will continue to drive financial markets. We have presented in this report the exposure of the key sectors to the reflation scenario and a selection of 10 investment ideas from our BUY rated stocks expected to outperform in this context.

■ How credible is the rise in inflation?

In recent months we have witnessed increased conviction in a robust cyclical recovery which led to fear of a possible return of inflation, as well as of a rise in bond yields and in the slope of the yield curve (particularly in the USA). This led to a significant dispersion in performance and sector rotation, with banks, insurance companies and oil/basic resources stocks soaring sharply, while other sectors more sensitive to rising rates – such as utilities, real estate, telecom, healthcare and food – have been sluggish.

We think the reflation trade (higher growth coupled with structurally higher inflation) has legs and will continue to drive equity markets, for the following key reasons: 1) **We expect inflation to move higher** in the next few years, starting from the US, **but to remain on an acceptable footing**; 2) We expect **central banks will continue to keep interest rates under control**; 3) We remain **optimistic about the recovery**.

■ Which sectors should be favoured and which are more at risk?

We have presented in this report a sensitivity of the key sectors to our scenario of robust recovery and reflation. The sectors to favour are those that can benefit from a rise in inflation and from the steepening of the yield curve (i.e. an increase in the slope) such as **financials**. We also expect **good performances from cyclical** and **commodity-related industrials stocks** (set to benefit from fiscal stimulus, ultra-expansionary monetary policies and the Recovery Fund), **with very strong business models and pricing power,** which can protect from the inflation on input costs, as opposed to the margin pressure expected in the most competitive sectors. We instead see **underperformance for long-duration assets,** such as **utilities/telecom,** and **technology/quality stocks trading at multiples well above historical average** (exposed to derating in a reflationary environment).

■ 10 ideas to play a reflation scenario

We have highlighted **10 investment ideas from our BUY rated stocks that may benefit from higher inflation, or at least best coping with it while benefiting from economic growth**: ***Intesa SanPaolo, Banca Mediolanum, ENI, Tenaris, CNH Industrial, Unipol, Technogym, Interpump, Danieli Sav., Pirelli.***

ANALYSTS

Aleksandra Arsova	Emanuele Gallazzi
Gianmarco Bonacina	Stefano Gamberini
Massimo Bonisoli, CFA	Domenico Ghilotti
Paola Carboni	Roberto Letizia
Alessandro Cecchini	Andrea Lisi
Martino De Ambroggi	Luigi Pedone, CFA
Luigi de Bellis	

MARKETS STARTED TO PRICE IN CYLICAL RECOVERY AND HIGHER INFLATION

In recent months we have witnessed increased conviction in a robust cyclical recovery which led to fear of a possible return of inflation, as well as of a rise in bond yields and in the slope of the yield curve. This has led to a significant dispersion in performance and sector rotation, with banks, insurance companies and oil/basic resources stocks soaring sharply, while other sectors more defensive or sensitive to rising rates – such as utilities, real estate, telecom, healthcare and food – have been sluggish.

S&P500 and STOXX600 SECTOR PERFORMANCE YTD

Negative Price Return	Groups (24)	Return Positive Price Return
	S&P 500 INDUST GRP INDEX	9.90%
	Best Performing	
1)	S&P 500 BANKS INDEX	26.18%
2)	S&P 500 ENERGY INDEX	26.13%
3)	S&P 500 DIV FINANCIAL IX	16.58%
4)	S&P 500 CAPITAL GDS IDX	15.19%
5)	S&P 500 Media & Ent	15.09%
6)	S&P 500 SEMI & SEMI EQP	14.72%
7)	S&P 500 INSURANCE INDEX	13.43%
8)	S&P 500 TRANSPTN INDEX	13.33%
9)	S&P 500 REAL ESTATE INDX	11.26%
10)	S&P 500 CON DUR&AP INDEX	10.68%
	Worst Performing	
11)	S&P 500 HC EQUIP&SVC IDX	6.24%
12)	S&P 500 AUTO & COMP IDX	5.96%
13)	S&P 500 Comm & Prof Serv	4.06%
14)	S&P 500 FD BEV & TOB IDX	3.70%
15)	S&P 500 UTILITIES INDEX	3.34%
16)	S&P 500 TECH HW & EQP IX	2.67%
17)	S&P 500 PHRM BIO & LF SC	1.80%
18)	S&P 500 FOOD/STPL RETAIL	1.73%
19)	S&P 500 TELECOMM SVCS IX	0.79%
20)	S&P 500 HH & PR PDTS IDX	-0.39%

Negative Price Return	Groups (20)	Return Positive Price Return
	STXE 600 (EUR) Pr	9.14%
	All Groups	
1)	STXE 600 Auto&Parts EUR	23.83%
2)	STXE 600 Banks (EUR) Pr	19.10%
3)	STXE 600 Trav&Leisr EUR	18.96%
4)	STXE 600 Technology EUR	15.39%
5)	STXE 600 BasicResou EUR	15.10%
6)	STXE 600 Constr&Mtr EUR	15.05%
7)	STXE 600 Insurance EUR	12.51%
8)	STXE 600 Media (EUR) Pr	12.31%
9)	STXE 600 InduGd&Ser EUR	11.60%
10)	STXE 600 FinanServc EUR	9.90%
11)	STXE 600 Retail (EUR) Pr	9.59%
12)	STXE 600 CP&S EUR P	9.39%
13)	STXE 600 Chemicals EUR	9.32%
14)	STXE 600 Telcomm EUR	8.84%
15)	STXE 600 Energy EUR P	6.55%
16)	STXE 600 FB&T EUR P	4.53%
17)	STXE 600 PCD&GS EUR P	1.55%
18)	STXE 600 HealthCare EUR	1.53%
19)	STXE 600 Utilities EUR	1.27%
20)	STXE 600 RealEstate EUR	0.71%

Source: Bloomberg

In fact, the run-up in commodities and the progress of the vaccination campaign have increased the likelihood of an acceleration in inflation, which has alerted markets, especially bond markets.

In the US, the 10-year US Treasury yield has shot higher by +73bps to around 1.64% since the beginning of the year…

10-YEAR US TREASURY YIELD (%)

Source: Bloomberg

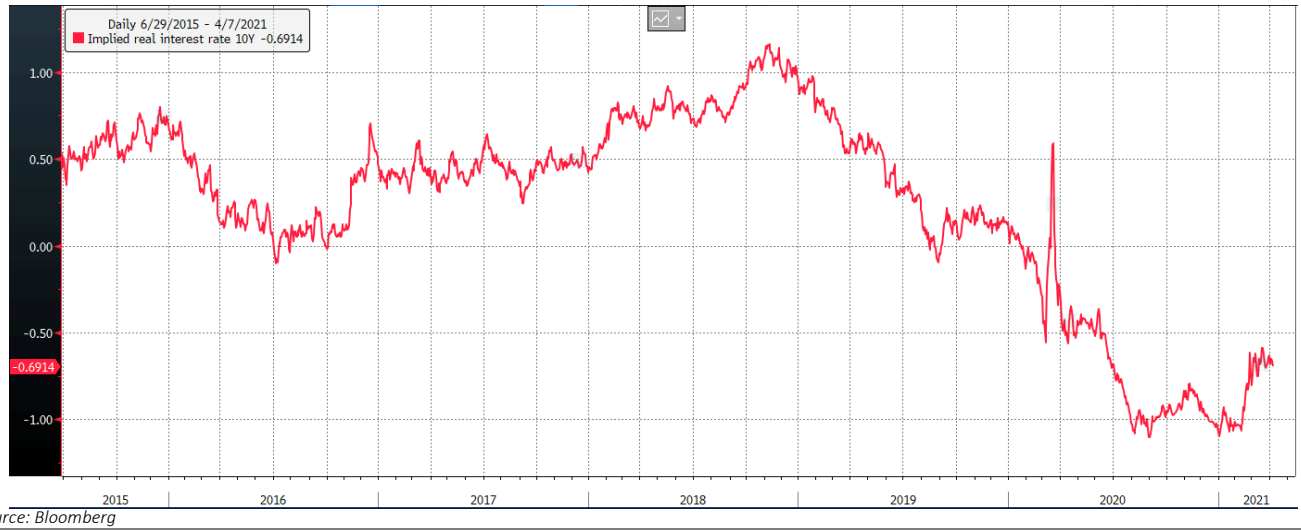
…while **inflation expectations only increased by +35bps to 2.3%** (but it is higher by +180bps from the March-20 low)**…**

10-YEAR US BREAKEVEN INFLATION RATES (%)

Source: Bloomberg

…generating a hike in real rates of +40bps to -0.69% from -1.1%...

