BANCA IMI

Equity Strategy Report

Italian Market: Top Picks for 2018

Riding the Overseas Wave!

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Italian Market

2018 Equity Strategy

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We believe Italian equities look attractive on a 2018 view, as they stand at an 11% discount to historic average P/E; even more so on PEG, coupled with low earnings risk. We set our new FTSE MIB Index target at +7% at June 2018 and +13% at December 2018, based on our post-elections outlined scenarios and risk premium levels. In an expansionary backdrop, mainly driven by emerging economies, we search for a balanced combination of leadership and internationalisation, often typical features of the 'Made in Italy' stories.

- **2018 market view and valuation**. Italian equities offer value on a P/E basis, as they show an 11% (on 2018) and 21% (on 2019) discount to the historic average. On a PEG basis, at 1.15x Italy is the cheapest among the international equity benchmarks in our analysis, and we see relatively low 2017-18 earnings risk going forward. At 6.5%, the Italian ERP is in line with the other Euro area benchmarks, but still distant from its 20Y (5.8%) and 25Y (5.3%) averages, in a normalising financial environment. By weighting our index targets on their respective probabilities, we set our new FTSE MIB Index target at +7% at June 2018, and +13% at December 2018, based on our expected post-elections scenarios and risk premium levels.

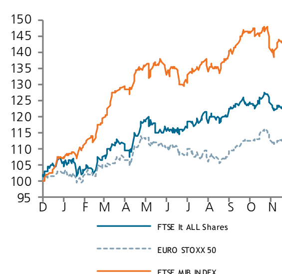
- **Riding the Overseas Wave!** In our reference scenario, global growth is expected to slightly accelerate in 2018, driven by emerging countries in a commodity-friendly environment. Our "capturing growth where growth is" paradigm is now defined as the ability to capture the strength of demand in emerging regions (such as Latam, OPEC countries, India and China). We also focus on price leadership: winners in our scenario should be able to pass on the rise in some input costs to final output prices. In a nutshell, we search for a balanced combination of leadership and internationalisation, often typical features of the "Made in Italy stories".

- **The macro picture**. The recovery in economic activity in Italy should continue in 2018E (we forecast GDP growth at 1.3%), albeit at a slightly slower pace than in 2017E (+1.5%). Final domestic demand should grow at a pace close to 1.5%, with a moderate slowdown in consumption and still upbeat investments foreign trade could resume making a slightly positive contribution. The main risk is political, which nonetheless seems more "manageable", than a few months ago.

- **Top picks for 2018**. Below, we show our 2018 Top Picks selection, with an eye on companies' exposure to international demand, and on expected dividend yields.

Sample

Index price performance, -1Y



Source: FactSet

Report priced at market close on 06/12/2017 (except where otherwise indicated).

In this report, we confirm the ratings and target prices assigned in the latest company reports (unless otherwise indicated).

2018 Top Picks – Key data

Company Name	Target Price (EUR/share)	Rating	Sector	Price (EUR/share)	Market cap (EUR M)
Autogrill	13.5	BUY	Travel&Leisure	11.1	2,834.0
Banca Mediolanum	8.2	ADD	Asset Gatherers	7.1	5,288.2
CNH Industrial	12.8	BUY	Capital Goods	11.1	15,105.1
Enel	6.2	ADD	Electricity	5.5	56,172.7
FCA	16.9	ADD	Auto & Components	14.4	21,995.1
Pirelli	8.5	BUY	Auto & Components	6.9	6,940.0
Telecom Italia (Savings)	0.89	BUY	Telecommunication Services	0.61	14,684.2
Unicredit	20.0	ADD	Banks	16.9	37,681.4
Unipol	5.0	BUY	Insurance	3.8	2,717.8
YNAP Group	32.3	ADD	Branded Goods	29.6	3,964.2

Priced at market close on 06.12.2017; Source: FactSet data and Intesa Sanpaolo Research estimates

See page 59 for full disclosures and analyst certification

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Sample

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Priced at market close on 06/12/2017 (except where otherwise indicated).

Italian Equities Valuation

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Italian equities offer value on a P/E basis, as they stand at an 11% discount to the historic average on 2018, and 21% on 2019. On a PEG basis, at 1.15x, Italy is the cheapest among the international equity benchmarks in our analysis, and we see relatively low 2017-18 earnings risk. At 6.5%, the Italian ERP is in line with the other euro area benchmarks, but still distant from its 20Y (5.8%) and 25Y (5.3%) averages, in a normalising financial environment.

Market Multiples Analysis

Italian equities vs. historic averages

Valuation at a discount on both 2018 and 2019

At end-November 2017, the Italian market 2018 P/E stood at 15.2x, at an 11% discount to the 20Y average (1997-2016: 17.0x), and in line with the 15Y average (15.0x). Based on a 2019 market P/E (13.5x), valuations are at a 21% and 10% discount to the 20Y and 15Y average, respectively.

Italian equity market – A historic comparison (2018-19)

x	Historic P/E average	2018	2019
Italian Equity Market P/E		15.2	13.5
Premium/-discount to 20Y avg. (%)	17.0	-11	-21
Premium/-discount to 15Y avg. (%)	15.0	1	-10

Source: Intesa Sanpaolo Research elaboration on IBES consensus data (as of end-Nov 2017)

We added the rolling 20Y average (currently at 17.0x), on top of the 15Y average (currently at 15.0x), to our historical analysis. This has the effect of smoothing the impact of the crisis years (i.e. a prolonged period of well below-average P/E, well above-average ERP, and of unconventional monetary policy) into our P/E series, normalising its average value.

Italian equities vs. Euro Stoxx

Italy more attractive on ERP and PEG, with low earnings risk

The Italian ERP is slightly higher than that of Euro Stoxx (6.5% vs. 6.3%, +20bps for Italy). Compared with end-2016 (7.6% vs. 6.6%, +100bps in Italy), the picture has improved for Italy (-80bps relative to Euro Stoxx in the past 11 months), in a context of declining risk aversion in the Eurozone.

In terms of P/E, Italy trades at a 5% premium to the Euro Stoxx on 2018 figures (15.2x vs. 14.4x) and broadly in line on 2019 (13.5x vs. 13.2x). Based on the current EPS growth estimates (2018-19 EPS CAGR of 15.8%), the Italian PEG looks more attractive than the Euro Stoxx (1.15x vs. 1.67x) and, based on the recent 3Q17 reporting season, we see a relatively low earnings risk for Italy going forward.

Italian equity market vs. Euro Stoxx – A comparative valuation (2017-19)

x	Equity Risk Premium (%)	P/E 2018	P/E 2019	EPS growth (%) 2017/16 (1)	EPS growth (%) 2018/17	EPS growth (%) 2019/18	PEG (2)
Italian Equity market	6.5	15.2	13.5	26.7	19.2	12.4	1.15
Euro Stoxx	6.3	14.4	13.2	10.9	9.6	9.4	1.67

(1) 2017/16 EPS growth adjusted for Unicredit; (2) PEG calculation is based on current 2017 P/E and 2Y forward EPS growth; Source: Intesa Sanpaolo Research elaboration on IBES consensus data (as of end-Nov 2017)

Italy's 2017 earnings growth (+26.7%) is, as usual in recent years, influenced by the expected earnings trends in the banking sector (even adjusting for Unicredit's extraordinary losses in 2016). We analyse this effect in more detail in the Earnings Outlook in Italy section.

Italian equities vs. Rest of the World

Italy's FTSE MIB: at a discount on 2018-19 P/E…

We compared the Italian equity market valuation with some international benchmark indices to assess the relative attractiveness of Italian equities. We used the FTSE MIB index benchmark for the purpose of this analysis.

Sample

According to our elaborations, the Italian benchmark FTSE MIB is trading in line with the average peers' P/E on 2017 (16.2x vs. 16.2x average), at a 6% discount on 2018 (13.8x vs. 14.7x), and at an 8% discount on 2019 (12.3x vs. 13.4x), when compared to the other international benchmarks.

…by far the cheapest on PEG…

When taking into account 2018-19 EPS CAGR, on a PEG basis, the FTSE MIB looks the cheapest among all the benchmarks in our analysis, backed by an above average EPS growth (+14.8% EPS CAGR in 2018-19, the highest among its peers; sample average: +9.7%): at a 1.09x PEG, the Italian benchmark compares with a sample average PEG at 1.75x.

…and with the highest ERP

As far as the Equity Risk Premium is concerned, the FTSE MIB stands at 7.0%, the highest in our sample together with Spain's IBEX 35 (7.0%), and well above the Euro Stoxx (6.3%). This largely reflects the weighting of Banks (currently 26%) and, more generally, Financials (37%) in the Italian benchmark index, and explains the higher ERP for the FTSE MIB (7.0%) vis-à-vis the FTSE Italia All Share (6.5%).

Equity market valuation and Equity Risk Premium by country (2017-19)

Country	Index	P/E (x) 2017	P/E (x) 2018	P/E (x) 2019	2018-19 EPS CAGR (%)	PEG (1) (x)	Equity Risk Premium (%)
Italy	FTSE MIB	**16.2**	**13.8**	**12.3**	**14.8**	**1.09**	**7.0**
France	CAC 40	15.4	14.4	13.2	8.2	1.89	6.3
Germany	DAX 30	14.7	13.3	12.3	9.2	1.59	6.6
Spain	IBEX 35	14.3	13.2	12.0	9.2	1.56	7.0
Euro area	Euro Stoxx	15.8	14.4	13.2	9.5	1.67	6.3
UK	FTSE 100	15.0	14.1	13.2	6.7	2.25	6.1
Switzerland	Swiss Market	18.8	16.3	14.9	12.4	1.52	6.7
US	S&P 500	19.9	17.9	16.2	10.7	1.86	5.2
Japan	TOPIX	15.2	14.5	13.4	6.5	2.35	6.2
Average		**16.2**	**14.7**	**13.4**	**9.7**	**1.75**	**6.4**

(1) PEG calculation is based on current 2017 P/E and 2Y forward EPS growth; Source: Intesa Sanpaolo Research elaboration and IBES consensus estimates (as of end-Nov 2017)

Sample

Equity Risk Premium analysis in Italy

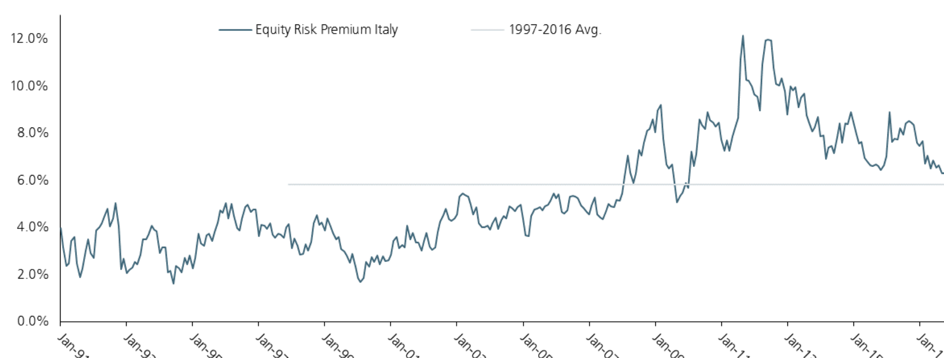
A steady decline in 2017

ERP on route to its 20Y average

At end-November 2017, the equity risk premium for the Italian market stood at 6.5%, well below the ERP level at year-end 2016 (7.6%, or -110bps), in line with its 15Y average (6.5%) and on route to its 20Y (5.8%) average level.

During 2017, the equity premium in Italy declined in an international context of lower risk aversion, with: a) GDP growth accelerating in Italy (2017E: +1.5%), as in the whole Euro area; b) the recent reporting seasons enhancing earnings visibility for Italian corporates (2017 EPS growth: +26.7%); and c) political risk abating after the elections in the Netherlands and France, despite the approaching electoral deadline in Italy in 2018.

Italian equity market - Equity Risk Premium (1991-2017)



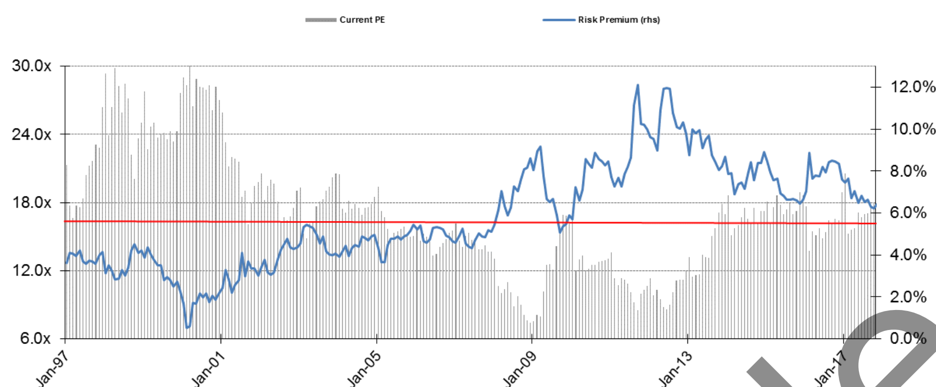
Source: Intesa Sanpaolo Research elaboration on IBES consensus data

Multiples expansion

The chart below shows historical P/Es for the Italian equity market on a monthly basis since January 1997, the related 20Y P/E average (17.0x), the corresponding ERP levels, as well as the 20Y ERP average (5.8%).

P/E multiples are returning to their long-term average, as is the equity risk premium, as long as economic growth and monetary policy move gradually towards normalisation, following a prolonged period of above-average ERP and below-average P/Es, during the crisis.

Italian equity market - P/E and Equity Risk Premium (1997-2017)



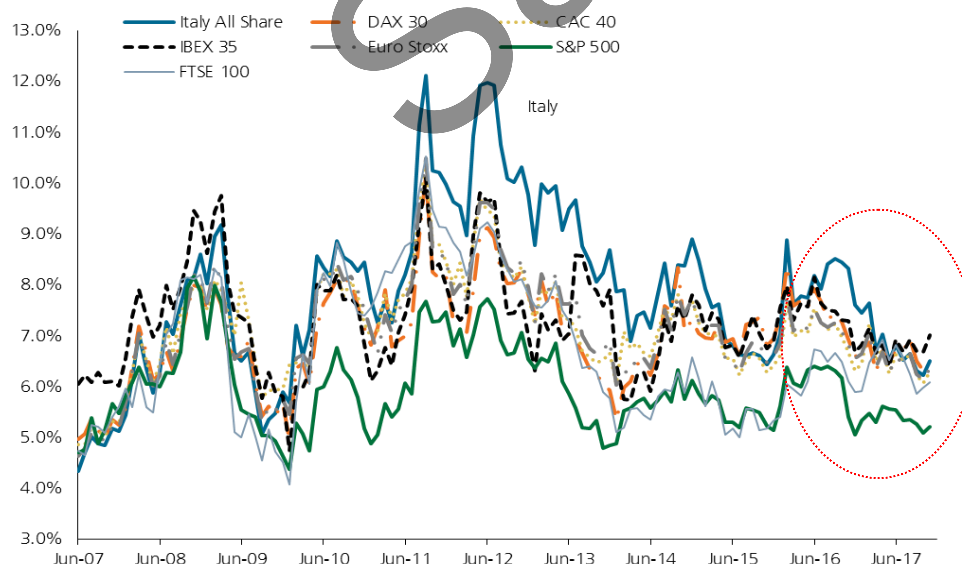
Source: Intesa Sanpaolo Research elaboration on IBES consensus data

The ERP gap in the euro zone now closed for Italy

The following chart shows the trend in the Equity Risk Premium for seven international equity benchmarks since June 2007. The ERP gap for Italy vis-à-vis the other Euro Area benchmarks has now closed (November 2017).

We note that Spain is the equity market with the highest ERP (now at 7.0%), among those in our sample, also due to a higher perceived political risk. Only the S&P 500, at 5.2%, remains well below the sample average.

Italy vs. Rest of the World – Equity Risk Premium (2007-17)



Source: Intesa Sanpaolo Research elaboration on IBES consensus data

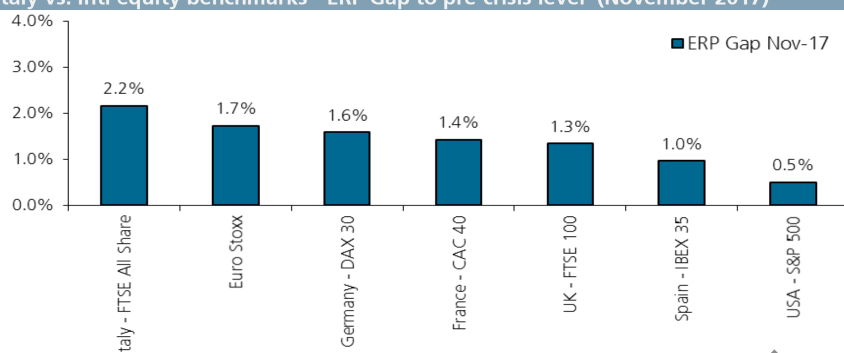
Sample

However, all the main equity markets remain distant from their pre-crisis levels, in terms of implied Equity Risk Premium, with the sole exception of the US, which is only a touch above the 4.7% recorded at June 2007.

The ERP gap to pre-crisis levels still large for Italy

The largest ERP gap to pre-crisis levels is shown by Italy: +220bps (6.5% vs. 4.3% at June 2007). In market terms, it would take a 61% rise in the Italian equity index to drive the Italian Equity Risk Premium back to its pre-crisis level of 4.3%, all else being equal. In index terms, the FTSE MIB would need to rise to around 36,000, a level currently not justified by fundamentals at all.

Italy vs. Intl equity benchmarks - ERP Gap to pre-crisis level (November 2017)



Source: Intesa Sanpaolo Research elaboration on IBES consensus data

Country-risk and bank-risk: an update on Italy

A bank-driven rise in Italy's ERP during the crisis period…

The chart below shows the trend in the equity risk premium for the Italian market and the implied risk premium for Italian banks (based on the FTSE Italy Banks basket), during the June 2007-November 2017 period, i.e. covering the whole financial and economic crisis period.

