LA SICILIA

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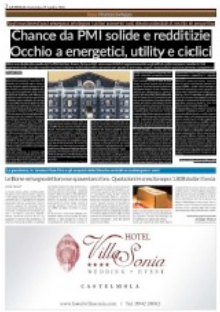
Chance da PMI solide e redditizie
Occhio a energetici, utility e ciclici

***Focus* Finance & Development**

Post-emergency investments focus on economic sectors with the highest expected growth potential

Solid and profitable SME Opportunities Eye on energy, utilities and cyclical stocks

In addition to an average dividend of 5-6% Eni, Enel, Snam, Terna and A2A are likely to appreciate if profits remain strong. In the small to medium sized enterprise segment, there are companies with a very attractive profile in terms of market share, exports, margins and competitive positioning

by Angelo Meda
*** Head of Equity at BanorSIM**

After four months of assessing the effects of the Coronavirus pandemic, the market is more focused on the extent of the recovery and on its varying impact sector by sector. In the last few weeks, news on the performance of companies emerging from lockdown, recovery measures and European agreements for stimulus plans have taken the place of announcements about government bailouts, the central banks' emergency liquidity injections and the obsessive attention to the Civil Protection bulletins on the number of daily infections. Can we say that the worst is over and that we will now witness a rush towards the 25,000 points that the FTSE MIB had registered in February? Record highs that are constantly being updated by the Nasdaq (the Wall Street technological index) which, by the way, grew 55% since the middle of March, and the almost total recovery of losses since the beginning of the year of the S&P500 Index in the US would suggest so. In truth however, we must dig deeper and analyse that existing differences between indices and countries.

To begin with, countries' responses in terms of fiscal stimulus has been different in terms of timing and extent. In the US, the stimulus was in the order of 9 percentage points of the GDP and it immediately reached the pockets of families in April. However, in Italy, not all the citizens who were entitled have yet collected the extraordinary furlough money due and in general, and with other forms of aid that are still in the pipeline, the stimulus stands in the order of 3 percentage points of the GDP. Discussions in the European Council about the instruments to be deployed (in particular on the European Stability Mechanism and on the Recovery Fund) to help States get their economies back on track are getting longer and the funds allocated will probably not be available before 2021.

At this time of emergency, the European Union has proved to be much more cumbersome and slower than its American and Chinese counterparts, with the search for unanimous consensus not always being possible given the different interests among the 27 countries. This means that, in the USA and in China, a return to 2019 GDP levels is already expected in 2021 or 2022 at the latest, while the most recent estimates for Italy do not anticipate reaching pre-Covid levels within the next 5 years.

A second consideration is the composition of the indices. American stock market indices are mainly exposed to the world of technology and consumers. In Italy, indices are more exposed to energy and banks, with the obvious differences in terms of valuations, future prospects and associated risks.

And so, how should one invest in a recovery phase? First of all, you must avoid companies that are too indebted or that need an injection of capital in order to survive. In these cases, recovery is actually diluted with the issue of new shares. Secondly, you must assess what the expected recovery can be, sector by sector and company by company, mixing more short-term considerations related to the rebound of economies following reopening after lockdown with long-term trends that can be positive or negative. In our opinion, the most interesting sectors at the moment are energy (thanks to the recovery of oil), utilities (thanks to low interest rates) and some cyclical stocks that have room for recovery.

More specifically, we believe that stocks like ENEL, Snam, Terna and A2A, in addition to dividends which average around 5-6%, have a potential for appreciation over the next 12 months when there will be evidence attesting to the resilience of their profits. Thanks to the stabilisation of the price of oil above 40 dollars per barrel, we expect more reassurance about ENI's dividend next year. In the industrial world, we prefer companies like Brembo, Pirelli or Prysmian that can benefit from post Covid-19 re-acceleration thanks to the strong competitive advantage in premium segments.

It is a different story in the banking sector, where the watchword in investment remains stability. If we can be reassured in the case of Intesa Sanpaolo and UniCredit, the same cannot be said for all the other banks that find themselves facing a crisis with few precedents and that, despite the ECB budget concessions, have difficult years ahead in terms of profits.

Finally, it is interesting to look for so-called "Italian Champions", even in the listed small to medium-sized enterprise segment. At times, these have lost ground, just like their counterparts with significant capitalisation, but they offer a much more attractive investment profile in terms of market share in their sector, export percentage, margins and competitive positioning. Biesse, Cembre and Esprlnet are some examples. These are companies that have a very significant potential for recovery and that emerged from the crisis even stronger thanks to a financial situation which is under control and that enables them to gain ground at the expense of companies that are in trouble.

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