US 10-YEAR IMPLIED REAL INTEREST RATES (%)



Source: Bloomberg

…and a smaller change in Europe (**even decreasing in Italy thanks to the reduction of political risk due to the appointment of Mario Draghi as Prime Minister**).

ITALY 10-YEAR GOVT YIELD, INFLATION EXPECTATIONS AND IMPLIED REAL INTEREST RATES (%)

Source: Bloomberg

This concern stems from the fact that over the past decade we have become accustomed to very low levels of inflation (if any), while living with interest rates at virtually zero or even negative, especially on the shorter end of the yield curve.

WE THINK THE REFLATION TRADE HAS LEGS

We think that the **reflation trade (higher growth coupled with structurally higher inflation) has legs and will continue to drive equity markets, for the following key reasons**:

1. **We expect inflation to move higher** in the next few years, starting from the US, **but to remain on an acceptable footing**;
2. We expect **central banks will continue to keep interest rates under control**;
3. We remain **optimistic about the recovery**.

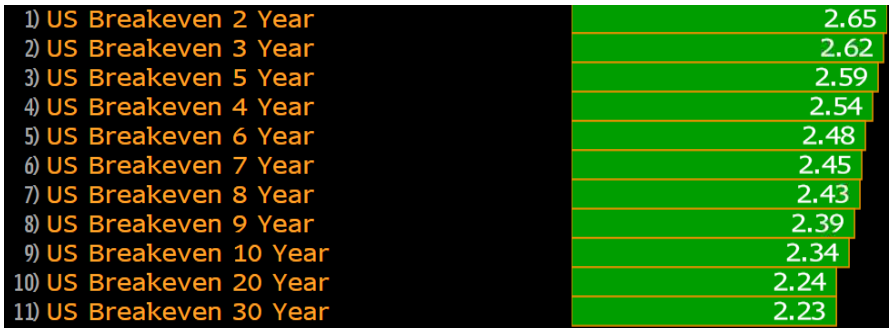
Our view on equity markets remains therefore constructive, particularly for Italy.

1. Our base case on inflation remains constructive for equity markets

In our view, over the next 12-18 months inflation will be the main issue to monitor for markets and investors, since with the post-lockdown re-openings (and consequent acceleration in economic growth) and the impact of government stimulus plans (such as the $1.9trn one just approved in the US), **inflation in the US could temporarily reach 2.5-3% starting from 2Q/3Q21. We believe this will become an issue also for Europe later in the year or in 2022**. The recent sharp rebound in oil and commodities has acted as a catalyst for market fears of inflation overshooting.

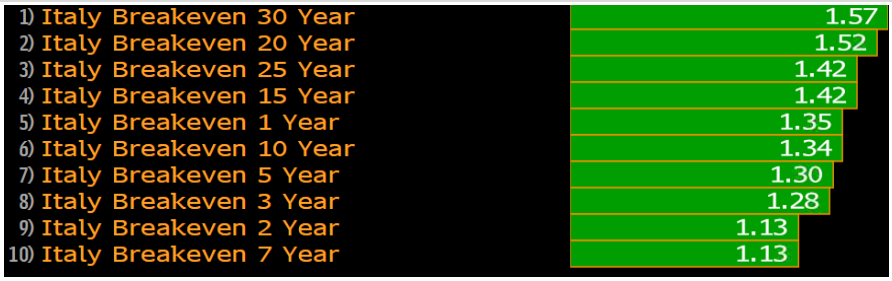
To understand the implications for financial markets, firstly we need to go back to thinking about inflation, because simply getting near-zero yields and having an inflation rate of 2-3% per year for the next 10 years would lead to a significant loss of purchasing power, up to a third. **We believe that equity markets should be favoured over bond markets:** although in a first phase they may be somewhat affected by higher inflation via a contraction in multiples, this should be largely offset by an acceleration in economic growth.

US INFLATION EXPECTATIONS CURVE (%)



Source: Bloomberg

ITALY INFLATION EXPECTATIONS CURVE (%)

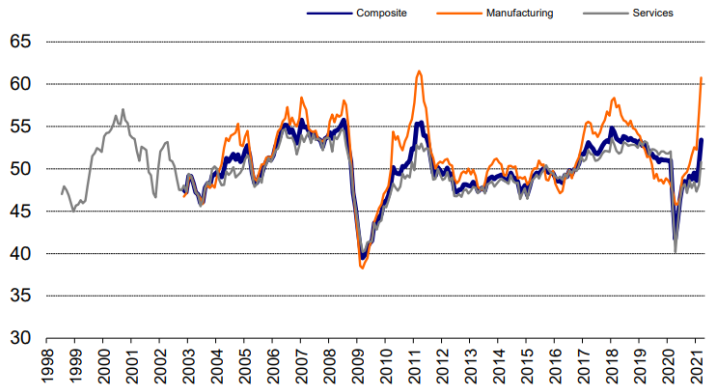


Source: Bloomberg

2. Central banks expected to keep rates under control

Inflationary pressures are evident in both the macro data and the first messages that are coming from companies…

EURO AREA PMI OUTPUT PRICES: INFLATION IS STARTING TO INCREASE…



Source: Markit

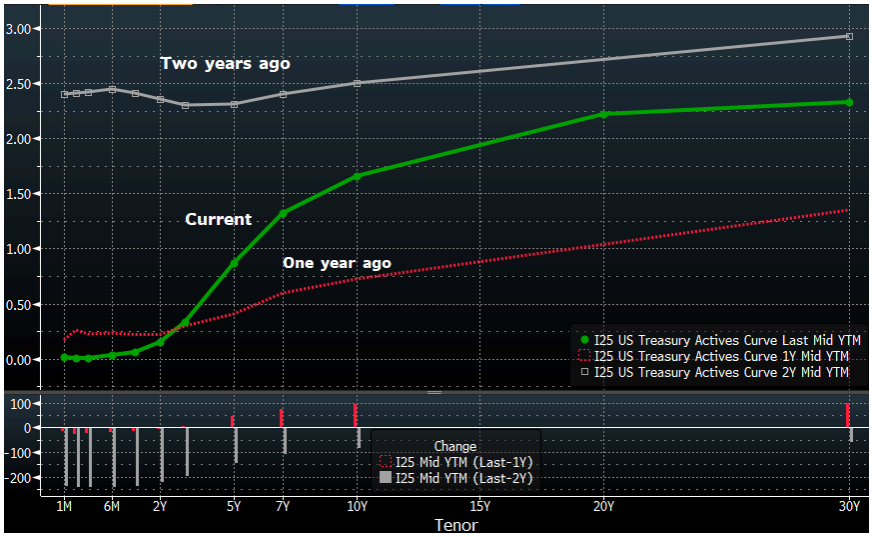
…**inflation expectations are starting to rise too**…

US BREAKEVEN INFLATION RATE ON 5Y TIPS: INFLATION EXPECTATIONS

Source: Bloomberg

…and the **US yield curve has started to steepen**…

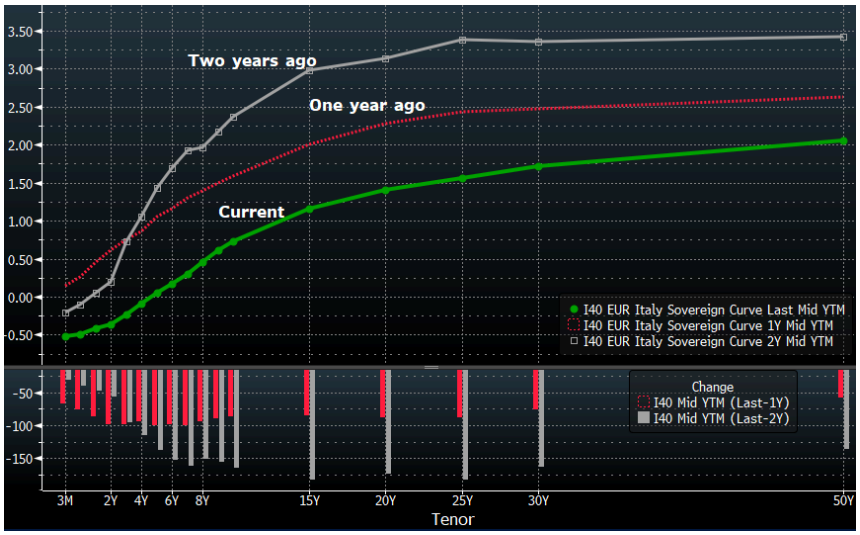
USA YIELD CURVE: CURRENT VS. 1 AND 2 YEARS AGO



Source: Bloomberg

…while the **EU/Italy yield curve has yet to really steepen** (but we think it will only be a matter of time).