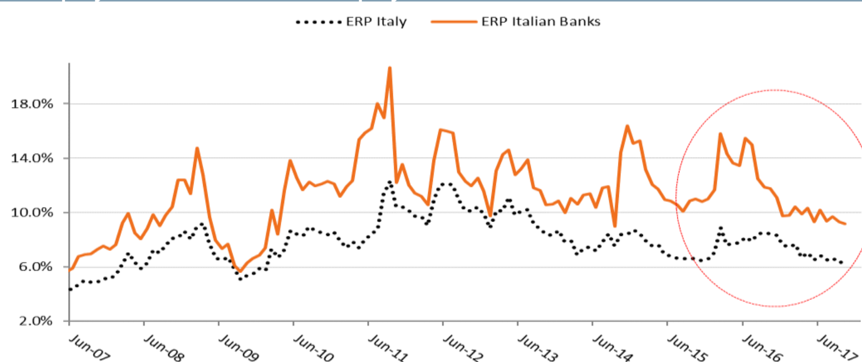
Given the weighting of Italian listed banks (at 23.6% currently in the FTSE Italy All Share; at 26.1% in the FTSE MIB) and the "financial nature" of the crisis, we saw a sharp increase in risk premium for the Italian market driven by the banking sector at each major juncture of the financial/sovereign crisis (4Q08, 3Q11, 2Q12 and 1Q16). As of end-November 2017, Italy's ERP stood at 6.5%, while ERP for Italian banks was 9.4%: the equity premium differential is equal to around +290bps. While it has materially come down from the 2H11 peaks, it is still well above pre-crisis levels (Jun-07), when the ERP differential between banks and the broader market was +160bps.

… now needs to be unwound to get Italy's ERP back to pre-crisis levels

In a nutshell, the gradual reduction of this gap during the past 12 months is signalling, in our opinion, an easing of investors' concerns about "worst-case scenarios" in the Italian banking sector. On the same logic, however, it would probably take another substantial decline in risk premium implied in the banking sector, amongst others, to bring Italy's ERP close, or at least on route, to its pre-crisis levels (4.3% ERP at June 2007, from the current 6.5%).

Sample

2007-17 Equity Risk Premium – Italian equity market vs. Italian Banks



Source: Intesa Sanpaolo Research elaboration on IBES

Aligning Italy's equity risk premium to its 20Y and 25Y averages

Italian ERP still above its 20Y and 25Y averages

The Equity Risk Premium in Italy (6.5%) currently stands 70bps above its 20Y 1997-16 average (5.8%, based on our model), and 120bps above its 25Y average 1992-2016 (c. 5.3%).

A normalising environment calls for longer reference averages…

At a time when the economic and financial environment is gradually moving towards "normalisation", and earnings visibility has gradually improved; we can extend the reference period to calculate our ERP long-term average, which is then used in our market valuation model.

As indicated above, this has the effect of smoothing the impact of the crisis years (i.e. a prolonged period of well above-average ERP, and of unconventional monetary policy) into our ERP series, normalising its average value.

…and gradual multiples expansion

We simulate below the implicit upside for Italian equities assuming that Italy's ERP returns to its long-term averages (20Y and 25Y, respectively), and we calculate the implied multiples, all else being equal.

In the case of the 20Y ERP average (5.8%), we would obtain a 2018 P/E of 17.3x (in line with the long-term P/E average of 17.0x), while the PEG would still look relatively attractive at 1.31x. The implied market upside from current levels would be approximately +14%.

In the case of the 25Y ERP average (5.3%), we would obtain a 2018 P/E of 19.2x (a 13% premium to the long-term P/E average of 17.0x), while the PEG would look fair at 1.45x. The implied market upside from current levels would be approximately +26%.

Italian Equity Market – Country Risk back to its 20Y and 25Y averages

%	Equity Risk Premium	Implied Index Performance (%)	P/E (x) 2018	2019	PEG (x)
Current – Italian Equity Market	6.5		15.2	13.5	1.15
Back to 20Y average	-70bps				
Italy "ERP-normalised"	5.8	+14	17.3	15.4	1.31
Back to 25Y average	-120bps				
Italy "ERP-normalised"	5.3	+26	19.2	17.0	1.45

Source: Intesa Sanpaolo Research elaboration on IBES

Sample

A brief recap on our valuation metrics

We believe Italian equities look attractive on a 2018 view, barring political risks. We recap below our valuation approach:

P/E: at a discount on 2018 and 2019

- **P/E vs. historic averages:** based on a 2018 market P/E (15.2x), valuations are at 11% discount to the 20Y average (17.0x) and in line with the 15Y (15.0x). Calculated on 2019 market P/E (13.5x), valuations are at a discount of 21% to the 20Y average and of 10% to the 15Y;

PEG: attractive, with low earnings risk

- **P/E vs. EPS growth**: on a PEG basis, Italy looks the cheapest among all the other benchmarks in our analysis, at 1.15x, backed by an above-average EPS growth (+15.8% EPS CAGR in 2018-19), and we see a relatively low earnings risk for Italy;

Italy vs. Euro Stoxx: in line on P/E, cheaper on PEG

- **Italy vs. Euro Stoxx**: in terms of P/E, Italy trades at a 5% premium to the Euro Stoxx on 2018 (15.2x vs. 14.4x) and broadly in line on 2019 (13.5x vs. 13.2x). However, Italy looks more attractive on a PEG basis (1.15x vs. 1.67x), with earnings risk which we consider as low in Italy as for the Euro Stoxx, following the recent 3Q17 results season;

ERP: cheap vs. history

- **Equity Risk Premium**: at 6.5%, the Italian ERP is in line with the other Euro area benchmarks. The gap from its 20Y average (5.8%) remains marked (+70bps), although it has narrowed since YE16 (when Italy's ERP was at 7.6%).

Earnings Outlook in Italy

We continue to see a high earnings visibility for FY17 and early 2018, following the 3Q17 reporting season and companies' guidance. 2018 earnings growth (+19%) should be more broad-based than in 2017: excluding Banks and Eni (which represent around 33% of total 2018 growth), Italy's earnings growth would only marginally decelerate (+17%), with a low concentration of earnings risk.

Recent 3Q17 reporting season

3Q17 reporting season in line with forecasts, overall

- **A quick recap.** We judge the 3Q17 reporting season in Italy as in line with our expectations: based on our 3Q17 previews, we calculated that, out of the 69 companies in our sample, 36% of results came in above expectations, 46% in line, and 17% below our forecasts. The 3Q season mirrored the previous quarter, broadly confirming the ongoing recovery trend in corporate profitability. In the Eurozone, we have seen approx. 53% positive earnings surprises for the Euro Stoxx (based on Bloomberg data).

Financials slightly better than forecast

- **3Q17 results: Financials slightly above.** 3Q17 results confirmed the main trends seen in the previous two quarters among Financials: out of the 16 companies in our sample (asset gatherers, banks and insurance), 8 reported above, 5 in line, and 3 below our estimates. The season was rather positive for Asset Gatherers, with rising net inflows (also driven by PIR funds), and cost efficiencies. Banks showed solid commission and trading income, and a lower cost of risk, while the picture was still mixed for NII. Insurers were backed by sound non-life business, with the combined ratio generally in line;

Non-Financials: Auto as season winner; Branded Goods disappointed

- **3Q17 results: Non-Financials in line.** Out of the 53 companies in our sample (Consumers, Industrials, Energy & Utilities, TMT), 17 reported above (32%), 27 in line (51%), and 9 below our estimates (17%). We view Non-Financials as in line, in the same tune as last quarter. Among Industrials, Auto was among the sector winners, despite FX headwinds, on steady demand and operating leverage; Media and Utilities also released solid results with a few positive surprises. On the other hand, Branded Goods results were weak (in line or below forecast), on softer demand and negative FX, while the picture was mixed for Consumer G&S;

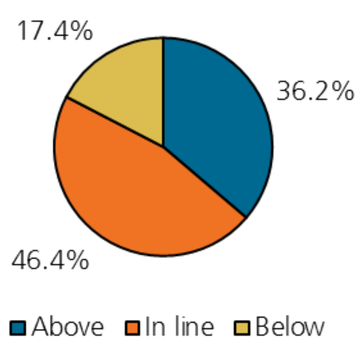
High earnings visibility for FY17 and early 2018

- **Outlook**. We tracked 34 companies' announcements on FY guidance: most of them (24 companies, or 71%) confirmed their FY guidance and 8 companies (24%) lifted their guidance. Therefore, we continue to see a high earnings visibility for FY17 and early 2018. Looking ahead at the 4Q17 earnings season, among non-Financials we expect sound domestic demand in the Eurozone and demand recovery from emerging economies, while FX and rising commodity prices may start to take a toll. As for Financials, we anticipate "more of the same", namely solid commission income, and steady funds inflows for asset gatherers.

For a more detailed sector and company analysis, refer to our report "Italian Market: 3Q17 Results" of 16 November 2017.

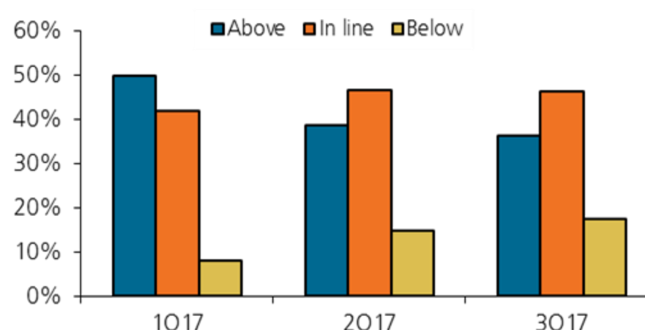
Sample

Preview Coverage – 3Q17A results vs. our estimates



Source: Intesa Sanpaolo Research elaboration

Quarterly results vs. our estimates



Source: Companies' data and Intesa Sanpaolo Research elaboration

Assessing 2018 earnings risk in Italy

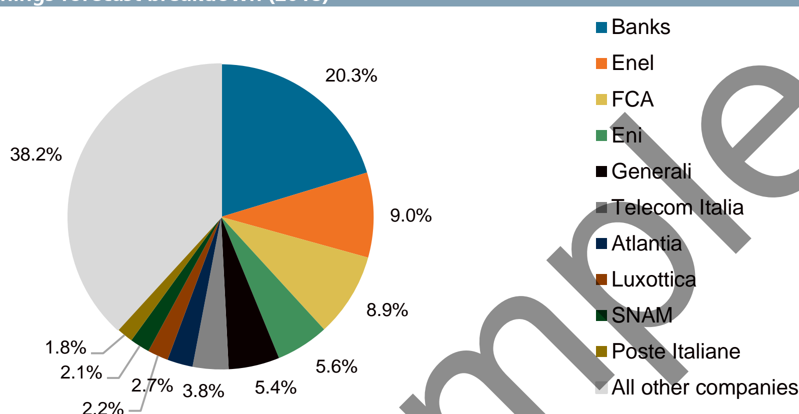
Looking ahead to 2018, current consensus earnings (IBES) for Italy point to a noteworthy +19.2%, while the 2018-19 EPS CAGR is 15.8%; both figures are higher than those expected for the Euro Stoxx, +9.6% and +9.5%, respectively (Italy's 2017 earnings growth data adjusted for Unicredit's extraordinary losses reported in 2016).

2018 earnings growth higher for Italy than Euro Stoxx

From a bottom-up angle, we believe that earnings risk is currently low in Italy: the recent 3Q17 reporting season was reassuring, for the high number of companies confirming and/or raising their guidance, hence supporting the ongoing recovery trend in corporate profitability. Also from a top-down angle, the recent 3Q17 GDP growth data for Italy (with GDP growth at +0.5% qoq, and +1.8% yoy) provide further visibility to end-2017 and early-2018 earnings trends.

To better assess the 2018 Italian earnings risk, first we show below the breakdown and dynamics of 2018 expected earnings growth for the Italian equity market, so as to understand who are the main contributors to growth, and where risks could be higher.

Italy – Total earnings forecast breakdown (2018)



Source: Intesa Sanpaolo Research elaboration on IBES/TR consensus data

Sample

Total 2018 expected earnings for Italian listed companies amount to approx. EUR 45.2Bn (we aggregated the last IBES/TR consensus estimates for all available Italian listed stocks). Banks, in aggregate, represent 20.3% of total 2018 expected earnings.

Outside the banking sector, the single largest contributor is Enel (9.0% of total expected earnings), followed by FCA (8.9%), Eni (5.6%) and Generali (5.4%).

Banks represent 20% of total 2018 earnings

In the following table, we report the expected earnings growth rate in 2018 for some large companies in our sample and for some aggregates (Banks and the composite "All other companies"), and we show their contribution to 2018 earnings growth for Italy.

Italy - Earnings growth (2018)		
	Earnings growth rate	Contribution to total earnings growth
%	2018	2018
Tot. Mkt. Italy	19.2	100
Banks	25	25.5
Fiat	15	7.2
Eni	26	7.1
Enel	13	6.2
Generali	10	2.9
Telecom Italia	12	2.5
Poste	21	1.8
Atlantia	4	1.2
Luxottica	10	0.6
SNAM	4	0.5
All other companies	30	30.0

Source: Intesa Sanpaolo Research elaboration on IBES/TR consensus data

We note the following, in particular:

- **Concentration of earnings risk is declining.** We have 33% of total 2018 earnings growth coming from Banks (25.5%) and FCA (7.2%); adding Eni (the third-largest contributor), we reach around 40% of total growth in Italy. As reference point, in 2017 growth was more concentrated, with Banks and Eni accounting for around 57% of total growth. In other words, earnings growth is expected to be more diffused in 2018, thus reducing the concentration of earnings risk too;

Concentration of earnings risk should be lower in 2018

- **A more broad-based earnings growth.** Excluding both Banks and Eni, Italy's aggregate earnings growth rate in 2018 would only marginally decline, from +19.2% to +17.3%. We view this as another confirmation that 2018 earnings growth in Italy is expected to be more broad-based than in 2017.

Recalculating market data without banks

Historically, earnings dynamics in the Italian banking sector have materially impacted earnings forecasts for the whole Italian market. Therefore, we normally recalculate some market data (expected earnings growth; PEG, Equity Risk Premium) net of the banking sector.

Two pictures, with and without banks…

Based on our elaborations, 2018 EPS growth for the Italian market, excluding Banks, would be +17.9% (vs. +19.2% for the broader market). In terms of Equity Risk Premium, from 6.5% for the whole Italian market, we calculate an ERP of 9.4% for the Banks sector alone vs. 6.0% for the Italian market ex-Banks.

With limited differences for 2018

In the table below, we show our results which represent a rough calculation, as the aggregates used in our simulation (Italian Equity Market, Italian Banks and Italian equities ex-Banks) are not fully comparable. In detail, the former is sourced from IBES Global Aggregates, while the two sub-samples (Banks and Market ex-banks) are the result of our bottom-up aggregation, starting from IBES/TR consensus data for each available index constituent.

Italian equity market – EPS growth estimates and valuation with/without banks (2017-19)				
%	EPS growth		Equity Risk	PEG (1)
	2018/17	2019/18	Premium (%)	(x)
Italian Equity Market	19.2	12.4	6.5	1.15
Italian Banks	25.5	26.8	9.4	0.69
Italian Equity Market ex-Banks	17.9	5.5	6.0	1.48

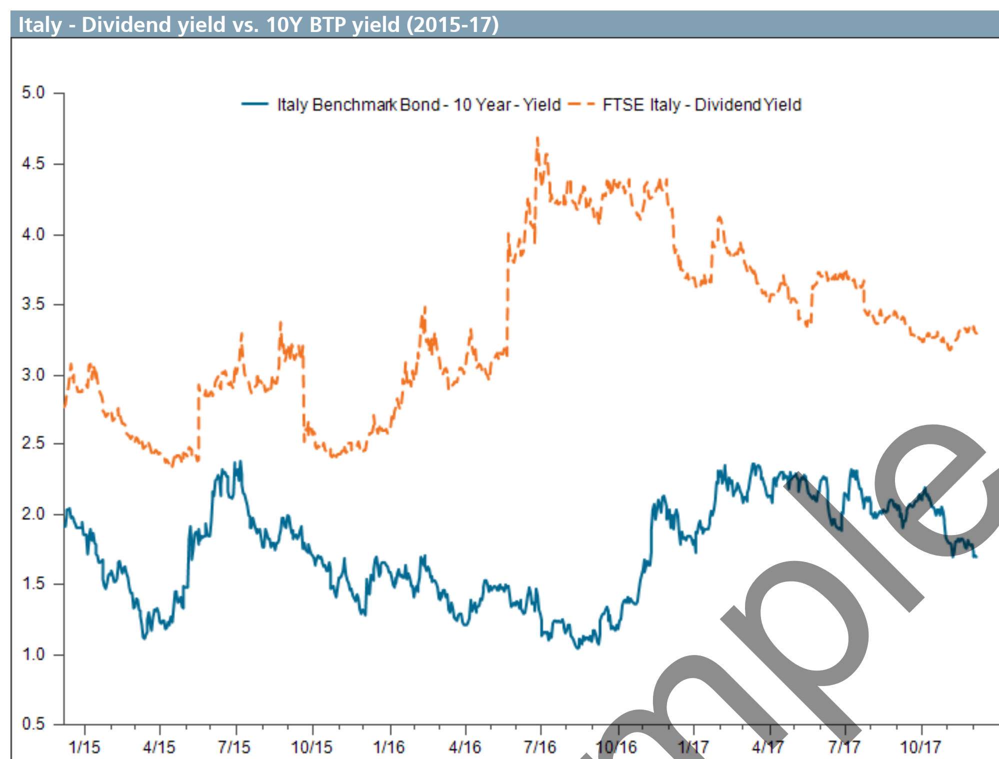
(1) PEG calculation is based on current 2017 P/E and 2Y forward EPS growth; Source: Intesa Sanpaolo Research elaboration on IBES/TR consensus data (as of end-Nov 2017)

Sample

The Hunt for Dividend Yields

We updated our analysis on dividend yields as one of our key investment themes for 2018 with an eye on the short term (namely, in a still uncertain political environment in Italy ahead of general elections), assuming that yield stocks remain under investors' focus, given their defensive features.

Italy - Dividend yield vs. 10Y BTP yield (2015-17)



Source: Intesa Sanpaolo Research elaboration on FactSet

In the following table, we show a selection of large Italian stocks under our coverage, ranked by our expected 2017E dividend yield (to be distributed in Spring 2018), taking into account also the visibility on dividends, i.e. potential earnings risks.