ITALY YIELD CURVE: CURRENT VS. 1 AND 2 YEARS AGO



Source: Bloomberg

However, inflation fear is actually more closely linked to a concern about a rate hike…

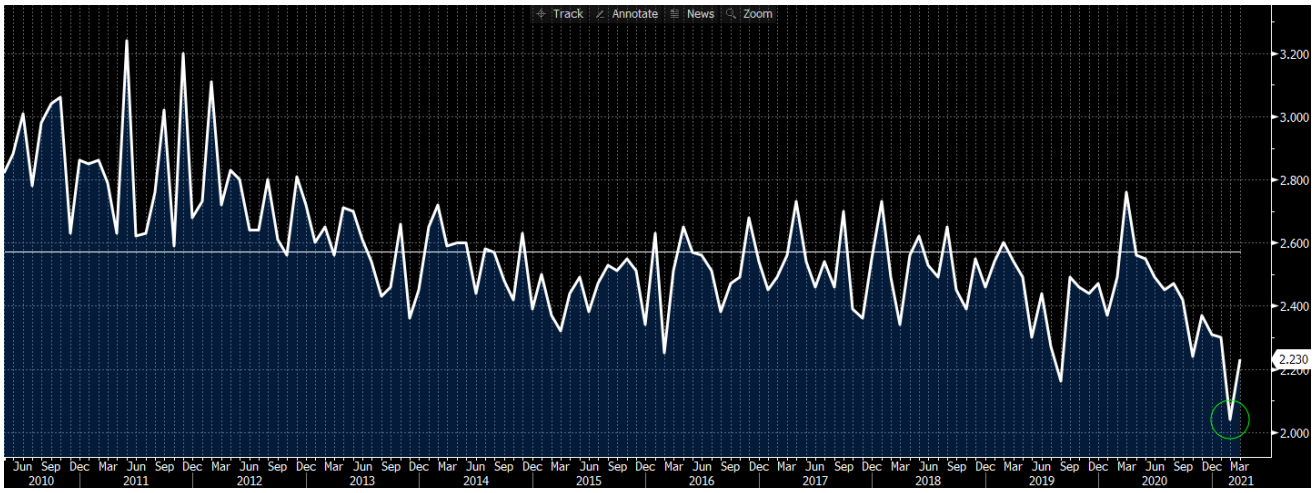
We think that from now on there will be a different scenario from the one we have experienced in recent years (i.e. a **higher structural inflation**) due to several factors such as **strong political will** and central banks telling us that their **inflation target will be 2% on average (but that implies accepting even 3%)**, a level that will be reached this year and could even be exceeded (Germany has said it will reach 3% this year, as has the United States).

In our view, however, the Fed and other central banks have no real alternative but to keep interest rates very low and monetise debt. **The Fed's balance sheet is now $7.65trn** – nearly 10-fold higher than at the beginning of their quantitative easing in late 2008. The **ECB's balance sheet is even bigger at € 7.5trn** (about $8.9trn – up almost 60% YoY) and equal to 75% of Eurozone's GDP. Last month the Treasury Department reported the **federal budget deficit soared 68% YoY to $1trn** in the first five months of the fiscal year (October through February) and to $3.5trn (16.5% of GDP) over the past twelve months. In the US, **President Biden's $1.9trn pandemic assistance package** has been approved by Congress, including $1,400 payments (free money!) to most of the American public (on top of the $600 approved in December – Trump's plan). Next up is **Biden's $2.3trn infrastructure program** to be followed by another approximately $1trn bill to expand childcare and health care. **All these elements lead us to think that there is no alternative to monetize debt and create some inflation to reduce it in real terms.**

The risk in the short-term is linked to the huge amount of Treasury issuance, with oversupply likely to drive up yields in the short term.

The last few days of February-21 showed some tension on the government bond issuance front. The height of tension came on 25th of February, when the seven-year Treasury auction performed poorly, after the 30-year and 20-year bond auctions had also been lacklustre in the preceding weeks.

US 7-YEAR NOTE BID-TO-COVER RATIO



Source: Bloomberg

If there were to be tensions, we believe that the FED would intervene again as it has done in the past, either by stepping up its purchases or by resorting to instruments that the Fed has not used for years, such as the yield curve control (YCC). The same applies to the ECB: in recent weeks, members of the ECB board have stressed that the central bank is prepared to counteract an increase in the slope of the nominal yield curve to avoid the risk of rising interest rates in America spreading to Europe, and that they will not hesitate to increase the volume of securities' purchases, if necessary, to avoid a tightening of financing conditions. Moreover, the risk that price dynamics will remain below the 2% target is still very high.

As far as the ECB is concerned, it is interesting to note that the inflation outlook was described as disappointing, and that President Lagarde stressed that the ECB is monitoring the rise in long-term yields to assess whether it is having a negative impact on the Union's growth prospects. As for Europe/Italy, we believe that the slower rollout of vaccines, vis-à-vis the US, and the still-to-come funds from the NextGen EU/Recovery Fund will postponed the inflation issue to the end of the current year or even in 2022.

3. We see a robust cyclical recovery

We remain optimistic about the recovery, and believe that the current delays on vaccines in the EU are unlikely to jeopardise the rebound in growth: vaccine supply is set to increase significantly in 2Q and 3Q, to a level sufficient to vaccinate more than 50% of the EU population by the end of 2Q; moreover, in Israel (which has fully vaccinated more than half of its population), the rigorous vaccination campaign has helped lower hospitalisations among the over-60s by 80% since the mid-January peak and has allowed the country to reopen pubs, restaurants and hotels. **Moreover, we believe that Mario Draghi's appointment as PM, his credibility on the international stage, and the ECB's continued support for purchases drastically improve Italy's risk profile** and could shift sizeable inflows of capital towards Italy and the EU; in addition, Draghi's leadership will allow for smoother and closer relations with the ECB and the EU.

EVALUATION MATRIX OF ITALIAN STOCKS

	Market	EPS Growth		Adj PE		EV/EBITDA		Yield	Adj. ROE	PBV
	Cap	2021	2022	2021	2022	2021	2022	2021	2021	2021
Industrials	74%	40%	23%	19.2	15.6	7.7	6.9	2.3%	10.1%	1.90
Banks	15%	51%	26%	11.1	8.8			3.7%	5.4%	0.59
Insurance	8%	7%	3%	10.1	9.8			6.2%	10.7%	1.07
Holding Co.s	3%	n.m.	n.m.	19.0	19.0			0.7%	n.m.	1.18
TOTAL MARKET	**100%**	**41%**	**20%**	**16.3**	**13.5**			**2.7%**	**9.2%**	**1.35**

Source: Equita SIM estimates

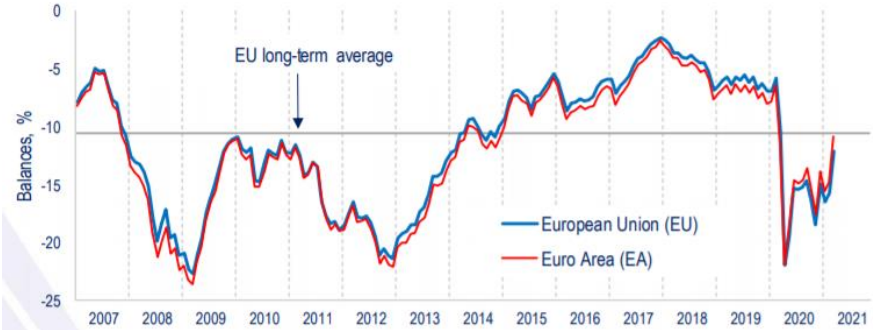
In conclusion, we believe that in the next few years we will see a European economy with a level of inflation that will be structurally a little higher than in the recent past, mainly thanks to economic recovery and growth. **In this scenario, we think the level of rates will remain under control.**

The best-case scenario for markets is inflation that is higher than current levels but remains on an acceptable footing, i.e. not exceeding the 3% threshold for too long, and central banks continuing to keep interest rates under control.