Italian Large Caps - Dividend yields (2016A-17E)

Company Name	Dividend yield 2016A (%)	Dividend yield 2017E (%)	Price (EUR/share)	Mkt Cap (EUR M)
Azimut Holding	5.94	7.07	15.56	2,229.0
UnipolSai	7.15	6.41	1.95	5,517.9
Poste Italiane	6.18	6.37	6.15	8,025.4
Eni	5.96	5.76	13.90	50,151.2
Generali	6.45	5.60	15.18	23,708.2
Banca Mediolanum	6.16	5.57	7.19	5,317.8
Snam	4.33	5.04	4.27	14,949.3
Mediobanca	3.42	5.00	9.61	8,468.5
Unipol	5.93	4.95	3.84	2,753.7
Telecom Italia savings	4.10	4.50	0.61	14,684.2
Banca Generali	4.93	4.33	28.90	3,377.0
Enel	4.64	4.20	5.53	56,172.7
Terna	4.42	4.06	5.23	10,512.3
Italgas	5.77	3.94	5.29	4,276.0
A2A	4.19	3.68	1.59	4,993.8
Atlantia	3.98	3.59	27.86	23,006.3

Priced at market close of 05/12/2017; Note: Companies ranked by 2017 estimated dividend yields; A: actual; E: estimates; Source: Companies' data and Intesa Sanpaolo Research

Sample

Elections Time in Italy

With only a few months left before Italy's 2018 general elections, we reassess the political risk in Italy. The new electoral system reduces (but cannot eliminate) the risk of a post-vote hung Parliament, in our view. We attach a higher probability (70%) to a "large coalition" scenario after elections, while equally-weighting (15% each) both the "outright winner" and the "return to polls" scenarios.

Where do we stand in Italian Politics right now?

Recent events in 2H17

The new Electoral Law

Last October, the Senate finally approved a new Electoral Law, just in time for the 2018 political elections. They should take place in Spring 2018, possibly already in March, if the Parliament is dissolved at the turn of the year, right after the approval of the 2018 Budget Law.

In a nutshell, under the new rules, 36% of MPs would be elected with a first-past-the-post rule in each constituency (where parties can form coalitions, presenting a single candidate). The remaining 64% of MPs will be elected with a pure proportional system, with a minimum threshold of 3% for single parties and 10% for coalitions (with candidates selected from fixed short lists).

The likely effect

The new electoral law looks set to benefit those parties able to form coalitions, given the 36% seats attributed with a majoritarian system, where coalitions are allowed. As such, the governing center-left coalition (PD + centrist parties), and the "traditional" center-right alliance (Forza Italia, Lega and Fratelli d'Italia) might benefit under the new rules in relative terms, to the detriment of the Five Star Movement (M5S), which has repeatedly refused any alliance pre- and post-vote.

Is the risk of a post-vote hung Parliament averted?

In our opinion, the risk of a post-vote hung Parliament has diminished vis-à-vis the pre-existing situation (i.e. two different proportional systems for the Lower House and the Senate, resulting from two separate Constitutional Court rulings). It is true, however, that, according to recent vote simulations (source: Corriere della Sera), no party or coalition is able to boast a 51% majority (with the Centre-right slightly ahead at around 35%, Centre-left and M5S slightly below 30%). Given the current fragmented political framework, we believe that no voting system has the power to eliminate ex-ante all the risks of a hung parliament: these can only be reduced.

We note that, under the new electoral law, coalitions are meant more as electoral cartels (for instance, no indication of a candidate PM on the ballot paper), leaving room to search for potentially different post-vote alliances.

Recent polls point to a "large coalition" scenario

Based on the above-mentioned simulation (Corriere della Sera), the most feasible post-vote majority would be a "large coalition" among he PD, Forza Italia and centrist parties. As a reminder, the government led by Enrico Letta, after the 2013 elections, was *de facto* relying on a "large coalition" between PD and Forza Italia.

Sample

Three ways forward, after the 2018 election

The road after Italian elections – An assessment

Three ways forward	Potential Effect	Probability	Impact on ERP
1. An outright winner	ERP down to 25Y avg. (5.3%) at YE18	15%	Positive
2. A large coalition	ERP down to 20Y avg. (5.8%) at YE18	70%	Slightly Positive
3. A second election in 2018	ERP rises 100bps (as in 2013)	15%	Negative

Source: Intesa Sanpaolo Research elaboration

An outright winner: positive

Scenario 1. After the vote an outright winner emerges, so that a coalition, or a single party, is able to command a sound majority in both houses of Parliament. This scenario is, in principle, the best case in terms of governability, but we argue that an investor would regard differently (likely, more positively) the case of an outright win by a "traditional" force (either Centre-left, or Centre-right), from the case of an outright M5S success, due to the uncertainty related to an untested government force.

Under this scenario (particularly, in the case of a "traditional coalition" win), we believe that ERP could gradually move down to its 25Y average (5.3%) by year-end 2018, to stand at 5.8% (20Y average) already at June 2018. This would be equivalent to +14% in index performance terms at Jun-18, and +26% at YE18, from the current levels (we remind that the ERP is currently at 6.5%).

We attach a low probability to this development (only 15%), both because the political landscape in Italy is rather fragmented (tripolar, to say the least), and because electoral consensus for the main parties is unevenly split in the Italian territory, making it more difficult for any party or coalition to gain a landslide victory in the majoritarian part of the vote (needed to convert, for instance, a 40+% in the proportional vote into a 51% overall).

A large coalition: slightly positive

Scenario 2. After the vote no party or coalition reaches a 51% majority, and the only feasible post-vote government is a "large coalition" among the PD, Forza Italia and centrist parties (as shown in recent vote simulations). The political forces supporting such a coalition are historically pro-euro and pro-EU, so there should not be any real disruption to the key pillars of Italy's foreign and economic policy in this scenario.

The backdrop would possibly be a slower reforming process going forward, due to the need for compromises between liberal (FI) and social (PD) instances: we do not see this as a major concern for foreign investors at a time of an expansionary economic cycle in the euro area, and if compared to the uncertainty related to any alternative government supported by "populist" forces.

In this scenario, we expect a mildly positive impact on the Italian equity markets. ERP could gradually decline towards its 20Y average (5.8%) by YE18, also allowing for period of uncertainty right after the vote, during the "negotiation phase". This would be equivalent to a positive (+14%) index performance at YE18. We attach a high probability to this development (70%), in the light of recent vote simulations and the fragmented political landscape in Italy.

A second election in 2018: the negative

Scenario 3. The post-vote Parliament is so highly fragmented, that even a large coalition is not able to reach a 51% majority in both Houses of Parliament. Following a prolonged stalemate in parties' negotiations, the President of Republic resolves to dissolve the Parliament and call for a new vote after a few months, under the same electoral rules.

This would open up a phase of heightened political uncertainty until a new election takes place (in a remake of the Spanish scenario between Dec-15 and Jun-16); during this period, the current Gentiloni Government would remain in charge as a care-taker cabinet.

Under this scenario we see, as a worst case, a rise in ERP in the region of +100bps (similar to that after 2013 elections) already at June-18, before the second election takes place. Then, we assume a minor decline in ERP, to 7.0% by YE18, if the second vote helps to unblock the stalemate. A rise in Italy's ERP of around 100bps would be equivalent to a negative (-15%) index performance at June-18, partially recovered (-8%) at YE18. We attach a low probability to this scenario (15%), in the light of recent vote simulations and the alternative possibility of forming a minority government, with the external support/abstention of other parties.

Lower impact from political risk going forward

Whatever the vote outcome, we share our macroeconomists' view that (also in the light of a recent rating upgrade of Italian sovereign debt by S&P, the first in 15 years from any rating agency), investors' perception of Italian political risk has somewhat eased compared to the recent past. This may have two main explanations: 1) with the only relevant exception of France, we are currently seeing either grand coalitions or minority governments all over Europe; and, 2) as long as the economic cycle remains expansionary, the trajectory of public debt should be manageable despite political uncertainty.

Sample

Italian elections and Equity Risk Premium

Lessons from the past

We examined the equity risk premium trend in Italy at the time of the previous six Italian political elections (from 1994 until 2013). We have measured the change in Equity Risk Premium in the first month after the vote, to assess its immediate impact, as well as in the run-up to the elections. For each election, we indicated the date and the government formed after the elections. As highlighted in the table, the Equity Premium declined in the aftermath of political elections as an immediate reaction (i.e. 1 month after the vote): this happened in five elections out of six, by an extent variable from -10bps (Berlusconi 2nd in 2001) to -110bps (Berlusconi 1st in 1994).

2013 elections in Italy

In the last political elections in Italy (2013), there was a +120bps increase in Equity Risk Premium in February 2013 (ahead of the elections), which anticipated the political stalemate after the vote, partly reabsorbed (-20bps) a month after the vote. The inconclusive attempts to form a government and the controversial election of the President of Republic (with the final re-appointment of Giorgio Napolitano) kept ERP at very high levels after the vote (9.9% at Apr-13), until the formation of the Letta Government, supported by a "large coalition" between Centre-Left and Centre-Right. The overall rise in the Equity Premium (+110bps, from 8.8% at end-Jan, to 9.9% at end-Apr) was larger than in any other election in the last 20 years in Italy.

Italian General Elections and Equity Risk Premium – A historical analysis (1994-2013)

	ERP (%)		Government/ Election Date
Dec-12	9.8		Letta
Jan-13	8.8		(24 Feb 2013)
Feb-13	**10.0**	+120bps	
+1 month	9.8	-20bps	
+2 months	9.9	+10bps	Napolitano election (19 Apr)
Jan-08	5.5		Berlusconi 3rd
Feb-08	6.2		(13 Apr 2008)
Mar-08	7.1		
Apr-08	**6.4**		
+1 month	5.9	-50bps	
Jan-06	5.2		Prodi 2nd
Feb-06	5.4		(9 Apr 2006)
Mar-06	5.0		
Apr-06	**4.8**		
+1 month	4.9	+10bps	
Feb-01	3.4		Berlusconi 2nd
Mar-01	3.6		(13 May 2001)
Apr-01	3.1		
May-01	**3.3**		
+1 month	3.2	-10bps	
Jan-96	5.0		Prodi 1st
Feb-96	4.4		(21 Apr 1996)
Mar-96	5.0		
Apr-96	**4.5**		
+1 month	4.0	-50bps	
Jan-94	2.9		Berlusconi 1st
Feb-94	3.1		(27 Mar 1994)
Mar-94	**3.2**		
+1 month	2.1	-110bps	

Source: Intesa Sanpaolo Research elaboration on IBES

Sample

Investment Conclusions

We set our new FTSE MIB Index target: from the current level of 22,500, we expect a rise of +7% to June 2018 (namely, FTSE MIB at 24,000), and +13% at December 2018 (namely FTSE MIB at 25,300). At our YE18 target, Italian equities would sell at 17.1x 2018 earnings, with a PEG at 1.3x, namely a level that we still consider fair and sustainable.

The Italian equity market is currently selling at 15.2x on a P/E 2018 basis (earnings growth seen at +19.2% in 2018) with a long-term P/E average (20Y) at 17.0x; PEG stands at 1.15x, while the Equity Risk Premium is trending down at 6.5%.

FTSE MIB target: +7% at Jun-18, +13% at Dec-18

By weighting our index targets on their respective probabilities (based on our three expected post-vote scenarios and related risk premium levels), we set our new FTSE MIB Index target: from the current level of 22,500, we expect a rise of approx. 7% to June 2018 (FTSE MIB at approx. 24,000), and +13% at December 2018 (FTSE MIB at around 25,300).

At our YE18 target, Italian equities would sell at 17.1x 2018 earnings, with a PEG at 1.3x, namely a level that we still consider fair and sustainable, also in the light of 2019 earnings growth, currently estimated at +12.4% (IBES consensus).

Please, note that our FTSE MIB target is based on our ex-ante assessment of possible election outcomes; therefore, we are going to reassess our targets in the light of actual election results. In the chart below, we summarise our main conclusions in terms of expected equity market performance in Italy and time horizon.

After the 2018 Elections – Possible outcomes and equity market impact

2018 Elections

A Outright Winner | B Large Coalition | C Second vote in 2018

Probability		A: 15%	B: 70%	C: 15%
Equity risk premium (estimate)	Jun-18	5.8%	6.0%	7.5%
Equity risk premium (estimate)	Dec-18	5.3%	5.8%	7.0%
Implied market performance	Jun-18	14.0%	10.0%	-15.0%
Implied market performance	Dec-18	26.0%	14.0%	-8.0%

Market performance (probability weighted)		FTSE MIB
current		22,500
Jun-18	+7%	24,000
Dec-18	+13%	25,300

Source: Intesa Sanpaolo Research elaboration

Sample

Riding the Overseas Wave!

In our reference scenario, global growth is expected to slightly accelerate in 2018, driven by emerging countries in a commodity-friendly environment. Our "capturing growth where growth is" paradigm is now defined as the ability to catch the strength of demand in emerging regions (such as Latam, OPEC countries, India and China). We also focus on price leadership: winners in our scenario should be able to pass on the rise in some input costs to final output prices. In a nutshell, we search for a balanced combination of 'leadership' and 'internationalisation, often typical features of the 'Made in Italy' stories.

Our reference 2018 scenario: a quick recap

Euro area

- Continued GDP growth in the euro area, but moderately slowing (+2.1 in 2018E vs. 2.3% expected in 2017, according to Intesa Sanpaolo estimates), driven by an expansionary fixed investment cycle, and steady private consumption growth. The "cruising speed" should be above 2.0% yoy at the turn of the year, and then gradually decline, also due to a stronger euro. The "peak" is probably behind us, but we do not anticipate major risks to derail this expansionary phase;

Italy

- Italy is expected to follow the euro area trend, but at a slower pace, still burdened by public finance imbalances (+1.3 % in 2018E vs. +1.5% expected in 2017), with risks on the upside in the short term. We see scope for a recovery in fixed investments (machineries), while exports should only partially be weighed down by a stronger euro;

Outside the Eurozone

- Outside the Eurozone, global growth is expected to slightly accelerate (+3.7% in 2018E vs. +3.6% expected in 2017, based on Intesa Sanpaolo elaborations). The most dynamic regions, in terms of growth acceleration, should be Latin America, OPEC countries and India. In the US (2.6% vs. 2.3%), growth should also benefit from the fall-out of recently-announced fiscal reform, about to be finalised;

CPI, FX

- Inflation in the euro area is expected to stay put (+1.4 % in 2018, and +1.0% in Italy), with limited pressure from higher raw materials and input costs. We expect a very gradual exit from the ECB's monetary stimulus, with the first rate hike not before 2019. The EUR should be moderately stronger vs. USD (avg. 2017E: 1.128; avg. 2018E: 1.191);

Commodities

- Raw material prices should remain relatively strong, as a combined effect of technical (abundant liquidity) and fundamental (demand driven by emerging economies) factors.

Sample

'Made in Italy' goes global

A commodity-friendly scenario…

We believe that our reference macro scenario is overall favourable to the commodity segment. Global growth is expected to slightly accelerate and should be driven by emerging countries, which tend to have economic models based on a more intensive use of commodities.

…driven by emerging economies

Meanwhile, pro-cyclical fiscal policies are expected to be broadly maintained and the infrastructure in India and China enhanced; lastly, global liquidity should remain abundant thanks to still accommodative monetary policies.

Twelve months ago we looked for those companies able to "capture growth where growth is", namely in regional areas expected to show an acceleration of growth in 2017, with a particular focus on the United States; we focused on export-oriented Italian companies with quality brands, the so-called "Made in Italy" names.

Riding the overseas wave…

This time round, our "capturing growth" paradigm is defined as the ability to catch the strength of demand in emerging regions (such as Latam, OPEC countries, India and China) and, hence, benefit from superior volumes and earnings growth opportunities vs. their peers: the skill in **'riding the overseas wave'** could make the difference in 2018.

As an additional opportunity, we include the exposure to the US fiscal reform (about to be finalised), which implies capacity of earnings generation in the US.

... combined with price leadership

The flipside of the coin is that a rise in commodity prices is likely to inflate input costs. In sight of that, in our Top Picks selection we also focus on price leadership. Winners in our scenario should be able to pass on the rise in some input costs to final output prices.

Leaders are those companies characterised by, amongst others: a) pricing power; b) a well-known brand; c) product innovation capacity; d) a relatively protected market structure; or a blend of the abovementioned factors.

In a nutshell, we search for a balanced combination of 'leadership' and 'internationalisation', often typical features of the 'Made in Italy' stories.

Searching for leadership and internationalisation

We applied common selection criteria to the stocks under our coverage, indicated in the table below, with the aim of identifying our 2018 Top Picks. We sought to maintain a consistent approach across the board, so that our Top Picks reflect a homogeneous underlying logic, although we acknowledge that the various sectors have diverse prevailing value drivers.

2018 equity drivers

Leadership	Considerations include:
Pricing power	Capacity of price setting/passing on rising costs; product innovation
Brand power	Brand recognition; adv expenditure
Market opportunities	
Exposure to emerging markets	Exposure to "dynamic" geographical markets / demand
Exposure to US fiscal reform	Capacity of earnings generation in US
Risk factors	
Sensitivity to a stronger EUR vs. USD	Impact on export in USD-related markets from a stronger EUR/USD
Exposure to raw material prices	Weighting of raw materials/energy costs; supply contracts and hedging
Valuation issues	
PEG	Relative to sector peers
Earnings visibility	Reliability of 2018 earnings estimates
Dividend yield	Relative to sector peers

Source: Intesa Sanpaolo Research elaborations

Sample

In practical terms:

- We have ranked the main companies under our coverage (High/Medium/Low) on the basis of their leadership features, of their exposure to some opportunities (emerging markets/US fiscal reform), as well as to some selected risks (raw material prices/a stronger EUR vs. USD);
- For Financials, we included in our analysis the exposure to some sector-specific risk factors (such as NPLs, Spread, Sovereign risk);
- Valuation-wise, we have focused on expected EPS growth, preferring the PEG indicator at a time of generally higher earnings visibility for Italian listed companies.

Italy: Growth to Remain Sustained in 2018 (Despite Political Risk)

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Based on our estimates, the recovery in economic activity in Italy could continue in 2018E, albeit at a slightly slower pace than in 2017: we forecast GDP growth at 1.3% next year, from 1.5% this year. Compared to three months ago, we have revised upwards our estimate for 2017E by one-tenth, and our estimate for 2018E by two-tenths. Quarterly growth could slow slightly at the end of 2017, reaccelerate at the beginning of 2018, and decelerate again subsequently. In 2018, final domestic demand should grow at a pace very close to the 1.5% rate recorded in the past three years. We confirm a possible slowdown in consumption (albeit not as sharp as we expected three months ago), as opposed to still upbeat investments (on a stronger uptrend than estimated last September). Foreign trade could resume making a slightly positive contribution (after holding back growth in 2014-16 and making a neutral contribution in 2017), whereas inventories could continue to represent a slight drag.