Clearly, **the tail-risk for the markets is excessive inflation, i.e. above the 3-4% threshold**, a level where the correlation between equities and bonds could become positive and this could lead to a significant reduction in the level of risk and therefore a market correction. This is not what we think will happen.

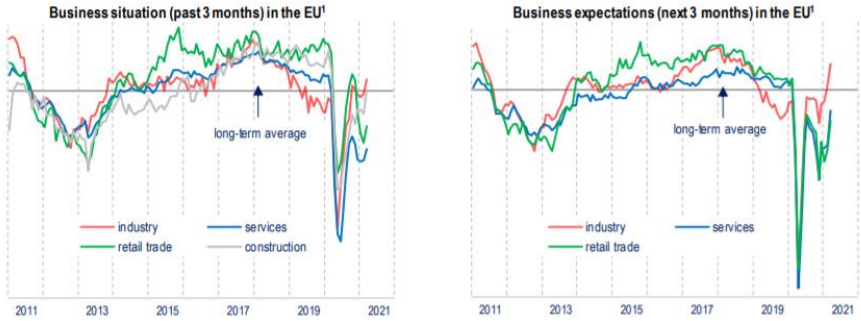
Finally, in our view, it is important to highlight that we expect **forthcoming inflation to be mainly demand-driven, based on a solid economic recovery**, rather than supply-driven due to further shocks in production (such as the chip shortage witnessed recently). Indeed, most of sentiment data show an increasing optimism by both business and households, with confidence going closer to pre-Covid19 levels.

CONSUMER CONFIDENCE INDICATOR FOR EU AND EURO AREA CLOSE TO HISTORICAL AVERAGE



Source: European Commission, March 2021

IMPROVING BUSINESS EXPECTATIONS



Source: European Commission, March 2021
1The graph presents standardised series to correct for differences in means and standard deviations

WHICH SECTORS SHOULD BE FAVOURED IN THIS SCENARIO?

The sectors to favour in the scenario described before are those that can benefit from a rise in inflation and from the steepening of the rate curve (i.e. an increase in the slope) such as **financials**. We also expect **good performances from cyclical** and **commodity-related industrials stocks** (set to benefit from fiscal stimulus, ultra-expansionary monetary policies and the Recovery Fund) **with very strong business models and pricing power,** which can protect from the inflation on inputs costs, as opposed to the margin pressure expected in most competitive sectors. We instead see **long-duration assets underperforming,** such as **defensive** and **technology stocks (which also have very high valuations).**

Banks	
Asset Gatherers	
Energy	
Insurance	
Building Materials	
Luxury	
Consumers	
Industrial	
Auto	
Utilities	

WHAT ARE THE IMPLICATIONS ON DIFFERENT SECTORS OF RISING INFLATION?

■ Banks

We believe that an increase in inflation driven by economic growth is supportive for the banking sector. In an inflationary scenario, the rise in the interest rate curve is expected to provide a positive contribution to the net interest income. The benefit of higher rates should not only be observed in newly originated loans, but also on the existing stock, as banks typically use swap contracts on fixed-rate loans. Consequently, the impact on the NII should be immediate already in the short term and not only linked to the origination of new loans. In a context of increasing inflation, the commercial spread between Interest-Earnings Assets and Interest-Bearing Liabilities is also expected to widen: as interest rates have fallen in recent years, interest rates on new loans have decreased more than proportionally to those on deposits, which have a floor at 0%, despite negative ECB rates. From this point of view, banks with higher loans/direct deposits ratio should be able to benefit the most from an increase in inflation as the repricing of assets should not be combined, at least in the first phase, with a repricing of liabilities.

The improvement in the interest rate scenario is likely to be combined with the gradual run out of support measures such as the TLTRO (last auction scheduled for December 2021), which we estimate to contribute about 15% of the NII of Italian banks in 2021.

However, we believe that the gradual repayment of TLTRO will reduce available liquidity, thus limiting competition within the sector and further supporting an increase in rates. Based on the sensitivities provided by banks on the impact of a 100bps parallel shift in the interest rate curve, those expected to benefit the most are ISP, BAMI and UCG.

SENSITIVITY OF NII TO 100BPS INCREASE IN INTEREST RATES

	NII sensitivity (€ mn)	Impact on 2021 NII
ISP	+2,102	+25%
BAMI	+291	+15%
UCG	+1,116	+12%
CE	+56	+11%
BPE	+32	+2%
Average		**13%**

Source: EQUITA SIM estimates on Company data.

ITALIAN BANKS: MULTIPLES

	Price	Mkt cap	Performance		P/E adj.		P/TE		DVD yield (%)	
		€mn	3m	6m	2021E	2022E	2021E	2022E	2021E	2022E
BancoBPM	2.36	3,568	23.6%	46.8%	9.4x	6.4x	0.33x	0.32x	3.2%	5.4%
BP Emilia Romagna	1.90	2,684	15.4%	70.8%	9.8x	7.0x	0.42x	0.40x	3.7%	4.7%
BP Sondrio	2.87	1,302	27.0%	61.8%	13.7x	11.5x	0.43x	0.43x	3.1%	3.5%
Credito Emiliano	4.97	1,652	10.0%	30.3%	10.6x	9.5x	0.61x	0.58x	3.0%	4.0%
Intesa Sanpaolo	2.26	43,923	17.2%	38.4%	11.7x	9.2x	0.86x	0.85x	6.0%	7.6%
Unicredit Group	8.64	19,325	8.6%	22.1%	7.6x	5.3x	0.32x	0.30x	4.0%	5.7%
Median					***10.2x***	***8.1x***	***0.43x***	***0.42x***	***3.4%***	***5.1%***

Source: Bloomberg data and EQUITA SIM estimates

Asset Gatherers / Diversified Financials

FINANCIAL SERVICES

If inflation is driven by strong economic growth, as suggested by our scenario, **this should be positive for equity markets**, with benefits in terms of: i) increasing fees thanks to higher assets under management, ii) improving inflows. An increase in bond yields due to higher inflation would have a negative impact on AUM invested in fixed income (but with much lower margins than in equity). **Banca Mediolanum (BMED)** and **Azimut (AZM)** are the asset gatherers with the largest exposure to equity, while **Anima (ANIM)** has the largest exposure to fixed income. Within the sector, **Fineco (FBK)** is the most exposed to a steepening of the yield curve due to the higher weight of NII on total revenues (+128mn of NII for every +100 bps of parallel shift in the curve or +25% EPS). For **BGN,** we point out that to have the traditional bond position in a life segregated insurance accounts that are not subject to mark-to-market represents a distinctive element to protect the client and performance.

ASSET GATHERERS: ASSET MIX (%)

2020	ANIM	AZM	BGN*	BMED	FBK
Equity	**28%**	**44%**	**25%**	**54%**	**38%**
Govies	**69%**	**1%**	**16%**	**20%**	**36%**
Corporate bonds		**26%**	**11%**	**20%**	
Others/Money Market/Cash	3%	29%	48%	6%	26%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

** Others= life segregated accounts, alternative, structured products; * Govies: euro + non-euro*
Source: Equita SIM elaborations and estimates on company data;

ASSET GATHERERS & ASSET MANAGERS MULTIPLES

	Price	Mkt cap (€ mn)	Abs. Performance 3m	6m	1year	PE 2021E	2022E	DVD Yield 2020E	2021E
ANIMA	4.44	1,638	7%	31%	49%	9.2	10.1	4.9%	4.5%
AZIMUT	20.30	2,908	7%	26%	39%	11.3	10.5	5.0%	5.4%
BANCA GENERALI	30.42	3,555	12%	13%	35%	13.8	14.2	10.8%	4.9%
BANCA MEDIOLANUM	7.94	5,883	10%	23%	45%	13.5	13.0	9.6%	5.0%
FINECO	14.09	8,590	1%	16%	49%	29.7	28.1	2.4%	2.4%
Median						***13.5***	***13.0***	***5.0%***	***4.9%***

Source: Bloomberg data and EQUITA SIM estimates

In Diversified Financials, we believe that **Gruppo MutuiOnline's (MOL)** business mix will allow it not to be negatively impacted by a modest increase in inflation. More specifically, on the mortgage side (approx. 40% of revenues), we see a broadly neutral or slightly positive impact, considering: (i) a steady demand for new mortgages, given the relatively low demand elasticity for mortgages in the event of a moderate interest rates increase (due to inflation); (ii) an increase in the average value of mortgages brokered, as a direct consequence of the increase in both inflation and the average price of real estate for sale; (iii) an increase in the number of transactions, and therefore also of mortgages, in the event of an increase in inflation linked to the economic recovery, also considering the high propensity of Italians to own real estate. As regards the other business lines, we believe that MOL's activities are well exposed to the expected economic growth (i.e. car leasing/rental, e-commerce, etc.), and able to offset a slight cost pressure stemming from inflation (especially in the BPO business, which is characterized by a greater weight of external staff/experts vs. broking).