Households' consumption is holding up better than expected…

Consumption proved more resilient than expected in 2017, keeping up a growth rate of 1.5%, in line with 2016 (after the 2% peak recorded in 2015), despite a slowdown in the real disposable income of households (our estimate: 0.4% in 2017E from 1.6% in 2016). Therefore, propensity to save decreased from 8.7% to 7.5%. Consumption held up thanks to both resilient employment (1.1% from 1.3% in 2016) and the unexpected recovery in consumer confidence, which starting in mid-year became gradually brighter on the outlook for the economy (and on the employment trend as well). Once again, the main driver was the consumption of durable goods, which kept up a growth rate of close to last year's 5%. In 2018, employment could slow further in our estimate to 0.7% from 1.1%, and the purchasing power of households could rebound to 1.4% from 0.4%. Therefore, **we are less cautious today on the evolution of household spending** than we were three months ago: we expect only a marginal slowdown in national accounts consumption, to 1.3% in 2018 from 1.5% del 2017 (therefore in line with the trend of GDP). However, we expect a slowdown in purchases of durable goods (tied to the rise in interest rates, as gradual as it may be), as opposed to a possible reacceleration in non-durable goods.

…and investments in machinery seem to have picked up firmly at last

In any case, we confirm our view that the baton of the recovery has now been passed on from household consumption to business investments, i.e. the component of demand that has surprised most on the upside in recent weeks. In particular, investments in machinery and equipment, after crashing at the beginning of 2017, anomalously in our view, due to the fact that orders of capital goods were brought forward on uncertainty on whether or not the incentives offered by the "Industry 4.0" scheme would be confirmed, subsequently picked up strongly in the course of the year, as we had expected, marking an all-time high in the Summer since the statistical series began (+6% qoq). The recovery is materialising in step with the rise in capacity utilisation. The obsolescence of machinery (investments are still 24% short of pre-crisis levels), expectations for a further recovery in demand, and still accommodative financial conditions (albeit less so than a year ago), will support a further strengthening in investments, and for investments in machinery in particular (fuelled, as mentioned above, by the renewal of the government incentive scheme). On the other hand, after an initial phase in which businesses have remained very cautious in their investment decisions, despite enjoying a recovery in profitability, the gap between profit rate and investment rate is now gradually narrowing. In a nutshell, **investments in 2018 could confirm the 3% growth rate recorded over the past two years**. However, we estimate the breakdown to be different, with investments in machinery accelerating sharply (to 4.6% from 1.7% in 2017: this would mark a high since 2006), as opposed to slower trends for means of transport (+6.6%, after expanding at rates of over 20% for three years on the run), and construction (which would in any case achieve growth for the third year, in our estimate of 0.8% in 2018 from 1.2% in 2017 and 1.4% in 2016).

The foreign channel in 2018 could resume contributing positively to GDP…

In its initial phase (during the whole 2014-16 three-year period), the recovery was driven by domestic demand, whereas foreign trade made a negative contribution to GDP. This situation has now changed and, far from representing a drag, **foreign demand has resumed making a decisive contribution to growth.** Furthermore, for the time being at least, our view is being confirmed that the negative impact of the strong Euro on growth could prove smaller than

Sample

indicated by the main macroeconomic models (i.e. than seen in the past), for both structural reasons (increased invoicing of imports in local currency, higher import content of exports), and cyclical (the role played by domestic demand in this recovery). However, some negative effect going forward in 2018 cannot be ruled out, as exports show a tendency to feel the impact at a lag of even one year (the Italian effective exchange rate, after depreciating by almost 4% in 2015, appreciated by 0.7% in 2016 and by 1.1% in 2017: a movement which, based on our estimates, should continue in 2018, by 1.3%).

…despite a slowdown of trade flows in both directions

In a nutshell, **we expect a slowdown in trade flows in both directions next year compared to this year, but more so for exports** (to 3.3% from 5.1% estimated in 2017) **than imports** (to 3.2% from 5.5%), held back by less upbeat domestic demand. In fact, in our view, global demand addressed to Italy, after booming in 2017 (+5.7%, a high since 2011), could stay rather sustained in 2018 (+4.7%), as GDP growth is forecast to decelerate slightly in the Eurozone, and to change little for the other trade partners. Therefore, we estimate a slight drop in exports, both towards the rest of the Euro area (from +6.4% in worth in the first nine months of 2017), due to the moderate slowdown in growth, and towards the United States and the United Kingdom, as a result of exchange rate effects (in 2017, sales to the US grew by 9.6% in the first 10 months of the year, and sales to the UK by 2.3% in the first nine months). In the United States' case, the acceleration in demand should balance the exchange rate effects. Against this backdrop, the emerging countries, which were among the main target markets in 2017 (China +24%, Russia +22%, Mercosur +17%, and ASEAN countries +13% in the first 10 months of the year), should contribute positively in 2018 as well (with the possible exception of OPEC).

Fiscal policy is roughly neutral for now

We confirm our view that the impact of fiscal policy on growth in 2018 will be marginal. Barring corrections required by the EU next spring (in any case limited to 0.2% of GDP at worst, as was last year), fiscal policy in 2018 will be broadly neutral (slightly restrictive based on the change in the structural balance, but marginally expansionary considering the cyclically-adjusted change in the primary balance). While criticalities still exist, with particular reference to the financing of some Budget Law items, positive aspects are the avoidance of the safeguard clauses kicking in, a repeat of the "Industry 4.0" incentives, the unblocking of the public service labour contract, and the new forms of contribution cuts offered on the permanent hiring of youths. However, we think there are still upside risks to the government's deficit and debt forecasts for next year, respectively of 1.6% and 130% of GDP.

The main risk is political…

2018 will be general elections year in Italy. The date of the vote has not yet been set (in May at the latest, most probably in March), nor has the composition of the participating forces been defined. **The new electoral law encourages the formation of coalitions**, which nonetheless, as we write, have not yet been "formalised". In all likeliness, the main competitors will be the traditional centre-right alliance (Forza Italia, Northern League, Fratelli d'Italia), a "new" centre-left coalition (with PD playing the major role, today it is unclear if alone or allied with minor centrist or left-wing parties), the 5-Star Movement, that will run alone, and a formation to the left of the PD (led by former Chairman of the Senate). The latest polls award a lead to the centre-right coalition (with around 35% of the vote, with the centre-left and the 5-Star Movement trailing with around 27%), although it is early days yet to attempt to draw definitive indications, given that, as mentioned above, the formations have not yet been defined, and the new electoral system is not entirely proportional (a third of MPs will be elected in single-name first-past-the-post constituencies, and minimum thresholds have been set for parties and coalitions). While we cannot rule out that one of the coalitions (seemingly the centre-right, based on the latest polls) may obtain a majority of seats, the probability of this happening is currently smaller than 50%. **The likeliest scenario at present is an inconclusive outcome of the elections**, followed by weeks of negotiations towards the formation of a government; our best-case scenario is that some kind of government will be formed at the end of the day, probably based on a large coalition grouping the PD, the centrist parties, and Forza Italia (although the direct or indirect contribution of members of Parliament belonging to other political formations could be necessary).

Sample

In any case, **political risk in Italy seems more "manageable" today, at least from the point of view of the financial markets, compared to a few months ago**, for two reasons: 1) with the sole exception of France, political uncertainty is now weighing on the majority of European countries, currently governed (in some cases successfully) either by broad coalitions, or by minority governments; 2) if, as we think, the economic cycle at the global and continental levels will remain expansionary, economic growth would place the trajectory of public debt on a sustainable path, regardless of any fragilities of the political system.

…which nonetheless seems more "manageable" today than a few months ago

Italy Forecasts

	2016	2017E	2018E	2016			2017				2018		
				2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE
GDP (constant prices, yoy)	1.1	1.5	1.3	1.0	0.9	1.0	1.3	1.5	1.7	1.6	1.4	1.4	1.3
- qoq				0.1	0.2	0.4	0.5	0.3	0.4	0.3	0.4	0.3	0.3
Private consumption	1.5	1.5	1.3	0.2	0.3	0.2	0.7	0.2	0.3	0.4	0.3	0.3	0.3
Fixed investments	3.0	3.0	3.0	-0.4	2.1	2.6	-2.2	1.1	3.0	-0.2	0.5	0.7	0.4
Public spending	0.5	0.8	0.5	-0.3	-0.1	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.2
Exports	2.6	5.1	3.3	1.7	0.9	1.9	1.8	0.1	1.6	0.5	0.9	0.8	0.7
Imports	3.3	5.5	3.2	1.8	0.8	2.5	0.7	1.6	1.2	1.0	0.6	0.6	0.5
Inventories chg. (contrib., % GDP)	-0.3	-0.1	-0.1	0.1	-0.4	-0.1	0.1	0.4	-0.5	0.2	0.0	-0.1	-0.1
Current accounts (% GDP)	2.7	2.4	2.1										
Public deficit (% GDP)	-2.5	-2.1	-1.7										
Public debt (% GDP)	132.0	132.0	131.6										
Consumer prices (HICP,yoy)	-0.1	1.3	1.0	-0.3	-0.1	0.2	1.3	1.6	1.3	1.0	0.6	0.8	1.1
Industrial output (yoy)	1.9	2.9	2.3	0.8	1.6	3.4	1.8	3.3	3.9	2.7	3.4	2.8	1.6
Unemployment (ILO, %)	11.7	11.3	10.8	11.6	11.6	11.8	11.6	11.2	11.2	11.1	11.0	10.9	10.7
10Y rate (%)	1.48	2.06	2.76	1.48	1.19	1.77	2.15	2.17	2.09	1.84	2.42	2.80	2.91

Note: Percentage changes annualised on previous year, unless indicated otherwise; Source: Intesa Sanpaolo Research elaboration

Sample

2018 Top Picks and Sector Strategy at a Glance

2018 Top Picks - Key data

	Target Price (EUR/share)	Rating	Sector	Price (EUR/share)	Market cap (EUR M)
Autogrill	13.5	BUY	Travel&Leisure	11.1	2,834.00
Banca Mediolanum	8.2	ADD	Asset Gatherers	7.1	5,288.20
CNH Industrial	12.8	BUY	Capital Goods	11.1	15,105.1
Enel	6.2	ADD	Electricity	5.5	56,172.70
FCA	16.9	ADD	Auto & Components	14.4	21,995.10
Pirelli	8.5	BUY	Auto & Components	6.9	6,940.00
Telecom Italia (savings)	0.89	BUY	Telecommunication Services	0.61	14,684.20
Unicredit	20.0	ADD	Banks	16.9	37,681.40
Unipol	5.0	BUY	Insurance	3.8	2,717.80
YNAP Group	32.3	ADD	Branded Goods	29.6	3,964.20

Source: Intesa Sanpaolo Research estimates

2018 sector views

Positive	Neutral	Negative
Auto & Components	Asset Gatherers	Oil Field/E&C Services (Upstream)
Consumer Goods	Banks	
Construction & Building Materials	Branded Goods	
Industrials	Insurance	
Motorways	Medical Equipment/Pharma	
Oil Integrated/E&P	Oil Refiners	
Oil Field/E&C Services (Downstream)	Utilities: Liberalised	
Real Estate		
TMTs		
Utilities: Local		
Utilities: Regulated		

Source: Intesa Sanpaolo Research estimates

Sample

Sector Strategy Overview

Asset Gatherers: Neutral

Sector view, drivers and valuation

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We have a Neutral view on the sector as, while we expect our covered companies to continue to deliver good results in 2018, supported by strong 2017 net inflows or (as regards Anima) by changes in the consolidation perimeter, we believe that the main issue in the medium-long term would be whether volumes growth (both internal and external) would be able to more than offset potential margin pressure (also coming from regulation).

- **Business trends and profitability:** According to Assogestioni quarterly data, the Italian asset management industry had a total net inflow of almost EUR 80.6Bn in 9M17 (vs. EUR 48.1Bn in 9M16), with mutual funds enjoying a net gathering of EUR 57.8Bn, more than doubling the EUR 28.4Bn recorded in 9M16. PIR funds contributed approximately EUR 7.5Bn. The positive trend in net inflows is supportive for economic performances, with our covered asset gatherers overall showing strong 9M17 P&L results;
- **Regulation and digitalisation:** We see regulatory risk as implicit in the financial sector to a certain extent. The MIFID 2 directive will be in force from 3 January 2018, introducing greater transparency on the cost of products and services provided. Our covered companies look confident in being ready to face the challenges posed by the new regulation (Banca Generali held a MIFID Day in July 2017), while we see asset gatherers as overall more prepared for potential changes in the calculation mechanism of performance fees, with Banca Mediolanum moving from a monthly calculation to an annual one starting from 2018 and Banca Generali ready to introduce a new 12-month High Water Mark mechanism for new products. We consider digitalisation more as an opportunity than a threat, as: 1) we continue to believe that robo advisory should not cannibalise the human touch; and 2) we see IT as a useful support for the selling and advisory process;
- **M&A:** We continue to believe that consolidation is an important driver for asset management, which is, in our view, increasingly driven by volumes and scalable business models allowing the companies to extract economies of scale. We consider Anima (which in August announced the acquisition of Aletti Gestielle and could be open to potential other external growth options), Banca Generali (which, according to a recent press article by Il Sole 24 Ore, could be ready for an acquisition in Switzerland) and Azimut (overseas business, started in 2011, currently contributes approximately 24% of the group's customers' assets) as the most active players in this respect.

View and Valuation: Neutral view on the sector. We highlight that Italian asset gatherers offer an attractive dividend yield (approximately 5% average on both 2017E and 2018E), while the main issue in the medium/long term is their capability to offset potential margin pressure through volumes' growth.

Sample

Asset Gatherers – 2018 sector drivers

	Anima Holding	Azimut Holding	Banca Generali	Banca Mediolanum	Finecobank
Leadership					
Pricing power	Medium	Medium	Medium	Medium	Medium
Brand power	Medium	Medium	High	High	High
Market opportunities					
M&A	High	Medium	Medium	Low	Low
Exposure to emerging markets	NM	Medium	NM	NM	NM
Risk factors					
Regulation	Medium	High	Medium	Medium	Medium
Spread risk	Low	Low	Medium	High	Medium
Valuation issues					
PEG	Medium	High	Low	Low	Medium
Earnings visibility	Medium	Medium	Medium	Medium	High
Dividend yield (relative to peers)	Medium	High	Medium	High	Medium

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

Auto& Components: Positive

Sector view, drivers and valuation

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Despite a weaker demand trend in some important regional markets, such as the US, worldwide car volumes look positive (up by 1.7-2.2% in 2018, according to LMC Automotive and IHS). In this scenario, investors are focused on the potential winners and losers of the technological shift in the sector.

- **US cycle downturn but Europe still positive**: For mature markets, in 2018 we expect a further slowdown in the USA SAAR (-1.5-2%), likely amplified by the post-hurricanes effect on the US car market. The weaker trend in the US should be partially offset by a still sound environment in Europe (except the UK), where we expect cars demand up by 3.1-3.6%;
- **Upside from some key emerging despite headwinds from China:** In 2018, after the high mid single-digit growth recorded in 2017, Brazilian car demand should finally gain momentum delivering a double-digit growth (above 11%, according to IHS). The expected improvement of Mercosur should partially offset a potentially flatter trend in China, which is expected to grow between 0.5-0.8%;
- **Focus on technology and premium content:** Amid a still positive outlook for car demand, investors' focus is now shifting to the potential winners and losers of the technological shift toward electrification. Given the strong investments (with still uncertain returns) incurred by automakers in electrical technology, we view as better placed those players who already have a leading position in the EV field or, by contrast, those that have decided not to invest in the new paradigm, preferring: 1) to concentrate on the fact that the ICE market (Internal Combustion Engine, which comprises gasoline, diesel and hybrid vehicles) will continue to represent a large portion of the automotive industry until 2027; and 2) to potentially create alliances with those players already strong in EV technology. Given the technological shift ahead (including autonomous driving) and considering the increasing needs to reduce the physical weight of current and future vehicles, amongst suppliers we prefer premium players that due to their positioning in premium markets have the strength and knowledge to better face the technological changes.

View and Valuation: Despite a mixed market scenario, the still positive trend in car volumes worldwide keep us optimistic on the auto industry. From a valuation standpoint, OE players, which trade at an average forward P/E of 11.6x and at an EV/EBITDA forward of 3.3x, look particularly appealing, in our view, embedding a discount vs. the last 10 years' sector multiples of 22% and 30.5%. With an average P/E of 15.9x, auto suppliers' valuations look more stretched albeit still at a discount (around 5% on an adjusted basis) vs. the 10Y sector average. **We assign a Positive view on the sector.**

Sample

Auto & Components - 2018 drivers

	FCA	Ferrari	Pirelli	Brembo	Piaggio	Sogefi	Carraro
Leadership							
Pricing power	Medium/Low	High	Medium /High	High	Medium	Low	Low
Brand power	Medium	High	High	High	High	Low	Low
Market opportunities							
Exposure to emerging markets	Medium/High	Low	Medium/High	Low	High	Medium	High
Exposure to US fiscal reform	High	Low	Low	Low	Low	Low	Low
Risk factors							
Sensitivity to a stronger EUR vs USD	High	High	High	High	Low	Medium	Medium
Exposure to raw material price	Medium/High	Low	High	Medium	Medium	High	Medium
Valuation issues							
PEG	Low	Medium	Low	High	High	Medium	Low
Earnings visibility	Medium	High	Medium/High	Medium/High	Medium/Low	Medium/Low	Medium/Low
Dividend Yield (relative to peers)	Low	Medium	Medium/High	Medium	Medium	Low	Medium

Source: Intesa Sanpaolo Research elaborations

Banks: Neutral

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Sector view, drivers and valuation

While the economic recovery has materialised in 2017, bringing together loans growth and an improvement in default rates (i.e. asset quality), short-term interest rates are expected to remain low for the entire 2018. We expect the market focus to remain oriented towards regulatory changes (IFRS9, Basel 4, EBA guidelines) and more specifically on the regulatory treatment of NPLs, in terms of new flows (addendum on NPL guidance) and stocks.