BFF Bank (BFF) should positively benefit in an inflationary scenario moving rates upwards. Indeed, in light of the extremely cheap cost of funding following the acquisition of DepoBank, higher rates will allow: i) BFF to ask for a higher discount when purchasing invoices, implying higher maturity commissions; ii) higher attractiveness of the factoring product, supporting growth of new business volumes; iii) possibility to charge higher LPIs as, according to the Late Payment Directive, LPIs are calculated as 8% over the ECB reference rate. This should more than offset any further decrease in payment times of the public administrations potentially linked to an improvement of the macro scenario.

SPECIALTY FINANCE MULTIPLES									
	Price	Mkt cap	Absolute performance			PE adj.		DVD Yield	
		(€mn)	3m	6m	1yr	2021E	2022E	2021E	2022E
Banca Ifis	11.2	603	21%	43%	22%	9.8x	7.3x	4.5%	6.7%
BFF Bank	6.6	1,217	40%	41%	29%	9.6x	8.0x	8.8%	12.4%
doValue	10.5	840	11%	19%	72%	13.2x	9.6x	5.3%	7.3%
Gruppo MOL	46.5	1,860	24%	112%	205%	31.7x	28.7x	0.9%	0.9%
Illimity	9.4	688	0%	7%	44%	14.0x	8.9x	0.0%	1.7%
Median						***13.2x***	***8.9x***	***4.5%***	***6.7%***

Source: Bloomberg data and EQUITA SIM estimates

Energy

OIL & GAS

The energy sector typically offers a good defence against inflation. Unlike bonds and equities, commodities - which represent real assets - are positively correlated with a recovery in the price index. Within the sector, integrated companies such as **ENI** offer the greatest exposure to real assets such as hydrocarbons due to the reserves on their balance sheet and the automatic improvement in profitability if oil and gas prices rise. **In the oil services sector (TEN and SPM), the correlation with inflation is also positive**, but with an indirect relationship to the earnings / performance of stocks as it is linked to expectations of increased orders due to the improved profitability generated for oil & gas companies.

For **TEN**, specifically, higher inflation on raw materials (scrap - seamless tubes raw material - 80% of volumes, HRC - welded tubes 20%) may represents a risk for margins. However, the impact on margins depends on the ability to reverse the increase in raw materials on tube prices. In a scenario of increased oil and gas investments, the OCTG tube price tends to go up and compensate the increase in raw material (and in a scenario of strong demand also to go up more than the raw material). On the refining (**Saras**) or logistics (**DIS**) side, the correlation is much less strong, if not potentially negative for significant changes in hydrocarbon prices.

ENERGY MULTIPLES														
Company	Price	Mkt Cap	Performance			EV/EBITDA			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023
Eni	10.3	36,973	13%	50%	10%	4.1	3.4	3.0	19.3	11.4	9.0	6%	7%	8%
Tenaris	9.1	10,759	28%	111%	53%	11.7	9.4	7.7	41	26.3	19.2	2%	2%	2%
Saipem	2.3	2,355	-5%	51%	-5%	6.8	5.2	4.5	nm	nm	26.2	0%	0%	1%
Saras	0.6	590	-9%	29%	-36%	30.4	18.7	5.9	nm	nm	24.2	0%	0%	2%
D'Amico	0.1	139	13%	18%	25%	8.2	5.8	5.0	nm	19.3	9.8	0%	0%	0%

Source: Bloomberg data and EQUITA SIM estimates

Insurance

INSURANCE

For the insurance sector, the impact from a modest increase in inflation driven by economic growth is seen as marginally positive, more so for players exposed to the Life business rather than to P&C. Indeed, the increase in the average cost of claims, if not immediately shifted to policyholders through an increase in premiums, is expected to lead to some worsening of the combined ratios. On the other hand, however, the impact on the Life business and on the investment activity in general should be positive if the rise in inflation is also combined with an increase in interest rates, as companies could benefit from higher reinvestment rates. However, in order to observe a structural improvement in the performance of the Life business (especially for traditional products), it is necessary to observe a long-lasting trend of rising rates, allowing for a significant rebalancing of the existing portfolio. Generally speaking, nonetheless, higher rates make life and investment products more appealing from a commercial standpoint. As regards capital, based on the latest sensitivities provided by the companies, an increase in the interest rate curve of 50 bps would have an essentially neutral impact on the Solvency II ratio of **Unipol Sai**,

while for **Generali** it would lead to an increase of 10 p.p.. For **Poste**, as highlighted during the recent CMD, a 100 bps increase in the IRS is not expected to impact BancoPosta's revenue target of € 1.4 bn to 2024 as the increase in NII should compensate for lower revenues from capital management, whereas the impact on Solvency II (267% in 2020) from a 25 bps increase in the Swap rate would be +40%.

INSURANCE MULTIPLES

Company	Price	Mkt Cap	Performance			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023
Generali	17.1	26,887	17%	36%	32%	9.8	9.4	9.2	6%	6%	7%
Poste Italiane	10.8	14,079	29%	34%	30%	10.0	10.6	9.5	5%	5%	6%
Unipol Sai	2.6	7,267	14%	20%	10%	10.9	11.1	11.1	6%	6%	6%
Unipol	4.7	3,365	16%	30%	48%	6.0	6.3	6.2	12%	6%	6%

Source: Bloomberg data and EQUITA SIM estimates

■ Consumers/Luxury

CONSUMER GOODS

For the luxury sector, the issue of inflation is negligible, both because the most widely used raw materials (leather for accessories players, nylon for **Moncler**, wool and silk for **Cucinelli**) are typically more stable than the cyclical nature of commodities, and because **the sector is characterised by strong pricing power**: proof of this is the fact that even in the tough covid context, several players (LV, Dior, Chanel, Prada, Gucci) have increased prices, and further rises are expected for the current year.
Naturally, stronger brands (**Moncler, Prada, Brunello Cucinelli**) have more flexibility in this regard than brands in transition (such as **Salvatore Ferragamo and Tod's**).

For **Technogym**, cost inflation may be an issue (especially digital components and processors), but here too we see a fair degree of flexibility in pricing, given the prestige/premium positioning of the product: the company has already announced price increases that will come into effect from April/May and which should cushion any escalation in the inflationary environment.

In the food sector, **Newlat** saw an increase in the price of wheat during Covid (due to the rise in pasta consumption during lockdowns), a trend that appears to be continuing in 2021. Pricing power tout-court in the large consumer goods segment is generally limited; however, Newlat has already planned to buffer the rising cost of wheat with an improved mix and more opportunistic payment terms (shorter payments against discounts on purchases).

Similarly, **Campari** is exposed to some specific raw materials (agave for tequila, for example, where sales price increases are being investigated), while the commodities issue is less relevant (possible impact on the cost of glass due to the rise in oil prices, but marginal).

Still in the food sector, **MARR** typically benefits from an inflationary environment on its main raw materials (meat and fish) given Its ability to pass on prices to customers within 1-3 months. With a higher price-mix, it can better absorb transport costs (4% of the cost base, linked to volumes/km/number of stops and not to turnover) and rents (1% of the cost base). However, there is no upward pressure on prices for these categories at the moment. In addition, the cost of transport, although minor, may be subject to price increases linked to the price of oil. Therefore, we do not think that the current inflationary context is favourable for MARR and indeed the stock, generally perceived as a bond proxy, is often negatively correlated to an increase in interest rates.

For **De' Longhi**, cost inflation can be an issue (especially for plastic components and freight), but in this case we see flexibility of action on pricing, given the good positioning of the brands and the current demand dynamic: in recent conference calls, the company has highlighted that it is acting/will act on price leverage to offset/mitigate the current cost inflation.

As for **Autogrill**, an inflationary scenario for the cost of its main raw materials (chicken, meat, dairy products, etc.) is not a favourable one, given that price increases tend to be passed with a time lag that often depends on the price decisions of global brands on the street (e.g. Starbucks). Nevertheless, we believe that the current market focus is more on the top-line development.

CONSUMERS MULTIPLES*

Company	Price	Mkt Cap	Performance			EV/EBIT			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023
Campari	9.7	10,764	10%	1%	46%	31.1	27.0	23.2	42.0	35.9	31.0	1%	1%	1%
De' Longhi	36.3	5,430	39%	15%	130%	15.6	14.1	12.6	21.4	20.0	18.5	2%	2%	2%
Technogym	10.7	2,159	20%	51%	75%	26.9	19.3	15.9	40.8	28.7	24.1	1%	2%	2%
Marr	18.7	1,243	7%	36%	53%	24.1	16.7	15.1	31.8	21.2	19.4	4%	4%	4%
Autogrill	7.2	2,392	44%	103%	53%	nm	nm	20.1	nm	nm	28.7	0%	0%	0%
Newlat	6.4	280	14%	23%	22%	10.7	9.3	7.9	26.8	25.4	22.8	0%	0%	0%

*Source: Bloomberg data and EQUITA SIM estimates, *Ex IFRS 16 for AGL*

LUXURY MULTIPLES

Company	Price	Mkt Cap	Performance			EV/EBIT			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023
Moncler	50.1	12,664	4%	36%	53%	22.2	18.5	16.7	34.0	28.8	26.4	1%	1%	2%
Prada	48.3	13,348	-1%	49%	76%	41.0	27.0	20.8	nm	nm	nm	0%	0%	0%
Salvatore Ferragamo	16.7	2,816	9%	26%	34%	44.3	23.6	17.5	nm	45.3	33.0	1%	2%	2%
Brunello Cucinelli	39.9	2,713	12%	45%	58%	42.9	30.1	27.2	83.9	52.2	46.3	1%	1%	1%
Tod'S	33.0	1,091	25%	44%	13%	nm	nm	nm	nm	nm	nm	1%	1%	2%
LVMH	589.7	299,052	15%	41%	70%	26.8	23.3	21.0	39.2	33.6	30.5	1%	1%	2%
Kering	616.4	77,061	8%	5%	30%	19.4	16.8	15.2	29.0	24.3	22.1	2%	2%	2%

Source: Bloomberg data and EQUITA SIM estimates

■ Auto/Industrials

AUTOMOTIVE

Rising inflation has an impact on the automotive sector due to higher raw material costs, which for carmakers account for 60-70% of revenues (mainly steel, but also plastics, aluminum and other metals). We expect the cost of some materials to rise significantly in the coming years, partly due to electrification and digitization of vehicles (which, for example, generates strong demand for lithium, cobalt, nickel and semiconductors).

Regarding **car manufacturers**:

- on the one hand, **the problem arises especially for mass producers** who have less pricing power and therefore less ability to transfer the increases to end customers with a potentially significant impact on profits;
- on the other hand, **premium manufacturers** such as Daimler and BMW (which typically already generate higher margins and have a lower percentage weight of the cost of raw materials on sales) **are able to transfer price increases** partially or totally on to consumers through price list adjustments.

In the **components** supply chain:

- some raw materials (e.g. aluminum) contracts typically provide for automatic or semi-automatic adjustments with a time lag of 3-6 months;
- other raw materials (e.g. steel) automatic adjustments are not always practiced, ad hoc negotiations are often necessary which may only result in partial coverage or a longer time lag.

Regarding **tyre manufacturers**:

- empirical evidence shows that price discipline has always been maintained even during the peak of the pandemic crisis; in the current RM upturn scenario, all major players have **announced price increases in the AM market (75% of volumes) and have automatic adjustments with a time lag of 3-6 months in OE (the remaining 25%)**

- in the premium segment (Pirelli, Michelin, Continental and Nokian), typically phases of price increases (usually accompanied by volume growth) support margin expansion.

Agricultural equipment manufacturers are in a similar situation to tyre-makers: in recent years they have always experienced a positive price effect, even in quarters where volumes have fallen sharply. The transfer of higher commodity prices to customers in the coming years will also be boosted by the expansion of precision farming (which provides a positive price/mix effect).

As a result for the car related sector, with rising RM/inflation, we expect a price increase
- rather rapid in the tyre sector (typically positive for the whole industry)
- similar to past years for agricultural machinery (low-single digit)
- with a time lag for car component makers, although for some it will not be possible to cover 100% (Brembo is among the most resilient ones)
- more difficult for car makers. In the current historical context, we do not rule out at least partial compensation through government subsidies for electric/hybrid vehicles (very likely in most industrialized countries).

For the cement sector (Buzzi Unicem and Cementir) **we see the higher inflation/economic growth scenario as broadly neutral**. If inflation is driven by strong economic growth, the sector would benefit from an increase of investments in infrastructures and commercial buildings, which together account for approximately 70% of the demand. In this context, a **strong acceleration in the demand could increase the pricing power of cement players,** especially in countries running at almost full capacity (like US), **helping to mitigate the cost inflation** (especially energy and fuel). We point out, however, that in this environment, the reasonable rise in interest rates could lead to more expensive mortgages with negative impacts on the residential sector (c.30% of overall demand), which has driven demand growth over the past year.

For Danieli, we believe that the scenario of higher inflation driven by a stronger economic recovery is positive. Indeed, in a context of recovering domestic demand and rising raw material costs steel companies have significant pricing power leading to higher margins and cash generation (positive for DAN's steel-making division). In this scenario, **we expect steel companies to boost investments with DAN's plant-making division extremely well positioned to capture the capex cycle in the steel industry**.

We see **Interpump as an outperformer** in a scenario of cyclical recovery driven by infrastructure investments given its **high exposure to NA and EU** (close to 80% of group sales) and **historical ability of the reference sector to timely and fully transfer cost inflation to clients**.

AUTO / INDUSTRIALS MULTIPLES

Company	Price	Mkt Cap	Performance			EV/EBITDA			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023
Stellantis	14.9	46,606	24%	73%	142%	1.8	1.5	1.2	8.1	6.2	5.4	3%	3%	4%
Faurecia	46.3	6,384	14%	23%	50%	3.8	3.1	2.7	10.6	7.6	7.0	2%	3%	3%
Brembo	10.6	3,550	0%	22%	59%	8.3	7.6	7.5	20.1	17.4	17.8	2%	2%	3%
Pirelli	4.9	4,944	10%	29%	46%	8.0	6.3	5.7	12.9	10.3	9.2	2%	3%	3%
Michelin	125.0	22,293	15%	34%	44%	5.8	5.1	4.7	13.3	11.0	10.2	4%	5%	5%
CNH Industrial	12.9	17,662	16%	80%	112%	6.7	5.5	5.1	21.1	16.4	15.7	1%	1%	1%
Interpump	42.8	4,660	5%	22%	70%	15.1	13.1	12.0	26.1	22.5	20.9	1%	1%	1%
Danieli	21.0	796	22%	45%	83%	1.8	1.1	0.5	19.7	15.2	13.0	1%	1%	1%
Danieli sav.	13.3	485	19%	44%	88%	nm	nm	nm	12.6	9.7	8.3	1%	1%	1%
Cementir	9.2	1,470	27%	53%	78%	5.5	4.8	4.1	12.7	11.3	10.1	2%	2%	2%
Buzzi Unicem	22.2	4,282	7%	10%	30%	5.2	4.6	4.0	10.7	9.9	9.4	1%	1%	1%

Source: Bloomberg data and EQUITA SIM estimates

Utilities/Infrastructure

Traditionally, utilities have a performance that is "inversely" correlated with interest rate trends, especially when these are driven by recovery and inflation dynamics. The significant exposure to regulated sectors (generally sterilized by the effects of demand volatility) and the high capital commitment of infrastructure projects (which generate a higher level of debt), make the sector more "defensive" and traditionally less "geared" to economic recovery.

In our opinion, a scenario of a recovery in rates on inflationary dynamics has the following effects:

1. **Debt.** No short-term impact, given the high percentage of fixed rate debt (60%-80%) with average maturities of 5-7 years, but a progressive increase in the cost of funding in the "medium term" (higher financial charges) in relation to the progressive rise in rates and the high level of leverage in the sector (2.5x-5x D/Ebitda). ENAV (1.5x-2x ND/Ebitda), ENEL and the municipal companies (2.5x/3x) are among the least indebted in the sector, whilst the regulated companies (Terna, Snam, Italgas) and the renewables (Erg, Falck, Alerion) have higher levels of debt (4x-5x D/Ebitda).