- **Economic recovery is there, while interest rates remain low:** In 2018E, our economists expect GDP to further increase by 1.3% after a 1.5% increase, which we expect for 2017E. The economic recovery has already materialised, bringing together an improvement in the asset quality (gross NPE down by 7.4% YTD in Italy as of June 2017) and customer loans growth (loans to the private sector increased by 1.1% by 1.1% yoy as of October 2017), which we expect to continue in 2018. On the other hand, interest rates are expected to remain low for the entire 2018 (average Euribor 3M at -0.3%, close to the current level, based on forward rates): however, margin pressure on short-term lending could be mitigated by the narrowing of TLTRO expiry;
- **Regulatory risk**: We expect the market focus to be polarised by the regulatory risk at least in the first part of 2018, considering the actual or potential changes in the regulatory scenario: 1) IFRS9 from 1 January 2018, that will also give companies the opportunity to upfront provisions in the FTA; 2) possible implementation of the ECB's Addendum on the NPL Guidance that may require higher provisions on new NPE (at least at the regulatory level); 3) valuation of the NPL plans presented to the ECB, with potential requests for an acceleration in the process to decrease the stock of NPE; 4) potential regulatory requests on the stock of NPL in 2018, as anticipated by the ECB; 5) EBA guidelines; 6) a possible wavier on LGD for NPL disposals 7) Basel 4 new framework (due to be implemented from 2022, with changes in the Standardised Models, an output floor at 72.5% and changes in operational risks); and 8) ongoing debate on the treatment of sovereign exposures (risk weightings, lower concentration or a combination of the two);
- **Asset quality improvement will remain a key topic:** Independently from regulatory intervention, we expect the market to remain focused on the de-risking of the balance sheet, which we expect to continue in 2018. Although the improvement in asset quality started to materialise in 2017, with a gross NPE ratio still at 20% (simple average of listed Italian banks as of September 2017), we believe that a further re-rating of the sector would be difficult without a material further reduction of NPLs.

Sample

View and Valuation: Italian banks under our coverage are trading at 0.7x 2017E tangible book value, coherent with an expected 2019E ROTE of 7.5%. After a 19% YTD market performance of the FTSE Italy All Share Bank Index, we think that the improvement in the macroeconomic scenario is already incorporated and potential regulatory changes (mainly in the NPL area) may generate volatility in the stocks' market prices. **We have a Neutral view on the sector.**

Banks – 2018 sector drivers

	Unicredit	Mediobanca	UBI	MPS	Banco BPM	Credem	Banca IFIS	Creval	Poste It
Leadership									
Pricing power	High	Medium	Medium	Low	Medium	Medium	Medium	Low	Medium
Brand power	High	High	Medium	Low	Medium	Medium	Medium	Low	High
Market opportunities									
Exposure to emerging markets	NM	NM	NM	NM	NM	NM	NM	NM	NM
M&A	Medium	Medium	Medium	Low	Medium	Low	Medium	High	Low
Risk factors									
Regulatory Risk	High	Medium	High	High	High	Low	Medium	High	Medium
Spread Risk	Med/High	Medium	Med/High	Med/High	High	Med/High	Medium	High	High
NPL Risk	Low	Low	Medium	High	High	Low	Low	High	NM
Valuation issues									
PEG	Low	Medium	Low	NM	Low	High	Low	Low	Low
Earnings visibility	Medium	Medium	Medium	Low	Medium	High	Medium	Low	Medium
Dividend yield (rel. to peers)	Medium	High	Medium	Low	Medium	Medium	Medium	Low	High

Source: Intesa Sanpaolo Research elaborations

Branded Goods: Neutral

Sector view, drivers and valuation

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We expect the Branded Goods sector to continue to record a mid-single digit total revenues expansion in 2018, with brand awareness and product quality, coupled with a more distinct clients' segmentation, driving growth with a parallel margins expansion. We see the sector moving back towards normalising low single-digit volumes growth and price growth in the coming years with competition for market share as a new mantra.

- **Stabilisation in Asian consumption and flows:** After the "Luxury fever" of recent years by young, rich Asian customers, amid a stable GDP growth environment in China, Asian global expenditure is expected to move downwards more in line with the mature markets' standards. Overall, this stabilisation is affecting Asian tourist flows with Chinese expenditure returning to the domestic region, supported by more favourable local luxury taxes and a reduction in the price gap compared with the other regions;

- **Rebound in watches**: We consider the clean-up of the 'luxury gift' issue in the giant public Chinese economy and the destocking phase by major distributors around the world as behind us. As confirmed by the October Swiss watch export data, the 12M moving average has returned to positive territory vs. the negative values recorded in the previous 11 months;

- **Fast-growing e-commerce:** According to the main consultants (i.e. McKinsey, BCG, Bein&Co), the spreading of "digital educating choices" should translate into a 2016-25 online expansion at a 15/16% run rate supported by a mid single-digit Personal Luxury goods yearly growth;

- **Forex:** We expect further forex pressure in 1H18, but reducing to an almost neutral effect in 2H18. Our estimates are based on a EUR exchange rate at USD 1.13, JPY 127 and GBP 0.88 in 2017E and stable at 1.19, 132 and 0.90, respectively, in the following years.

View and Valuation: On a fundamentals basis, we see the current 'normalising' scenario as already factored into the reduced market prices. Our cross-check analysis on exit multiples implies a return towards the average 2011/12 historical ratios, which we consider as fair normalising values with respect to the top of the cycle values in 2013-15 (i.e. CY 15x EBITDA). Excluding YNAP, we consider all the names under our coverage as fairly valued and **we maintain a Neutral view on the sector.**

Sample

Branded Goods – 2018 sector drivers

	YNAP	Geox	Tod's	S.Ferragamo.	Prada	Moncler	Luxottica	Safilo
Leadership								
Pricing power	Medium	Low	Medium	Medium	Medium	High	Medium	Medium
Brand power	High	Medium	Medium	Medium	Medium	High	Medium	Medium
Market opportunities								
Exposure to emerging markets	High	High	High	High	High	High	High	High
Exposure to US fiscal reform	Medium	Low	Low	Medium	Medium	Medium	High	High
Risk factors								
Sensitivity to a stronger EUR vs USD	Low	Low	Low	Medium	High	Medium	High	High
Exposure to raw material price	Medium	Medium	Medium	Low	Medium	Medium	Medium	Medium
Valuation issues								
PEG	Medium	Low	Medium	Medium	Medium	Medium	Medium	Medium
Earnings visibility	Low	Medium	Medium	Medium	Medium	Medium	Low	Low
Dividend Yield (relative to peers)	Low	Low	Medium	Low	High	Low	Medium	Low

Source: Intesa Sanpaolo Research elaborations

Consumer Goods: Positive

Sector view, drivers and valuation

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The outlook for consumer-related companies remains favourable. We believe consumption trends are set to remain positive in the US, where several companies are largely exposed (AGL, CPR, Zanetti and PLT), but benign conditions should prevail for local consumption as well in European and emerging markets, according to our macroeconomists. A weaker USD will be a headwind for some (AGL, CPR, PLT) while supporting others (DLG, Zanetti and OVS). Political elections may lead to temporary volatility but M&A could potentially act as a key catalyst for AGL, OVS and DLG.

- **Consumption trend:** Low unemployment in the US (+2.5% FY18 consumption, according to our macroeconomists), still high consumer confidence in Italy (+1.3% on consumer spending in FY18) and a better environment in Latam (+0.9% from -1.6%) and the Middle East should support companies exposed to both global and local markets. However, company-specific drivers and self-help initiatives will also determine the top-line growth, such as air and motorway traffic growth for AGL, a widening of the product offering and market penetration for DLG, or new openings for OVS;
- **Raw materials:** Commodity prices are on the rise, inflating production costs for CPR (glass costs), but also metals, pushing DLG's indirect costs higher. By contrast, food inflation (meat, dairy, fats & oil, chicken) is under control in the US (positive for AGL) while the coffee price should continue its narrow trading range (good for Zanetti). The sugar index YTD is some 9% below the last average which may help Campari offset inflationary pressure from a sharp increase on the agave purchase price. Lastly, the avg. price of cotton is about 10% above last year, which OVS should offset via further insourcing relocations;
- **FX:** The unexpected sharp reversal of the USD currency since mid-2017 will also have repercussions in 2018, notably in 1H18, assuming a FY18 avg. USD/EUR at 1.18. The most affected companies from the translation impact will be AGL (-4.5% at the EBITDA level, already factored in our forecasts) and Campari (-2%). By contrast, positive transactional FX tailwinds should moderately help OVS, Zanetti and DLG.

View and Valuation: We move **our sector view to Positive** (from Neutral) and reiterate our positive stance on AGL and OVS, neutral on Zanetti and a negative stance on a valuation basis for CPR (Reduce), DLG (Reduce) and ADB (SELL).

Sample

Consumer Goods – 2018 sector drivers

	Autogrill	Campari	De Longhi	Zanetti	OVS	Parmalat	ADB
Leadership							
Pricing power	Medium/Low	Medium	Medium	Low	Low	Low	Low
Brand power	High/Medium	High/Medium	Medium	Low/Medium	Low	Low/Medium	NM
Market opportunities							
Exposure to emerging markets	Medium/Low	Medium	Low	Low	Nil	High	Low
Exposure to US fiscal reform	Very High	Medium	Low	Low	Nil	Low	NM
Risk factors							
Sensitivity to a stronger EUR vs USD	High	Medium /High	High	Medium	High	Medium/High	Low
Exposure to raw material price	Medium/Low	Medium	Medium	High	Low/Medium	Medium/High	Low
Valuation issues							
PEG	Low/Medium	High	High	Low	Low	Low	High
Earnings visibility	High/Medium	Medium	Medium	Low	Medium	Low	High
Dividend yield (relative to peers)	Low	Low	Medium	Low	Low/Medium	Low	Medium

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

Construction & Building Materials: Positive

Sector view, drivers and valuation

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We have a Positive view on the Construction & Building Materials sector, as we expect a solid US market and an ongoing gradual recovery in Europe also supported by European Union funding and a pro-cyclical monetary policy.

- **Construction industry recovery set to continue in Europe:** Despite the commitment to keeping public deficits 'under control', we expect the gradually improving European economic framework and the potential opportunities related to the so-called 'Juncker Plan' to allow the construction industry to continue its recovery path, initiated in 2014. In addition, despite a possible end to the ultra-loose ECB monetary policy, we expect its effects to remain pro-cyclical in 2018 and 2019. We see all these factors as supporting a gradual recovery of the Southern European construction markets, while we expect the moderately positive growth to continue in Germany and Central-Eastern Europe;
- **A positive economic environment in the US:** In the US, the macroeconomic environment should remain positive in 2018 (GDP 2.6% yoy, including a preliminary estimate of the Tax Cuts and Jobs Act approval, Source ISP). Construction activity, which in the last few years was driven by the private residential and commercial segments, should also benefit from the approval of the FAST Act (Fixing America's Surface Transportation) in December 2015 (USD 305Bn over five years) while waiting for Trump's announced USD 1Trn 10-year infrastructure investment plan;
- **Geopolitical risks in the Middle East:** While we expect the GDP yoy growth to accelerate in the OPEC countries from +0.7% yoy in 2017 to +2.5% yoy in 2018 (Source ISP), we would not exclude possible infrastructure projects delays related to geopolitical tensions in the Middle East area.

View and Valuation: We expect Italian general contractors, who have increased their presence in foreign markets in the last few years, to benefit from the overall positive GDP growth outlook, particularly in Europe and the USA. We have a positive stance on Salini Impregilo, which in 2017E should report more than 30% of its revenue from the USA, and on Buzzi Unicem, which in 2018E could benefit from an acceleration of the consolidation process of the domestic cement industry. **We have a Positive view on the sector.**

Sample

Construction & Building Materials – 2018 sector drivers

	Salini Impregilo	Buzzi Unicem	Trevi
Leadership			
Pricing power	Medium	Medium	Low
Brand power	Low	Low	Low
Market opportunities			
Exposure to emerging markets	Medium	Low	High
Exposure to US fiscal reform	High	High	Low
Risk factors			
Sensitivity to a stronger EUR vs USD	High	High	Medium
Exposure to raw material price	Medium	Medium	Medium
Valuation issues			
PEG	Low	Medium	High
Earnings visibility	Medium	Medium	Low
Dividend yield (relative to peers)	Low	Low	Low

Source: Intesa Sanpaolo Research elaborations

Industrials: Positive

Sector view, drivers and valuation

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As usual, the scenario ahead for Italian Industrial stocks differs by segment.

- **More positive sentiment on AG and CE:** In the AG Equipment industry, after years of steady volumes declines, several economic indicators are turning positive, suggesting that the negative agricultural cycle is behind us and that the Agricultural Equipment market has stabilised and is set to record a progressive increase in volumes (albeit at a lower pace vs. the previous positive cycle). Moreover, prospects for CE look rosier than in the recent past, especially in the USA. The better scenario ahead for these industries is also confirmed by the steady improvement in the markets' outlook of the main industry players, such as Deere and CNH. In this context, after years of underproduction and cost base efficiencies, we believe that capital goods companies are well set to deliver a sound operating leverage;
- **Sound prospects for shipbuilding:** As confirmed by industry leaders' steady rise in orders, the market outlook in shipbuilding continues to be positive especially in the cruise segment, which is set to show a secular growth both in terms of volumes and pricing. However, in contrast to the rosy prospects for the cruise industry, a significant part of the shipbuilding market, such as Offshore, is not expected to record a significant recovery;
- **Flat mood for A&D and mildly positive view on Utilities related:** We do not see sustained growth for the Italian A&D industry which, due to the limited Italian defence budget along with constraints in European defence expenditure, is now dealing with a tougher competitive environment as well as the need capture new business opportunities in emerging markets. We are more positive on those Italian companies whose business models can rely on utilities capex, which we think has touched a floor in 2017.

View and Valuation: Given the variety of the industrial segments amongst Italian Industrial companies, we suggest a selective approach to Italian Industrial stocks. We assign **an overall Positive view to the sector**.

Sample

Industrials – 2018 sector drivers

	CNH	Leonardo	Prysmian	Fincantieri
Leadership				
Pricing power	Medium/Low	Low	Medium	Medium
Brand power	Medium/High	Medium	Medium	Medium/High
Market opportunities				
Exposure to emerging markets	High	Low	Low	Low
Exposure to US fiscal reform	Medium/High	Low	High	Low
Risk factors				
Sensitivity to a stronger EUR vs USD	High	Medium	High	Medium/Low
Exposure to raw material price	Medium	Medium	Medium	Medium
Valuation issues				
PEG	Medium	Low	Medium	Low
Earnings visibility	Medium/Low	Low	Medium	Medium
Dividend yield (relative to peers)	Medium/Low	Low	Medium	Medium

Source: Intesa Sanpaolo Research estimates

Insurance: Neutral

Sector view, drivers and valuation

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We maintain a Neutral view on the Italian insurance sector, due to a still challenging outlook for sector profitability, in both non-life (motor) and life (persisting low-interest rate environment). However, Italian insurance companies show a sound capital position, while a reversal trend could be about to start at least in average motor premium levels.

- **Premiums**: According to ANIA data, 9M17 P&C premiums were slightly up yoy (+0.6%) to EUR 22.6Bn, thanks to the non-motor business, which grew by 2.7% yoy to EUR 10.84Bn, and more than offset the 1.3% yoy decline in motor premiums. In the same period, life premiums decreased by 6.2% yoy to EUR 72.45Bn, dragged down by traditional Class I products (-17.8% yoy to EUR 46.67Bn), in line with insurance companies' policies, targeting a mix shift towards commission-driven products (unit-linked, +31.4% yoy to EUR 22.66Bn). The trend is basically consistent with ANIA projections for FY17, pointing to: 1) a 1% yoy increase in non-life premiums to EUR 32.28Bn, balancing a 1.5% decline in motor (to EUR 13.3Bn) and a 2.9% progress in non-motor (up to EUR 18.96Bn); and 2) a 4% yoy decline in life (EUR 98.15Bn), reflecting a change in the mix (-16.5% in traditional policies and +35% in unit-linked);
- **Profitability:** 9M17 results were good overall, though showing some pressure on both life and motor profitability, related to: i) the current low interest rate environment; and ii) a still-declining average motor premium (on this front, the message given by companies' management in the results' conference calls was for a stop in the decrease, which amounted to 22% across the 2012-17 five-year period). We see our covered companies as focused on technical results' improvement, also via the use of technology, which we consider as an increasingly important component of the insurance offer and business, favouring a better client knowledge and risk monitoring;
- **Capital position:** Italian insurance companies overall show a solid capital position. According to ANIA and Deloitte Risk Advisory (based on EIOPA data), at end-2016 Italian companies had a Solvency II at around 220%, basically in line with France and Spain, and above UK (151%), Dutch (177%) and Belgian companies (176%);
- **M&A:** We believe that M&A (both as external growth and internal restructuring) could be an important driver for the sector. Generali targets a EUR 1Bn cash-in from the disposal of underperforming and non-core countries and businesses, to be invested in strategic activities. Unipol group is completing the reorganisation of the insurance business and the restructuring of the banking segment which, in our view, could open the door to M&A opportunities for Unipol Banca and to a potential merger between Unipol and UnipolSai as a medium-term option. Cattolica has recently announced a bancassurance agreement with Banco BPM, leading to a 40% increase in the group's reserves and representing an essential part of the new BP to be presented.

View and Valuation: We maintain a Neutral view on the sector, with the still challenging outlook for the sector's profitability offset by the attractive dividend profile of the sector (average 4.5% 2017E yield, according to our estimates).

Sample

Insurance – 2018 sector drivers

	Generali	UnipolSai	Unipol	Cattolica	Vittoria
Leadership					
Pricing power	Low	Low	Low	Low	Low
Brand power	High	High	Medium	High	High
Market opportunities					
M&A	Medium	Medium	High	Medium	Low
Exposure to emerging markets	Medium	NM	NM	NM	NM
Risk factors					
Regulation	Medium	Medium	High	High	Medium
Spread risk	Medium	High	High	High	Medium
Valuation issues					
PEG	Low	High	Low	Medium	High
Earnings visibility	Medium	High	Medium	Medium	High
Dividend yield (relative to peers)	Medium	High	High	Medium	Low

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

Motorways: Positive

Sector view, drivers and valuation

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We left our positive stance on the sector unchanged, still backed by encouraging expectations on motorway traffic led by healthy GDP and tourist flows, slight inflationary pressure and postponed interest rate hikes, likely to 2019. M&A remains at centre stage for Atlantia while a favourable regulatory evolution could provide support to SIAS.