2. **Regulated sectors (transmission/distribution):** substantial neutrality with regards to rate increases due to inflationary dynamics, due to both the regulatory adjustment of the Invested Capital (RAB) to annual inflation and the regulatory mechanisms in force for the recognition of minimum rates of return (currently higher than the levels of market rates). Moreover, as mentioned above, the return of regulated companies is usually "sterilized" by the volume effect, making the economic recovery underlying the inflationary increase substantially neutral on company returns. Within the sector, Terna, Snam and Italgas enjoy, in our opinion, the best regulatory protection mechanisms, while ENAV has less coverage from inflationary dynamics due to the lack of an inflationary adjustment on invested capital.

3. **Non-regulated sectors (Generation/Retail/Renewables/Waste):** within the sector, and net of a negative short-term effect (6-12 months) related to the adjustment of contractual and procurement formulas, the non-regulated sectors are those most exposed (positively) to the dynamics of economic recovery. The increase in energy demand translates into higher volumes for retail operators (electricity, gas and waste), and the inflationary pressure translates into an increase in energy prices (commodities, oil & gas), in favour of power generation operators with technologies with zero variable costs (Hydro, Renewable merchant and electricity production from WTE). In particular, in the renewables segment, some negative effects could be recorded in the short term in relation to companies that are very exposed to fixed revenues in nominal terms (flat incentives and PPA), although we believe that these effects will instead be overcome, in the medium/long term, by the benefits on the greater demand for installed capacity (new plants) and on the price of energy in the long term (higher terminal value at the end of the incentives).

We believe that, in any case, within a sector that is negatively affected by the trend of interest rates on inflationary dynamics, the best positioning is with the securities most exposed to power generation and renewables/circular economy dynamics. We therefore believe that Enel, Terna, ERG, Iren and A2A may be the best positioned in the sector in this context.

For **Atlantia**, the situation is in evolution. If the current situation is assumed, i.e. including ASPI, **the company would have a negative impact from CPI, because of the lower protection offered by the new ASPI contract (still to be approved) and its high leverage**. It should be noted that:

- In the case of ASPI (33% of group 2019 adj. EBITDA and 30% of valuation), the new tariff method (under negotiation with the government) provides limited coverage against inflation risk because the IRR of the "RAB ante" (we estimate it accounts around 50% of theoretical revenues) is fixed to 2038. Only the "Operational charge" component, which covers the opex and is equal to approximately 25-30% of regulated revenues, is updated for government planned inflation (usually lower than actual inflation). Consequently, EBITDA should have limited grow in case of high inflation.
- For Aeroporti di Roma (8% of EBITDA and 20% of SOPT) the expected hedge against inflation is provided for aviation revenues (70% of the total) and is again linked to programmed inflation. The remaining 30% are royalties on retail sales and therefore could be covered by sales price increases.
- As for Abertis (50% of EBITDA, but only 8% of SOPT), which controls motorways in Europe and South America, all contracts are 100% inflation-linked, except for France, which is 70% CPI-linked (35% of Abertis' EBITDA).

In the event of the sale of ASPI, the scenario gets better, because leverage would be reduced, Atlantia holding would have cash of about € 4 bn, with the main asset in the SOPT being ADR (30%).

UTILITIES/INFRASTRUCTURE MULTIPLES

Company	Price	Mkt Cap	Performance			EV/EBITDA			PE Adj.			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023
Enel	8.6	87,220	-4%	11%	33%	8.4	8.2	8.1	16.1	14.9	13.6	4%	5%	5%
Terna	6.1	12,273	0%	-1%	10%	11.8	12.3	12.3	15.6	16.1	15.4	5%	5%	6%
Snam Rete Gas	4.6	15,604	1%	5%	18%	11.4	11.7	11.3	13.6	14.0	13.7	6%	6%	6%
A2A	1.6	4,889	17%	30%	30%	8.1	7.4	7.2	16.8	14.2	13.6	5%	5%	5%
Hera	3.3	4,924	5%	12%	2%	7.1	6.7	6.5	14.8	14.5	14.4	4%	4%	4%
Iren	2.3	3,051	6%	10%	11%	6.7	6.5	6.1	12.6	11.6	10.6	4%	5%	5%
Acea	19.4	4,123	12%	5%	26%	7.2	7.2	7.0	15.1	14.2	12.9	4%	5%	5%
Erg	25.3	3,759	0%	15%	49%	10.2	9.6	9.1	30.1	27.5	25.5	3%	3%	3%
Falck Renewable	5.9	1,719	-13%	15%	20%	13.4	12.9	12.7	47.5	37.8	30.5	1%	1%	1%
Enav	4.1	2,219	14%	27%	-2%	11.8	11.3	10.3	33.7	28.5	24.5	2%	5%	5%
Atlantia	16.3	13,427	15%	23%	26%	10.5	9.0	8.2	21.1	14.8	12.5	0%	4%	5%

Source: Bloomberg data and EQUITA SIM estimates

■ Telecom and Telecom Towers

TELECOMMUNICATIONS

The Telecom sector is negatively exposed to the risk of rising nominal rates and rise in inflation given its **historical deflationary trend in prices due to fierce competition. TIM is also highly sensitive to free risk rates** (we calculate 10% impact on valuation for +25 bps in free risk) due to its financial leverage. **These headwinds are partially offset by the support on digitalization** (stimulating demand and providing potential subsidies on CAPEX) **embedded in the Italian recovery plan.**

In the Telecom Towers sector, it should be noted that all operators have 100% CPI linked contracts or fixed escalators with their anchor tenants while on the other hand, Inwit and Cellnex also have high leverage (D/EBITDA of 5-6x).

This type of contract structure allows, in a rising inflation scenario with an impact on nominal interest rates, to mitigate (not eliminate) the negative effects on valuation, thanks to the CPI indexing of a relevant portion of revenues. In the case of Raiway, the protection is high, since the contract with Rai is worth approximately 90% of revenues and is 100% CPI linked with no cap. Furthermore, the company is not leveraged and in an inflationary scenario the RCFC should therefore be fully protected by a higher EBITDA. Even for Inwit, the contracts with Tim and Vodafone provide for 100% coverage against inflation (no cap), while the third-party contracts provide for 75% coverage and periodical renegotiation (market risk). Among costs, contract for ground leases (c25% and declining of revenues) are 75% linked to CPI. However, coverage against inflation remains significant also for Inwit in the event of a rise in

inflation even if long-term visibility will tend to decrease because the 2 MSAs with Tim and Vodafone, accounting for 84% of revenues in 2020, will decrease to about 65% in 2026.

Finally, for Cellnex (15 anchor tenants), the contracts in place with its customers provide for inflation coverage of about 65% of sales (with cap at 2-4% in some contracts) and an escalator effect, already defined (1.5-2% per year) for the remaining 35%.

If, on the contrary, we were in a scenario of an increase in real interest rates due to the acceleration of GDP, the only element that could mitigate its effects on the RLCFC would be an acceleration in the demand for tenants, which we however do not see as correlated to GDP. On the one hand, the impact would therefore be negative and significant on Cellnex and Inwit's valuation, which would see a substantially unchanged RLFCF in the early years (around 80-85% of fixed-rate debt), but then shrink over the long term due to the higher cost of debt. On the other hand, there would be an increase in WACC with a related impact on valuation. The effect would be similar for Raiway, mitigated by the absence of leverage.

TELECOM AND TELECOM TOWERS MULTIPLES

Company	Pr.	Mkt Cap	Performance			EV/EBITDA			Recurring FCF YIELD**			P/E			DVD yield		
		€ mn	3M	6M	12M	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Telecom Italia	0.4	6,610	15%	25%	17%	5.1	5.1	4.8	8.4%	-2.3%	15.7%	10.8	9.8	8.6	2%	2%	3%
Telecom Italia sav	0.5	2,808	12%	30%	28%	-	-	-	-	-	-	11.6	10.6	9.2	6%	6%	6%
Inwit	9.5	9,078	2%	2%	1%	18.3	16.8	15.5	3.6%	5.4%	6.0%	50.4	42.8	35.6	3%	4%	4%
Rai Way	4.8	1,314	-9%	-10%	-4%	10.3	10.0	9.4	6.4%	7.1%	7.6%	21.5	20.5	19.6	5%	5%	5%
Cellnex *	42	20,439	-5%	-14%	8%	19.5	18.2	17.4	3.2%	3.5%	3.7%	nm	nm	nm	0%	0%	0%
Average			3%	7%	10%	**13.3**	**12.5**	**11.8**	**5.4%**	**3.4%**	**8.3%**	**24**	**21**	**18**	**3%**	**3%**	**4%**

** Cellnex figures are before the rights issue*
*** Telecom and Telecom sav. - FCF Yield*
Source: Bloomberg data and EQUITA SIM estimates

10 INVESTMENT IDEAS TO PLAY A REFLATION SCENARIO

We have highlighted **10 investment ideas from our BUY rated stocks that may benefit from higher inflation, or at least best coping with it while benefiting from economic growth**: ***Intesa SanPaolo, Credem, Banca Mediolanum, ENI, CNH Industrial, Unipol, Technogym, Interpump, Danieli Sav., Pirelli.***

Name	Sector	Market cap (€ mn)	P/E 2022E	Comment
Intesa	Banks	43,923	9.2x	Positive correlated to stronger economic growth. Higher interest rates improve banks' net interest income
Banca Mediolanum	Asset Gatherers	5,883	13.0x	Positive correlated to higher equity markets (higher AUM/management fees, stronger inflows) - 54% of AUM in equity
ENI	Energy	36,309	11.4x	Stronger economic growth and higher inflation scenario typically benefits oil prices
Tenaris	Energy	10,759	26.3x	Stronger economic growth and higher inflation scenario typically benefits oil prices
CNH Industrial	Industrial	17,662	16.3x	Strong pricing power in Agricultural business (main source of group profits), allowing to transfer RM headwinds to customers (also helped by precision farming expansion). Construction segment benefiting from infrastructure investments in EU/NA.
Unipol	Insurance	3,365	6.3x	Higher investment income and attractiveness of Life products should offset pressure on the prices of spare components in P&C, which, in a medium-term scenario, are expected to be reflected in higher premiums
Technogym	Consumers	2,159	28.7x	Rising inflation should be at least partly passed on consumers via price increases (starting in May); stock exposed to economic growth and to post-Covid reopening of gyms
Interpump	Industrial	4,660	22.3x	Highly exposed to infrastructure investments in EU/NA and strong historical ability to pass cost inflation to clients
Danieli Sav.	Industrial	1,281	9.7x	In a stronger economic growth and higher inflation scenario, we expect the steel-making division to improve margins (strong pricing power) and cash generation and the plant-making division to benefit from the positive capex cycle of the steel industry.
Pirelli	Auto	4,944	10.4x	Sector price discipline allows to absorb RM headwinds with a minimum time lag. Premium segment exposure guarantees better coverage. Phases of price increases (coupled with volume growth) typically support margin expansion.

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

This publication was prepared by the Equita SIM (EQUITA SIM is licensed to provide investment services pursuant to Italian Legislative Decree no. 58/1998, CONSOB resolution no. 11761 of December 22nd 1998 and registered as no. 67 in the Italian central register of investment service companies and financial intermediaries) Research Division's team of financial analysts who are bound to Equita SIM by an employment contract. The team members are: Aleksandra Arsova, Gianmarco Bonacina, Massimo Bonisoli, CFA, Paola Carboni, Alessandro Cecchini, Martino De Ambroggi, Luigi de Bellis, Emanuele Gallazzi, Stefano Gamberini, Domenico Ghilotti, Roberto Letizia, Andrea Lisi, Luigi Pedone, CFA.

EQUITA SIM is distributing this publication via e-mail to more than 700 qualified operators from April 14, 2021 at 08:00 AM

The prices of the financial instruments shown in the report are the reference prices posted on the day prior to the date indicated on cover page.

EQUITA SIM intends to provide continuity in reporting on the financial instruments covered by this document, half-yearly and, in any case, in line with the timing of the periodic financial reporting and any other exceptional events that occur within the scope of the issuer's activities.

The information contained in this publication is based on sources believed to be reliable. Although EQUITA SIM makes every reasonable endeavour to obtain information from sources that it deems to be reliable, it accepts no responsibility or liability as to the completeness, accuracy or exactitude of such information. If there are doubts in this respect, EQUITA SIM clearly highlights this circumstance. The most important sources of information used are the issuer's public corporate documentation (such as, for example, annual and interim reports, press releases, and presentations) besides information made available by financial service companies (such as, for example, Bloomberg and Reuters) and domestic and international business publications. This publication has not been submitted to the issuer.

The recommendations were produced using proprietary Excel models that are stored on company servers. The models are backed up at the end of each month.

EQUITA SIM has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them.
However, it is pointed out that EQUITA SIM is an intermediary licensed to provide all investment services as per Italian Legislative Decree no. 58/98. Given this, EQUITA SIM might hold positions in and execute transactions concerning the financial instruments covered by the present publication, or could provide, or wish to provide, investment and/or related services to the issuers of the financial instruments covered by this publication. Consequently, it might have a potential conflict of interest concerning the issuers, financial issuers and transactions forming the subject of the present publication.

In addition, it is pointed out that, within the constraints of current internal procedures, EQUITA SIM's directors, employees and/or outside professionals might hold long or short positions in the financial instruments covered by this publication and buy or sell them at any time, both on their own account and that of third parties.
Research Division management alone determines the remuneration of the analysts who produced the publication, and their remuneration is not linked to Equita SIM's Investment Banking transactions. It is linked to Equita SIM's total revenue, which includes the revenue of the Investment Banking and Sales & Trading Divisions.
For more details on the policies and principles designed to ensure the integrity and independence of Equita SIM analysts, please refer to the policy on organizational mechanisms of the Research activity available at **www.equita.eu** on the "Legal notices" section.

Regarding securities for which EQUITA SIM has the role of sponsor and/or specialist the coverage policy is always coherent with the requirements of the role itself.
For additional details on the policies and principles that guarantee the integrity and independence of Equita SIM analysts, please refer to the policy on the Research Division's organisational and administrative mechanisms, which is available online at www.equita.eu in the "Legal Notices" section.

The recommendations to BUY, HOLD and REDUCE are based on Expected Total Return (ETR – expected absolute performance in the next 12 months inclusive of the dividend paid out by the stock's issuer) and on the degree of risk associated with the stock, as per the matrix shown in the table. The level of risk is based on the stock's liquidity and volatility and on the analyst's opinion of the business model of the company being analysed. Due to fluctuations of the stock, the ETR might temporarily fall outside the ranges shown in the table.

EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

The methods preferred by EQUITA SIM to evaluate and set a value on the stocks forming the subject of the publication, and therefore the Expected Total Return in 12 months, are those most commonly used in market practice, i.e. multiples comparison (comparison with market ratios, e.g. P/E, EV/EBITDA, and others, expressed by stocks belonging to the same or similar sectors), or classical financial methods such as discounted cash flow (DCF) models, or others based on similar concepts. For financial stocks, EQUITA SIM also uses valuation methods based on comparison of ROE (ROEV – return on embedded value – in the case of insurance companies), cost of capital and P/BV (P/EV – ratio of price to embedded value – in the case of insurance companies).
The purpose of this publication is merely to provide information that is up to date and as accurate as possible. The publication does not represent to be, nor can it be construed as being, an offer or solicitation to buy, subscribe or sell financial products or instruments, or to execute any operation whatsoever concerning such products or instruments.
EQUITA SIM does not guarantee any specific result as regards the information contained in the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions.
All investment/divestiture decisions are the exclusive responsibility of the party receiving the advice and recommendations, who may decide whether or not to execute the investment/divestment based on his or her own knowledge and expertise.

Therefore, EQUITA SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the subject using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.

The estimates and opinions expressed in the publication may be subject to change without notice.

The list of all conflicts of interest, rating dispersion, last 12 months recommendation made by Equita SIM's analysts and other important legal disclaimers are available on www.equita.eu in the "*Legal notices*" section.

This document has been provided to you solely for informational purposes and may not be reproduced or distributed, directly or indirectly, to any other person, nor may it be published, wholly or in part, for any reason, without EQUITA SIM's specific authorisation. By accepting this document, you agree to comply with the limitations indicated above.

For Entities and Clients in the United States

Equita is not registered as a broker-dealer with the U S Securities and Exchange Commission, and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Equita is not a member of the Financial Industry Regulatory Authority. It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest.

This research report is only being offered to Major U S Institutional Investors and is not available to, and should not be used by, any U S person or entity that is not a Major U S Institutional Investor. Equita can not and will not accept orders for the securities covered in this research report placed by any person or entity in the United States. Orders should be placed with our correspondent, Auerbach Grayson & Co. 212-557-4444.