- **Solid traffic expectations**: The overall improving macro conditions both in Italy (2018 GDP +1.3%) and Latam, notably in Brazil (+2.4% from +0.7% in 2017), support our positive traffic assumptions of +2% in Italy (+2.9% ex-leap year in 9M17) and Latam (+2.3%; +3.1% in 9M17) for Atlantia. For SIAS, we also confirm our estimate for a 2% traffic growth in Italy (+2.57% in 9M17 ex-leap year) and in Brazil (through Ecorodovias);
- **Tariffs on the rise again:** Thanks to an acceleration in inflationary pressure (+0.7% in the reference period) and a still positive contribution from the X and K factor, tariffs should contribute above 1% in 2018 for Atlantia's main concession ASPI. For SIAS, after the renewal of the expired 2014-18 financial plans in five concessions expected by year-end (finally settling all the long outstanding legal disputes), the clearer domestic regulation should favour future capex deployment leveraging on secured tariff increases (approx. +2% over 2018-20E, in our forecasts);
- **An improving regulatory environment:** By year-end, with the new tariffs formally set by the Italian regulator, we do not rule out that an agreement could eventually be signed at the European level on the remuneration framework for additional capex related to: i) the EUR 4.5Bn investment for the Genoa by-pass carried out by Atlantia; ii) the A33 Asti-Cuneo completion worth EUR 350M additional capex for SIAS through a cross-financing with A4 Milan-Turin for SIAS (with the accretive impact on financials not included in our estimates);
- **M&A is the catalyst for Atlantia:** The offer pending on Abertis should be completed in one way or another by end-1H18. We believe that Atlantia can improve its offer to better compete with Hochtief's proposal increasing the cash offer up to EUR 20/sh while keeping the investment grade rating, but to justify the implied 22x P/E for Abertis we think the company will need to surprise the market with material synergies embedded in the deal;
- **Potential further short-term upside for SIAS:** i) Ecorodovias' consolidation, with the group working to increase its stake to above 50% (without launching a PTO); ii) commitment to re-awarding the ATIVA-A21 tender; and iii) financial and industrial partnerships.

View and Valuation. For SIAS, after the strong performance in 2017, we see further upside mainly from positive regulatory prospects, not priced into the current share price. For Atlantia, the main trigger relates to if and how the Abertis deal will be finalised, but we recall that our calculation of the EPS accretion is material (above 40%) in the case of an all-cash offer with a 100% take-up.

Motorways – 2018 sector drivers

	Atlantia	SIAS
Leadership		
Pricing power	High	High
Brand power	NM	NM
Market opportunities		
Exposure to emerging markets	Low	Low
Exposure to US fiscal reform	NM	NM
Risk factors		
Sensitivity to a stronger EUR vs USD	NM	NM
Exposure to raw material price	Low	Low
Valuation issues		
PEG	Medium	Medium
Earnings visibility	High	Medium
Dividend yield (relative to peers)	Medium/High	Low/medium

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

Sample

Oil&Gas: Positive on E&P and Downstream E&C

Sector view, drivers and valuation

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We expect: i) Integrated/E&P operators to benefit from a broadly stable average FY18 oil price vs. the 2017 average. OPEC and the Saudi Aramco IPO could influence the fundamentals-based oil scenario; ii) Oilfield Services should continue to be affected by low E&P spending in the upstream segment, although we think the worst looks behind us; and iii) Refiners should benefit from positive margins, although this already looks factored into stock prices.

- **E&P/Integrated (Positive):** The YTD oil price increase has largely mirrored a more disciplined approach by the OPEC to production cuts and a higher global oil demand. We expect a broadly flat yoy oil price in 2018E, as we think that: i) the risk of OPEC and Russia not complying with these quotas is limited; and ii) the US shale oil production could remain at the current level. We highlight that Saudi Arabia could be incentivised to remain disciplined within the OPEC at least until the Saudi Aramco IPO. On a fundamentals basis, we expect the oil price to stand at approximately USD 55/bbl (Brent) vs. a YTD average price of USD 54/bbl. The Saudi Aramco IPO could create some volatility on this value, although we see a USD 45/bbl oil price as a floor, potentially representing the US marginal production costs from shale oil, below which the US shale oil production could be reactivated. With the recent confirmation of the OPEC cut to 2018, we see a slight upside on the USD 54/bbl oil price for the rest of this year or in 2018E, on fundamentals;
- **Oilfield/E&C services (Negative on Upstream E&C; Positive on Downstream E&C):** Spending in upstream deep and ultra-deep offshore projects (exposure by Saipem among our coverage) should continue to suffer from the relatively low oil price. We believe that E&P companies could still take time before sanctioning projects in this segment while awaiting a slightly higher stable oil price, as these projects normally have a USD 55-60/bbl oil price breakeven. However, we take the view that the worst is behind us and we think this negative scenario is already factored into the sector estimates. After the relatively lower capex vs. production in the last few years, E&P companies now need to increase their reserves, but 2018 could still be a transitional year for the upstream E&C segment with capex materially increasing later on. The Majors' new capex plans to be outlined at the beginning of 2018 could provide better visibility on E&P new projects and spending. By contrast, as long as the oil price remains steady at around USD 50-55/bbl, we do not expect the downstream and onshore commercial opportunities to be affected. We take a selective approach, preferring E&C companies exposed to the onshore downstream business and without significant invested capital in terms of drilling and construction fleets (Maire Tecnimont, in our coverage);
- **Refiners (Neutral)**: With the oil price expected to remain stable at a relatively low level, we do not see any major squeeze to average refining margins in 2018E, although risks on oversupply remain in the long term due to new capacity and a refineries revamping/upgrade. However, we remain Neutral on this segment as we believe that the current favourable context is already factored into refiners' estimates and stock prices.

View and Valuation: We confirm our oil price assumption of USD 55/bbl in 2018E, and we remain **Positive on E&P/Integrated Oils and Oilfield/E&C (Downstream), Neutral on Refining and Negative on E&C Services (Upstream).**

Sample

Oil&Gas – 2018 sector drivers

	ENI	Saipem	Saras	Maire Tecnimont
Leadership				
Pricing power	Low	Low	Low	Low
Brand power	Medium	High	Medium	High
Market opportunities				
Exposure to emerging markets	Medium	High	Medium	High
Exposure to US fiscal reform	-	-	-	-
Risk factors				
Sensitivity to a stronger EUR vs. USD	High	Low	High	Low
Exposure to raw material price	High	Medium	High	Medium
Valuation issues				
PEG	High	Negative	Negative	High
Earnings visibility	Medium	Low	Low	Medium
Dividend yield (relative to peers)	High	Low	Medium	Medium

Source: Intesa Sanpaolo Research elaborations

Pharmaceuticals/Medical Equipment: Neutral

Sector view, drivers and valuation

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We believe that Italian Medical Equipment/Pharmaceutical companies could be viewed as defensive stocks thanks to their solid balance sheets, free cash flow generation and relatively protected business models.

- **M&A**: We believe that M&A activity will continue to be an important growth driver for the Italian listed medical equipment and pharmaceutical companies. We recall that in 2017 Diasorin acquired from Siemens its ELISA immunodiagnostic business portfolio for a total consideration of EUR 47.5M, Recordati bought the rights to metoprolol-based treatments in Europe for EUR 270M from AstraZeneca, and Amplifon continued to expand its sales network, through the purchase of 312 stores (as at 30 September), most of which in France (108), Germany (62), Portugal (81) and India (37);

- **Cash flow generation**: We expect the companies under our coverage to generate a significant free operating cash flow in 2018E. In addition, Diasorin should have a net cash position by end-2017E (EUR 108M, in our forecast) while, despite the acquisitions, Recordati's and Amplifon's 2017E net debt/EBITDA ratio should remain low at 0.75x and 1.14x, respectively. Thus, we feel that less accommodative monetary policies should not be an issue for the companies we cover. However, we note that large-sized M&A deals financed through debt issue could become more costly and, that at current prices, we estimate a 2017E free cash flow yield of the companies under our coverage of 3-4%, which is at the lower end of the industry range;

- **Drug/Medical device prices:** We believe that drugs and medical device prices will remain under pressure as a result of the need for public health systems to adopt cost-cutting measures and the periodical renegotiation of supply contracts (Diasorin).

View and Valuation: On the basis of a bottom-up analysis, we believe that at current prices Amplifon, Recordati and Diasorin are fully valued and trade in line or in some cases at a premium vs. competitors. **We therefore assign a Neutral view on the sector.**

Sample

Pharmaceuticals/Medical Equipment – 2018 sector drivers

	Diasorin	Recordati	Amplifon
Leadership			
Pricing power	Low	Medium	High
Brand power	Low	Medium	High
Market opportunities			
Exposure to emerging markets	Low	Medium	Low
Exposure to US fiscal reform	High	Medium	Medium
Risk factors			
Sensitivity to a stronger EUR vs USD	High	Medium	Medium
Exposure to raw material price	Low	Low	Low
Valuation issues			
PEG	High	High	Medium
Earnings visibility	Medium	Medium	Medium
Dividend yield (relative to peers)	Low	Medium	Low

Source: Intesa Sanpaolo Research elaborations

Real Estate: Positive

Sector view, drivers and valuation

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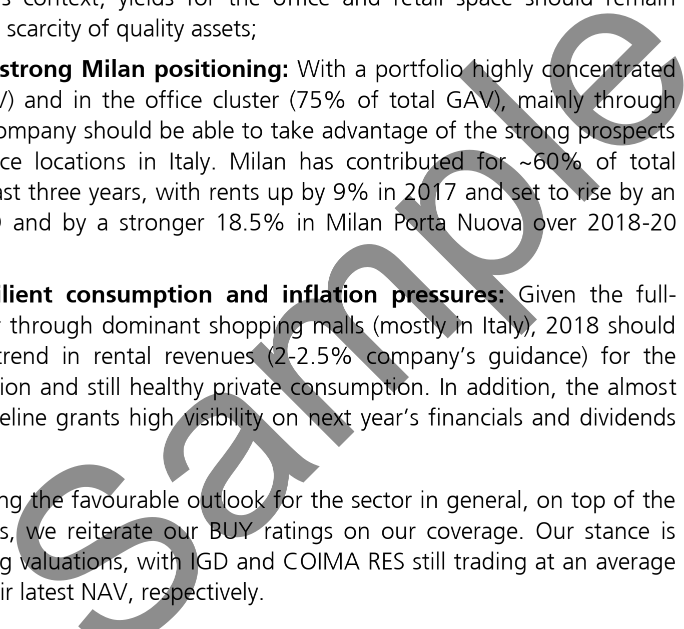
Domestic real estate should continue to benefit from a prolonged positive momentum, supported by a healthy GDP growth and interest rates set to remain at historical lows also in 2018.

- **A stabilising political and economic outlook for Italy:** While GDP should continue to grow in 2018E (+1.3%, according to our economists), we also see diminishing concerns as regards the political instability thanks to the approved electoral reform favouring the set-up of a coalition government;
- **PIR as a potential boost for listed Real Estate:** Inclusion of SIIQs in the PIR cluster (as envisaged in the current draft of the budget law, due to be approved by YE17) should continue to fuel sector liquidity also in the coming years (approx. EUR 70Bn total inflows expected over the next five years by MEF), also representing a positive trigger for new listings;
- **Sustained transaction volumes, keeping pressure on yields:** Up by 31% to EUR 7.1Bn in 9M17A (led by demand from foreign investors), we expect solid capital inflows to foster investments in 2018. In this context, yields for the office and retail space should remain compressed, considering the scarcity of quality assets;
- **COIMA RES to gain from strong Milan positioning:** With a portfolio highly concentrated in Milan (72% of total GAV) and in the office cluster (75% of total GAV), mainly through high-quality buildings, the company should be able to take advantage of the strong prospects for the most attractive office locations in Italy. Milan has contributed for ~60% of total investment volumes in the last three years, with rents up by 9% in 2017 and set to rise by an average 10% in Milan CBD and by a stronger 18.5% in Milan Porta Nuova over 2018-20 (source: Greenstreet);
- **IGD to benefit from resilient consumption and inflation pressures:** Given the full-exposure to the retail sector through dominant shopping malls (mostly in Italy), 2018 should see a continued upwards trend in rental revenues (2-2.5% company's guidance) for the indexation to a higher inflation and still healthy private consumption. In addition, the almost completed development pipeline grants high visibility on next year's financials and dividends (5% 2017E dividend yield).



View and valuation. Reflecting the favourable outlook for the sector in general, on top of the companies' solid fundamentals, we reiterate our BUY ratings on our coverage. Our stance is supported by still undemanding valuations, with IGD and COIMA RES still trading at an average 22% and 15% discount to their latest NAV, respectively.

Real Estate – 2018 sector drivers

	COIMA RES	IGD
Leadership		
Pricing power	Low	Low
Brand power	Low	Low
Market opportunities		
Exposure to emerging markets	NM	NM
Exposure to US fiscal reform	NM	NM
Risk factors		
Sensitivity to a stronger EUR vs USD	NM	NM
Exposure to raw material price	NM	NM
Valuation issues		
PEG	Low	Low/Medium
Earnings visibility	Medium/High	High
Dividend yield (relative to peers)	Medium	High

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

TMT: Positive

Sector view, drivers and valuation

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We shift our sector view on the TMT sector from Neutral to Positive as we believe that company-specific triggers (consolidation, convergence, restructuring, innovation) and a supportive macro outlook (upside risks on GDP growth estimates and a still accommodative monetary policy) could outweigh the persisting competitive risks (TLC & Media), the stretched valuations (Towers) and the uncertainty ahead of the political elections.

- **Telecoms**: Since the beginning of 2017, Telecom Italia has underperformed the FTSE MIB Index by 27% and the DJ Stoxx Telecom Index by 9% due to increasing competition concerns (Open Fiber, Iliad), disputes with government and regulators (culminating in the first-time approval of two golden-power decrees) and governance issues (related to Vivendi's stated direction and coordination and debatable control over TI). However, we also highlight the gradual stabilisation of domestic wireline sales, the resilience so far of domestic mobile sales to a renewed pricing pressure and a strong performance in Brazil. In our opinion, at the current share price, most of the risks are priced in. Potential scenarios of a network spin-off remain in the background, but they are still controversial and not short-term, in our view;
- **Media:** In a rapidly evolving and globally competitive environment, cost cutting may not be sufficient to ensure survival. As a result, the Italian listed media players, mostly local and traditional, are rethinking their business models, which is a long but mandatory path. In this respect, convergence and consolidation remain in the spotlight;
- **Towers:** The share price performance of listed tower players has been strong over the last twelve months. While interest rates remain low, valuations are well supported by high earnings visibility, long-term innovation drivers (5G) and consolidation appeal. The latter has been revamped by: i) TI's recent statement that INWIT is a non-core asset; ii) TI's ongoing disposal of Persidera; iii) the read-across on Cellnex from the current offers on Abertis; iv) the long-awaited business combination between Rai Way and EI Towers with 2H18 as a potential deadline (i.e. after the political elections and ahead of the start of the refarming process); and v) Wind Tre's potential disposal of their residual tower portfolio in 2018.

View and Valuation: In terms of stock picking, while we are aware of the tricky competitive environment and governance issues, we remain buyers on Telecom Italia on valuation, with a preference for the savings shares due to their minimum statutory DPS (4.5% yield). We remain also patient supporters of a Rai Way-EI Towers combination, a politics-related call. In this respect, we included EIT in our Small Caps Selected List Report, due to its underperformance vs. Rai Way, which, while reflecting EIT's higher earnings risk, we now consider overplayed. In the media sector, our top pick is Cairo (also included in our Small Caps Selected List Report), which we consider as a good way to play the RCS turnaround given its higher free float, underperformance in 2017, PIR eligibility and expected improving dividend yield (from 2.5% in 2017E to 5.1% in 2019E).

Sample

TMT – 2018 sector drivers

	TI	INWIT	EI Towers	Rai Way	Mediaset	RCS	Cairo	GEDI
Leadership								
Pricing power	Medium/Low	High	Medium	Medium	Low	Low	Low	Low
Brand power	High	High	Medium/High	Medium/High	Medium	Medium	Medium	Medium
Market opportunities								
Exposure to emerging markets	Medium/Low	-	-	-	-	-	-	-
Exposure to US fiscal reform	-	-	-	-	-	-	-	-
Risk factors								
Sensitivity to a stronger EUR vs USD	Medium/Low	-	-	-	Low	-	-	-
Exposure to raw material price	Low	Low	Low	Low	Low	Low	Low	Low
Valuation issues								
PEG (relative to peers)	Medium	High	Medium/Low	Medium/High	Low*	Medium	Medium	Medium
Earnings visibility	Medium	High	Medium/High	High	Low*	Medium	Medium	Medium
Dividend yield (relative to peers)	Medium	Medium	High	High	Low*	Low	Medium	Low

*based on Bloomberg consensus; Source: Intesa Sanpaolo Research elaborations

Utilities: Positive

Sector view, drivers and valuation

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We assume a solid outlook in Italian utilities, supported by a stable regulatory framework, better prospects for liberalised activities and limited risks on interest rates. On local utilities, our positive view is reinforced by S/T upside from M&A.

- **Thermal power generation to further consolidate its recovery on prices and demand:** We expect power generation to continue to recover on higher power wholesale prices, largely thanks to a higher GDP-related demand in Italy. The domestic capacity rationalisation process could halt in 2018 as we expect operators to await better visibility on the effects of the Capacity Market mechanism;

- **Renewables power generation to consolidate its growth path with further upside on repowering:** Renewables could benefit from new supportive regulation from the SEN (National Energy Strategy), which followed the EU "Winter package" directive and increased de-carb and renewables power volumes targets (28% of total use by 2030). While in the short-term power generators could be affected by the progressive incentives phase-out, this new government energy strategy should lead to an increase in total renewables installed capacity in the long term. How the greenfield and repowered capacity will be remunerated remains an issue (the SEN estimates around EUR 35Bn by 2030). The incumbent could be in a better position for growth as it could benefit from increasing volumes by using the fast track to repowering investments, in our view;

- **Supportive and stable regulation on domestic infrastructure. Gas distributors to benefit from gas tenders ramp-up and external growth:** We do not see any major changes in the regulated business of gas and power transmission and distribution, expecting only a fine-tuning from the interim WACC reviews (effective from 1 January 2019). The gas distribution tender process could be another positive driver, as we do not exclude its final ramp-up also enhanced by a government simplification of the tendering procedures. Meanwhile, a consolidation process has started, with several companies pursuing M&A actions on small-sized concessions as an alternative growth strategy, reinforcing their competitive positioning in the ATEMs where they intend to tender;

- **Stable rates until 2019 and a reduced political risk:** Utilities' valuations overall should not be affected by interest rates increases as our base-case scenario factors-in a gradual tapering process in 2018, with only an upwards adjustment of M/L rates and no hikes before 2019. We also see reduced political risks, thanks to the approved electoral reform favouring the set-up of a coalition government, thus limiting potential ERP and rates volatility. In this scenario, after the strong re-rating seen this year, lower dividend yields across the universe are counterbalanced by the companies' stronger focus on growth (both internal and external) to boost total shareholders' returns;

- **M&A and consolidation to be supportive to domestic local utilities:** We reiterate our Positive view on local utilities, with the equity stories for listed companies (Hera, Iren, A2A and Acea) based on: i) consolidation through M&A (each in their reference area), mirroring the commitment to pursue external growth opportunities (ongoing deals for A2A and Iren, close to their finalisation); ii) transferral of competences for waste business under the AEEGSI (inserted in the budget law, due to be approved by YE17), leading to a homogeneous regulatory framework with future improvements in compressed margins from collection activities, and also favouring a consolidation process in this fragmented business; iii) in liberalised activities, material upside from the ongoing upwards trend in waste disposal margins, exacerbated by the structural lack of treatment capacity (Hera, A2A and Iren as the main beneficiaries); and iv) on company specifics, strong balance sheets and high cash generation will allow the companies to cover increasing capex needs, small debt-financed acquisitions and rising dividends;

- **Among the large utilities,** Enel is one of the preferred stocks in our coverage, as it is effectively working on efficiency gains across all its business segments, especially in the regulated and quasi-regulated business globally, shifting growth capex to mature markets and implementing effective retail commercial policies.

Sample

View and Valuation: We are Positive on regulated businesses thanks to the supportive and stable regulation, underpinning performance and exploiting upside from efficiency gains and M&A. On liberalised activities, we are positive on the renewables segment in the long term, thanks to capacity and volumes growth. We are Neutral on the retail segment (gas and electricity sales): lower commercial costs and effective commercial policies implemented during 2018 could be crucial to gain from the phase-out of the protected electricity market in mid-2019. We are Neutral-to-Positive on thermal power generation as it could continue to consolidate its performance recovery path in 2018.

Utilities (Domestic/International Power & Regulated) – 2018 sector drivers

	Enel	ERG	Italgas	Snam	Terna
Leadership					
Pricing power	Low	Low	Low	Low	Low
Brand power	High	Low	Low	Low	Low
Market opportunities					
Exposure to emerging markets	High	---	---	---	---
Exposure to US fiscal reform	Low	---	---	---	---
Risk factors					
Sensitivity to a stronger EUR vs USD	High	---	---	---	---
Exposure to raw material price	Low	---	---	---	---
Valuation issues					
PEG	Low	Negative	Low	Medium	High
Earnings visibility	High	High	High	High	High
Dividend Yield (relative to peers)	High	Medium	Low	Medium	Low

Source: Intesa Sanpaolo Research elaborations

Utilities (Local Multi-Utilities) – 2018 sector drivers

	A2A	Acea	Ascopiave	Hera	Iren
Leadership					
Pricing power	Low/Medium	Medium	Medium	Medium	Medium
Brand power	Low	Low	Low	Low	Low
Market opportunities					
Exposure to emerging markets	NM	NM	NM	NM	NM
Exposure to US fiscal reform	NM	NM	NM	NM	NM
Risk factors					
Sensitivity to a stronger EUR vs USD	NM	NM	NM	NM	NM
Exposure to raw material price	Medium	Low	Low	Low	Low/Medium
Valuation issues					
PEG	Medium/High	Low	Medium/High	Medium	Low
Earnings visibility	Low/medium	Medium/High	Medium/High	Medium/High	Medium/High
Dividend Yield (relative to peers)	Medium	Medium	High	Medium	Medium/Low

NM: not meaningful; Source: Intesa Sanpaolo Research elaborations

Sample

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Sample

Autogrill

Travel&Leisure Top Pick 2018

Investment Case

Given the now good visibility on the US corporate tax cut since the US Senate's approval of the tax code reform, we recently factored in the benefits of the more favourable fiscal regime into our estimates, raising our 2018E-19E EPS by approx. 13.5%. We thus upgraded our recommendation on the stock to BUY as we think that the positive effects of the fiscal reform are not yet fully priced in. The key investment drivers for Autogrill are:

- **Strong upside from US fiscal reform:** With the US Senate recently passing the tax code reform, the corporate tax reduction to 20% from 35% looks increasingly likely. Given that the bulk of AGL's consolidated net profit is US-labelled (we calculate between 80% and 90%), we expect a significant increase in AGL's EPS (15% on avg.) in 2018E-19E if the tax bill becomes law in the coming weeks, with the group tax rate dropping sharply to 21.5% and 22.4%, respectively, from 34% in 2017E.
- **A potential boost from second-round effects:** Preliminary calculations by Intesa Sanpaolo's macroeconomists suggest that the tax code overhaul could boost the US GDP by 0.2-0.3% in the next two years, via increased corporate investments as well as higher household consumption. Since the effects of the fiscal reform are not clear on individuals as several tax breaks may be eliminated, we are not including a stronger US economy on our model but we highlight that consumption may accelerate in the US, favouring air traffic and spending per pax in the airport channel, which remains one of the most important growth engine of the AGL.
- **Medium/long-term prospects remain solid:** Despite a slowdown of organic growth to +1.7% in July-August, the FX headwinds and the uncertain outcome from the US hurricanes, we believe that AGL's underlying growth potential is intact, led by the secular air traffic growth expected at the global level, early signs of a recovery on Italian motorways due to the gathering momentum of the local economy as well as the opportunity to better penetrate emerging markets and tap into the USD 1.5Bn worth US convenience sector. The recently-signed agreement with Pret-à-Manger fosters AGL's long-term growth prospects, in our view.
- **Corporate reorganisation ready to unleash its effects:** Eight months on from its initial announcement in April, the new corporate structure will be effective from 1 January 2018. We think that with this move, AGL broadens its array of opportunities to finalise strategic deals looking for equity partners or via a true business combination exploiting the unlevered balance sheet (1x 2018 net debt/EBITDA). In addition, we expect material cost efficiencies mainly in Italy led by the new corporate structure, which will help AGL to bring the EBITDA margin of the European subsidiary to 10% in the medium term.

Sample

Valuation

We reiterate our BUY recommendation and positive stance on the stock **with a DCF-based target price of EUR 13.5/sh**, corresponding to an 2018E EV/EBITDA and P/E of 9.9x and 24.5x, with an average discount of 19% vs. SSP trading multiples.

Key Risks

The key risks relate to substantial changes to the US fiscal reform versus what we have plugged into our model as well as a stronger and more prolonged negative impact from the hurricanes in the US.

BUY

Target Price: EUR 13.5

Italy/Travel&Leisure
Top Picks Selection

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Price performance, -1Y

06/12/2017

Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	13.5
Target upside (%)	21.50
Market price (€)	11.14
52Wk range (€)	11.5/8.1
Market cap (€ M)	2,834.0
No. of shares	254.4
Free float (%)	49.8
Major shr	BENETTON FAMILY
(%)	51.0
Reuters	AGL.MI
Bloomberg	AGL IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-2.3	-1M	0.8
-3M	0.4	-3M	-2.1
-12M	37.7	-12M	8.0

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 59 for full disclosures and analyst certification

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Autogrill - Key data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 13.5	Ord 11.14	Travel&Leisure	49.8	AGL.MI

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	254.4	254.4	254.4	254.4	254.4
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	254.4	254.4	254.4	254.4	254.4
Market cap (EUR M)	2,082.4	1,929.7	2,834.0	2,834.0	2,834.0
Adj. EPS	0.25	0.33	0.39	0.55	0.61
CFPS	1.2	1.3	1.3	1.5	1.6
BVPS	2.2	2.5	2.7	3.1	3.5
Dividend ord	0.12	0.16	0.14	0.23	0.25
Dividend SAV Nc	0	0	0	0	0
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	4,370.0	4,518.7	4,627.9	4,751.9	4,937.4
EBITDA	376.4	411.6	401.2	450.7	485.4
EBIT	152.1	201.0	185.9	226.3	250.1
Pre-tax income	113.2	170.3	159.3	204.1	228.2
Net income	64.39	98.22	86.98	140.6	154.5
Adj. net income	64.19	83.52	98.73	140.6	154.5
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	78.8	114.5	104.7	160.3	177.2
Depreciation and provisions	224.3	210.6	215.3	224.4	235.3
Others/Uses of funds	-87.5	-10.9	28.3	4.7	5.9
Change in working capital	22.7	24.9	-13.3	-0.5	14.5
Operating cash flow	238.2	339.1	335.0	388.9	432.9
Capital expenditure	-219.9	-245.8	-240.8	-257.4	-267.9
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	18.3	93.3	94.2	131.6	165.0
Dividends	0	-30.5	-40.7	-36.0	-58.3
Equity changes & Other non-operating items	30.7	3.6	-14.2	-15.7	-18.1
Net cash flow	49.0	66.4	39.3	79.8	88.6
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	1,244.4	1,265.6	1,276.1	1,304.9	1,317.0
of which associates	0	0	0	0	0
Net debt/-cash	644.4	578.0	538.7	458.9	370.3
Minorities	40.4	44.0	47.5	51.5	56.0
Net equity	559.6	643.6	689.9	794.4	890.7
Minorities value	0	0	0	0	0
Enterprise value	2,877.2	2,639.7	3,568.0	3,476.6	3,382.5
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	32.4	23.1	28.7	20.2	18.3
P/CFPS	6.9	5.9	8.9	7.4	6.9
P/BVPS	3.7	3.0	4.1	3.6	3.2
Payout (%)	0	48	41	41	41
Dividend yield (% ord)	1.5	2.1	1.3	2.1	2.3
FCF yield (%)	0.9	4.8	3.3	4.6	5.8
EV/sales	0.66	0.58	0.77	0.73	0.69
EV/EBITDA	7.6	6.4	8.9	7.7	7.0
EV/EBIT	18.9	13.1	19.2	15.4	13.5
EV/CE	2.3	2.1	2.8	2.7	2.6
D/EBITDA	1.7	1.4	1.3	1.0	0.76
D/EBIT	4.2	2.9	2.9	2.0	1.5
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	8.6	9.1	8.7	9.5	9.8
EBIT margin	3.5	4.4	4.0	4.8	5.1
Tax rate	30.4	32.0	34.3	21.5	22.4
Net income margin	1.5	2.2	1.9	3.0	3.1
ROCE	12.2	15.9	14.6	17.3	19.0
ROE	12.6	16.3	13.0	18.9	18.3
Interest cover	3.9	6.5	7.0	10.2	11.4
Debt/equity ratio	107.4	84.1	73.1	54.3	39.1
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		3.4	2.4	2.7	3.9
EBITDA		9.4	-2.5	12.3	7.7
EBIT		32.1	-7.5	21.7	10.5
Pre-tax income		50.4	-6.5	28.2	11.8
Net income		52.5	-11.4	61.7	9.9
Adj. net income		30.1	18.2	42.4	9.9

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

Banca Mediolanum

Asset Gatherers Top Pick 2018

Investment Case

We appreciate Banca Mediolanum's better and more sustainable revenue and net profit mix in the medium-term, with a higher contribution of recurrent revenues and performance fees' calculation more in line with best practice, after the change to be applied starting from 2018. We also like the group's ability to capture new potential growth opportunities, as demonstrated with PIR (EUR 2.2Bn gathered YTD). In addition, the exclusion from the FTSE MIB Index starting from 18 December is not negative news in our view, as the stock could receive technical support from flows related to PIR-compliant funds. Finally, we highlight the attractive dividend profile of the stock: 5.6% based on our EUR 0.4/share 2017E DPS estimate.

- We appreciate the **better more sustainable revenue and net profit mix in the medium-term**, with a higher contribution of recurrent revenues and performance fees' calculation more in line with best practices, after the change to be applied starting from 2018. Our 2019E net profit estimates factor in an approximately 34% contribution from performance fees vs. 50% in 2016A;
- We also like the **group's ability to capture new potential growth opportunities**, as demonstrated with PIR (EUR 2.2Bn net inflows YTD vs. our EUR 2.5Bn estimate in FY17E and company guidance). In addition, to offset the pressure on net interest income coming from the low-rate environment, Banca Mediolanum has recently entered the CDQ business (salary-backed loans), with the acquisition of EuroCqs, targeting EUR 1Bn of new business over three years;
- Banca Mediolanum recorded a weak share price performance in the past twelve months (+9.2%) relative to Finecobank (+67.8%) and Banca Generali (+27.7%), while Azimut was up only 1.6%. In this respect, the exclusion from the FTSE MIB Index starting from 18 December does not represent a negative news, in our view, as **the stock could receive technical support from the inclusion into PIR-compliant funds**' portfolios.
- **Banca Mediolanum offers an attractive dividend yield**: 5.6% based on our EUR 0.4/share 2017E DPS estimate.

Valuation

We value Banca Mediolanum through a three-stage Free-Cash-Flow-to-Equity (FCFE) model, leading to a **target price of EUR 8.2/share**. We highlight that, although 2018 represents a discontinuity due to the adoption of the new calculation methodology on performance fees, the stock currently trades at an approximately 10% discount to the average 2018E adj. P/E of Azimut, Banca Generali and Finecobank. Moreover, Banca Mediolanum has an attractive PEG in relative terms, at 1.3x 2017E and 0.8x 2018E (the latter calculated on 2018E P/E and 2019E yoy growth in EPS) vs. 2x and 1.4x, respectively, as the peer average.

Key Risks

In our view, the main risks relate to: 1) the low-interest rate environment, still penalising the group's net interest income; 2) regulatory risk, to a certain extent implicit in the financial sector (MIFID2 coming in 2018); 3) ECB opposing Fininvest holding a stake above 10% in Banca Mediolanum; 4) a potentially negative financial market performance weighing on the group's AuM; 5) planned changes to the calculation mechanism of performance fees (contributing 14.8% of total gross revenues in FY16 and approximately 50% of the consolidated net profit, down to around 10% and 40% in 9M17, respectively, according to our calculations); 6) a potential widening of the BTP-Bund spread, given the EUR 14.1Bn Italian government bonds in the group's portfolio at end-September 2017; and 7) a slower than expected macroeconomic recovery in Italy.

See page 59 for full disclosures and analyst certification

Sample

ADD

Target Price: EUR 8.2

Italy/Asset Gatherers
Top Picks Selection

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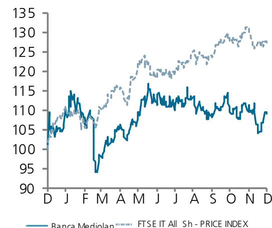
Manuela Meroni
Elena Perini, CFA

Price performance, -1Y

06/12/2017



Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	8.2
Target upside (%)	14.77
Market price (€)	7.15
52Wk range (€)	7.65/6.17
Market cap (€ M)	5,288.2
No. of shares	740.1
Free float (%)	29.5
Major shr	Doris family
(%)	40.3
Reuters	BMED.MI
Bloomberg	BMED IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-0.6	-1M	2.6
-3M	0.1	-3M	-2.3
-12M	9.2	-12M	-14.3

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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INTESA SANPAOLO

Banca Mediolanum - Key data					
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
ADD	Ord 8.2	Ord 7.14	Asset Gatherers	29.5	BMED.MI

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	738.0	738.9	738.9	738.9	738.9
No. NC saving/ preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	738.0	738.9	738.9	738.9	738.9
Market cap (EUR M)	5,306.2	4,799.4	5,279.1	5,279.1	5,279.1
Adj. EPS	0.59	0.53	0.48	0.50	0.60
BVPS	2.80	2.91	3.00	3.13	3.33
NAVPS	2.47	2.58	2.70	2.80	3.00
Dividend ord	0.30	0.40	0.40	0.40	0.40
Dividend SAV Nc	0	0	0	0	1.00
AuMPS	59.9	66.1	75.6	84.7	93.7
Customer assets per share	84.1	93.1	102.7	112.6	122.2
Income Statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net interest income	251.7	220.0	188.8	180.1	194.0
Total gross commissions	1,366.4	1,271.0	1,383.1	1,471.6	1,611.9
Management fees	815.1	848.8	973.6	1,099.6	1,219.0
Net commissions	813.2	731.9	763.9	782.6	859.2
Total costs and depreciation	530.8	575.4	609.9	579.7	588.3
Operating income	618.2	479.5	463.0	471.0	558.0
Pre-tax income	561.2	448.9	426.3	435.5	522.5
Net income	438.6	393.5	375.5	368.8	438.0
Adjusted net income	438.6	393.5	352.0	368.8	438.0
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Cash & deposits	5,870.4	4,021.1	3,105.6	2,369.5	1,833.4
Total securities	30,835.4	28,910.9	28,000.0	30,100.0	30,100.0
Total loans	6,302.0	7,250.0	7,550.0	8,250.0	8,750.0
Funding	26,263.7	23,440.7	21,300.0	22,825.0	22,825.0
Provisions	227.8	234.0	270.7	306.2	341.7
Shareholders' equity	2,070.1	2,150.7	2,230.6	2,305.2	2,449.0
Customers' assets (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Mutual funds and individual portfolios	42,191.8	47,095.6	54,024.9	60,682.5	67,236.1
Life reserves and pension funds	1,995.5	1,723.3	1,595.0	1,650.0	1,700.0
Total AuM	44,187.3	48,818.9	55,619.9	62,332.5	68,936.1
Total customers' assets	62,085.9	68,814.8	75,579.2	82,791.8	89,895.4
AuM Italy	41,551.5	45,725.5	51,985.3	58,082.5	64,086.1
Customers' assets (Italy)	58,034.1	64,343.2	70,526.4	77,073.6	83,527.2
Total net inflow	5,255.1	6,039.2	5,052.2	5,550.0	5,550.0
AuM net inflow	4,052.1	3,538.3	5,112.0	5,000.0	5,000.0
Non-managed inflow	1,203.0	2,500.9	-59.8	550.0	550.0
Stock Market Ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
P/E	12.1	12.2	14.0	14.3	12.0
Adj. P/E	12.1	12.2	15.0	14.3	12.0
P/BVPS	2.56	2.23	2.38	2.28	2.15
P/NAV	2.91	2.52	2.65	2.55	2.39
P/total AuM (%)	12.0	9.8	9.4	8.4	7.6
P/total customers' assets (%)	8.5	7.0	7.0	6.3	5.8
Dividend yield (% ord)	4.2	6.2	5.6	5.6	5.6
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Cost income ratio	46.2	54.5	56.8	55.2	51.3
Network payout	51.0	50.7	51.0	51.1	50.9
Tax rate	21.8	12.3	11.9	15.3	16.2
ROE	22.6	18.6	16.2	16.3	18.4
RONAV	25.9	21.1	18.1	18.2	20.5
Net profit/total AuM	1.0	0.8	0.7	0.6	0.7
Net profit/total customers' assets	0.74	0.60	0.49	0.47	0.51
Dividend payout	50.5	75.1	78.4	79.8	67.2
Core Tier1 ratio	19.7	20.0	21.7	21.2	21.5
Revenues breakdown (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net life revenues	333.0	312.6	329.6	324.2	341.5
Net asset management revenues	478.9	435.6	435.7	460.5	518.3
Net banking revenues	230.8	198.8	167.4	167.6	182.0
Net total revenues	1,149.0	1,054.9	1,072.9	1,050.6	1,146.4
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Adj. EPS		-10.4	-10.4	5.0	18.8
Management fees		4.1	14.7	13.0	10.8
Total AuM		10.5	13.9	12.1	10.6
Total customers' assets		10.8	9.8	9.5	8.6

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

CNH Industrial

Capital Goods Top Pick 2018

Investment Case

While CNH's new EPS targets are broadly aligned with consensus, we believe that the improvement in guidance, the better than expected 3Q results and positive signals from reference markets have raised visibility and support market confidence in the stock.

- **Recent upgrade in FY guidance:** After a 42% improvement in the group's industrial operating profit in 3Q17 (24.5% above market consensus), at the beginning of November CNH raised its FY revenue guidance for Industrial activities from USD 25.0Bn to USD 25.5Bn and its adj. EPS from USD 0.44 to USD 0.46, a confirmation of the better visibility ahead;
- **Positive signs from the reference markets:** Following the long-awaited increase in the group's guidance, we recently reiterated our positive view on the company as indications of volumes progress in both AG and CE are multiplying as confirmed by CNH's latest upwards revision of the market outlook. In detail, in November CNH once again raised its expectations in NAFTA AG for combines (now seen up by 10-15% vs. a previous flat scenario) and tractors up to 140hp (from flat to flat-to-+5%). We highlight that the group's NAFTA AG activities account for roughly 33% of CNH's AG operations and around 13% of total group's revenues. While management still sees a negative market scenario for tractors above 140hp, we believe that CNH's phase of underproduction in high horsepower is now behind us and we could start to see some overproduction also in this segment, similar to that seen in combines and tractors up to 140hp in 3Q. In CE, management also raised its expectations particularly for APAC and EMEA in both Light and Heavy Equipment. Overall, we view the steady improvement in the market outlook both by CNH and its main peers as an indication of the fact that the AG and CE market might be on the verge of a new positive cycle, despite still relatively compressed commodities prices;
- **LATAM also among the positives:** While a better trend of AG&CE NAFTA operations along with the European market represent without a doubt the most important growth driver for the company, we view the sound trend in Latam both in Agricultural Equipment and in Commercial Vehicles as a further support to our investment case;
- **Strong 2017-19 CAGR:** Our forecasts call for an adj. EPS 2017-19E CAGR of 22.7% supported by a sound recovery in CNH's AG segment, whose profitability is expected to return to a double-digit level by 2019 and by the better trend in Commercial Vehicles thanks to efficiency actions. While the company has refrained for now from making any comments, in the future we would view a potential disposal or spin-off of the CV segment along with a valorisation of the CE division as strategically valid and positive from a valuation standpoint as it would allow the effective hidden value of CNH's single assets to emerge.

Sample

Valuation

While CNH's new EPS targets are broadly aligned with current consensus (FactSet), we believe that the improvement in guidance along with the much better than expected 3Q results have raised visibility and should support the market's confidence in the company. We do not rule out a further small improvement in 2017 consensus and we believe that consensus for 2018 could also shift upwards. Valuation-wise, despite still trading at stretched earnings multiples vs. its main competitors, our SOP analysis points **to a target price of EUR 12.8/share**.

Key Risks

The main risks to our rating and TP are: 1) the failure to meet guidance and insufficient productions cuts; 2) a worse AG trend in NAFTA and a worse trend in the CE and CV segments; 3) weaker operating leverage for CV operations in EMEA and a worse trend in CV and CE in LATAM; and 4) value-destructive acquisitions.

See page **59** for full disclosures and analyst certification

BUY

Target Price: EUR 12.8

Italy/Capital Goods
Top Picks Selection

Intesa Sanpaolo
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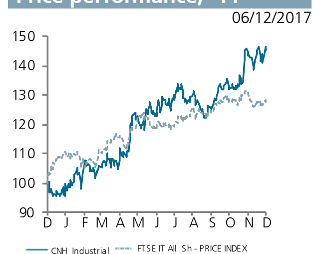
Price performance, -1Y

06/12/2017



Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	12.8
Target upside (%)	15.86
Market price (€)	11.09
52Wk range (€)	11.3/8.0
Market cap (€ M)	15,105.1
No. of shares	1,362.0
Free float (%)	70.1
Major shr	Exor SpA
(%)	27.1
Reuters	CNHI.MI
Bloomberg	CNHI IM
FTSE IT All Sh	29072

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-1.4	-1M	1.7
-3M	17.3	-3M	14.5
-12M	32.4	-12M	3.9

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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CNH Industrial - Key data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 12.8	Ord 11.09	Capital Goods	70.1	CNHI.MI

Values per share (USD)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	1,355.3	1,362.0	1,362.0	1,362.0	1,362.0
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	1,355.3	1,362.0	1,362.0	1,362.0	1,362.0
Market cap (EUR M)	10,849.3	9,789.1	17,807.4	17,807.4	17,807.4
Adj. EPS	0.25	0.36	0.48	0.62	0.72
CFPS	0.69	0.34	0.94	1.1	1.2
BVPS	3.3	3.0	3.3	3.6	4.1
Dividend ord	0.20	0.10	0.18	0.23	0.28
Dividend SAV Nc	0	0	1.00	2.00	3.00
Income statement (USD M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	25,912.0	24,872.0	26,747.3	27,690.3	28,231.2
EBITDA	2,318.6	2,149.0	2,500.2	2,752.2	2,931.1
EBIT	1,551.0	1,395.0	1,670.2	1,902.2	2,061.1
Pre-tax income	608.0	49.00	871.9	1,153.9	1,362.8
Net income	253.0	-252.0	551.9	747.4	881.3
Adj. net income	337.0	482.0	651.9	847.4	981.3
Cash flow (USD M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	248.0	-249.0	557.9	755.4	890.7
Depreciation and provisions	683.6	710.0	730.0	750.0	770.0
Others/Uses of funds	589.9	1,605.1	-404.8	-53.7	-57.4
Change in working capital	470.5	-1,312.0	-299.4	-150.5	-323.5
Operating cash flow	1,992.0	754.1	583.7	1,301.1	1,279.7
Capital expenditure	-653.0	-501.0	-551.1	-578.7	-607.6
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	1,339.0	253.1	32.6	722.5	673.1
Dividends	-270.0	-192.0	-137.5	-245.2	-313.3
Equity changes & Other non-operating items	0	0	0	0	0
Net cash flow	1,069.0	61.0	-104.8	477.3	359.9
Balance sheet (USD M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	6,123.7	5,606.8	6,126.1	6,151.0	6,360.2
of which associates	0	0	0	0	0
Net debt/-cash	1,622.0	1,561.0	1,665.8	1,188.5	829.7
Minorities	332.2	320.5	320.5	320.5	320.5
Net equity	4,169.4	3,725.4	4,139.8	4,642.0	5,210.1
Minorities value	0	0	0	0	0
Enterprise value	13,272.0	12,125.4	20,752.7	20,145.9	19,668.9
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	32.1	20.1	27.3	21.0	18.1
P/CFPS	11.6	21.4	13.9	11.9	10.8
P/BVPS	2.4	2.4	4.0	3.6	3.2
Payout (%)	76	29	44	42	43
Dividend yield (% ord)	2.5	1.4	1.4	1.8	2.1
FCF yield (%)	3.4	7.1	4.7	5.7	6.4
EV/sales	0.51	0.49	0.78	0.73	0.70
EV/EBITDA	5.7	5.6	8.3	7.3	6.7
EV/EBIT	8.6	8.7	12.4	10.6	9.5
EV/CE	2.2	2.2	3.4	3.3	3.1
D/EBITDA	0.70	0.73	0.67	0.43	0.28
D/EBIT	1.0	1.1	1.00	0.62	0.40
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	8.9	8.6	9.3	9.9	10.4
EBIT margin	6.0	5.6	6.2	6.9	7.3
Tax rate	59.2	NM	36.0	34.5	34.6
Net income margin	1.0	-1.0	2.1	2.7	3.1
ROCE	25.3	24.9	27.3	30.9	32.4
ROE	6.1	-6.4	14.0	17.0	17.9
Interest cover	3.2	2.6	3.2	4.0	4.7
Debt/equity ratio	36.0	38.6	37.3	24.0	15.0
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		-4.0	7.5	3.5	2.0
EBITDA		-7.3	16.3	10.1	6.5
EBIT		-10.1	19.7	13.9	8.4
Pre-tax income		-91.9	NM	32.3	18.1
Net income		NM	NM	35.4	17.9
Adj. net income		43.0	35.2	30.0	15.8

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

BANCA IMI

Equity Strategy Report

Enel

Utilities Top Pick 2018

Investment Case

We select Enel as our top pick among utilities as we see the company as effectively working on efficiency gains in all its business segments. Moreover, we appreciate the company's high exposure to the regulated and quasi-regulated business globally, the shift in expansion capex to mature markets, the growth in the retail business, solid cash generation and high total shareholders' return.

- **Strategy: Digitalisation as an operating efficiency driver across the business:** We appreciate Enel's strategy of investing in digitalisation, as we believe that it could represent a competitive advantage in terms of commercial policies as well as supporting an efficient utilisation of its power generation assets and networks;

- **Business mix: regulated and quasi-regulated businesses and mature markets to give earnings visibility:** Enel continues to pursue industrial growth largely in the Networks and Renewables area, shifting 80% of growth capex into mature areas, such as Italy, Iberia, North and Central America. Thermal power generation capacity should decline thanks to approx. 7GW coal phase-out, broadly offset by increasing renewables capacity, largely under PPA-based revenues. Overall, approx. 75% of EBITDA should come from regulated and quasi-regulated business providing earnings visibility. The remaining EBITDA should derive from merchant generation and retail business, where the company plans to increase exposure and efficiency also via e-solutions;

- **Financials: strong EPS growth, solid cash generation and deleveraging:** Cash cost reduction, the optimisation of assets utilisation and organic growth, with higher capex in the regulated business should, according to management's stated targets, translate into: i) high cash generation and deleveraging with a FFO/net debt of 31% and net debt/EBITDA of 2.1x by 2020 (vs. the current 2.4x); and ii) solid returns (ROACE and ROE targeted at around 13.1% and 13%, respectively); and iii) a 2016-20 EPS CAGR of around 12%;

- **Dividends appeal:** We calculate a DPS of EUR 0.23/share in 2017E, EUR 0.29/share in 2018E and EUR 0.33/share in 2019E, translating into a dividend yield of 4.2% in 2017E, rising to 5.9% in 2019E. Our 2020E DPS of EUR 0.35/share provides a 6.3% yield. Assuming our EPS and pay-out unchanged, we see upside potential on DPS following the potential share buy-back.

Sample

Valuation

We recently confirmed our 2018E-20E estimates, setting a new **DCF-based valuation at EUR 6.2/share**, following the periodical revision of our parameters for the WACC calculation. **We confirm our ADD rating**. We believe that the attractive dividend yield and the current discount to peers' multiples (around 4% on 2018/19 EV/EBITDA, FactSet) should also support the stock.

Key Risks

Among the company-specific risks, we highlight: a) regulatory risks on infrastructure; b) forex risks, mainly related to Latam; and c) acquisition/disposal price risks in the asset portfolio rotation.

See page 59 for full disclosures and analyst certification

ADD

Target Price: EUR 6.2

Italy/Electricity
Top Picks Selection

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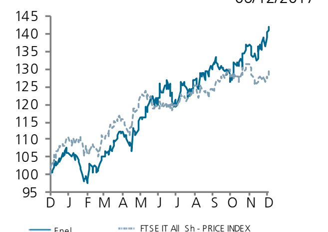
Price performance, -1Y

06/12/2017



Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	6.2
Target upside (%)	12.22
Market price (€)	5.53
52Wk range (€)	5.53/3.84
Market cap (€ M)	56,172.7
No. of shares	10,167.0
Free float (%)	66.7
Major shr	Min. Econ. Fin.
(%)	31.2
Reuters	ENEI.MI
Bloomberg	ENEL IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	2.5	-1M	5.7
-3M	7.4	-3M	4.8
-12M	40.6	-12M	10.3

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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Enel - Key data					
Rating	**Target price (EUR/sh)**	**Mkt price (EUR/sh)**	**Sector**	**Free float (%)**	**Reuters Code**
ADD	**Ord 6.2**	**Ord 5.53**	**Electricity**	**66.7**	**ENEI.MI**

Values per share (EUR)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
No. ordinary shares (M)	9,403.4	10,167.0	10,167.0	10,167.0	10,167.0
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	9,403.4	10,167.0	10,167.0	10,167.0	10,167.0
Market cap (EUR M)	38,572.9	39,473.0	56,172.7	56,172.7	56,172.7
Adj. EPS	0.31	0.32	0.36	0.41	0.47
CFPS	1.0	0.87	0.91	0.98	1.1
BVPS	3.4	3.4	3.6	3.8	3.9
Dividend ord	0.16	0.18	0.23	0.29	0.33
Dividend SAV Nc	0	0	0	1.00	1.00
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	75,658.0	70,592.0	72,615.0	73,110.6	74,902.3
EBITDA	15,040.0	15,174.0	15,446.4	16,452.3	17,440.5
EBIT	7,685.0	8,921.0	9,775.1	10,608.6	11,370.8
Pre-tax income	5,281.0	5,780.0	7,085.0	8,136.3	9,134.2
Net income	2,196.0	2,570.0	3,626.9	4,145.5	4,749.9
Adj. net income	2,887.0	3,243.0	3,626.9	4,145.5	4,749.9
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	3,372.0	3,787.0	5,030.4	5,776.8	6,485.3
Depreciation and provisions	7,612.0	6,253.0	5,671.3	5,843.6	6,069.7
Others/Uses of funds	801.0	-301.0	-11.0	-11.0	-11.0
Change in working capital	7,747.0	1,468.0	-525.4	-2,109.8	-350.3
Operating cash flow	19,532.0	11,207.0	10,165.2	9,499.6	12,193.8
Capital expenditure	-5,554.0	-8,555.5	-7,429.3	-8,325.5	-7,875.0
Financial investments	0	-382.0	0	0	0
Acquisitions and disposals	0	1,137.0	-300.0	200.0	700.0
Free cash flow	13,978.0	3,406.5	2,435.9	1,374.1	5,018.8
Dividends	-1,197.6	-1,587.9	-1,945.8	-2,357.5	-2,901.8
Equity changes & Other non-operating items	-12,942.4	-1,826.6	-901.8	-1,191.6	-1,362.5
Net cash flow	-162.0	-8.0	-411.6	-2,175.0	754.5
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	89,296.0	90,128.0	92,711.5	97,253.1	98,858.7
of which associates	14,487.0	13,724.0	13,724.0	13,874.0	14,024.0
Net debt/-cash	37,545.0	37,553.0	37,964.6	40,139.6	39,385.2
Minorities	19,375.0	17,772.0	18,262.8	18,841.4	19,353.4
Net equity	32,376.0	34,803.0	36,484.1	38,272.1	40,120.1
Minorities value	0	0	0	0	0
Enterprise value	84,714.3	83,458.7	108,531.5	110,092.2	108,630.8
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	13.4	12.2	15.5	13.6	11.8
P/CFPS	3.9	4.5	6.0	5.6	5.2
P/BVPS	1.2	1.1	1.5	1.5	1.4
Payout (%)	69	71	65	70	70
Dividend yield (% ord)	3.9	4.6	4.2	5.2	5.9
FCF yield (%)	36.2	8.6	4.3	2.4	8.9
EV/sales	1.1	1.2	1.5	1.5	1.5
EV/EBITDA	5.6	5.5	7.0	6.7	6.2
EV/EBIT	11.0	9.4	11.1	10.4	9.6
EV/CE	0.95	0.93	1.2	1.1	1.1
D/EBITDA	2.5	2.5	2.5	2.4	2.3
D/EBIT	4.9	4.2	3.9	3.8	3.5
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	19.9	21.5	21.3	22.5	23.3
EBIT margin	10.2	12.6	13.5	14.5	15.2
Tax rate	36.1	34.5	29.0	29.0	29.0
Net income margin	2.9	3.6	5.0	5.7	6.3
ROCE	8.6	9.9	10.5	10.9	11.5
ROE	6.9	7.7	10.2	11.1	12.1
Interest cover	3.2	3.0	3.4	4.0	4.8
Debt/equity ratio	72.5	71.4	69.3	70.3	66.2
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		-6.7	2.9	0.7	2.5
EBITDA		0.9	1.8	6.5	6.0
EBIT		16.1	9.6	8.5	7.2
Pre-tax income		9.4	22.6	14.8	12.3
Net income		17.0	41.1	14.3	14.6
Adj. net income		12.3	11.8	14.3	14.6

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

Fiat Chrysler Automobiles

Automobiles & Components Top Pick 2018

ADD

Target Price: EUR 16.9

Italy/Automobiles & Components
Top Picks Selection

Intesa Sanpaolo Research Department

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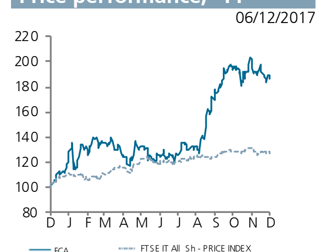
Investment Case

Despite an almost flat stock performance in the last month, we believe that FCA is approaching end-2017/2018 with some irons still on the fire, with improved visibility following 3Q results, more confidence in NAFTA and growth potential for Alfa and Maserati.

- **Better visibility ahead.** Thanks to the better than expected 3Q17 results, the group has significantly reduced the market's scepticism on the group's potential profitability in NAFTA and has enhanced visibility on the full achievement of its 2018 guidance;
- **More confidence in NAFTA margins despite a tougher environment:** On the back of the efforts to reposition the company towards premium brands, the probability of FCA meeting its 2018 guidance (provided in 2014 and not adjusted for the perimeter changes) now looks in excess of 50% with a different mix in the components vs. the initial BP, as recently indicated by management. For the achievement of FY18 targets, we consider the successful execution of the launch of new products (the New Jeep Cherokee, all New Jeep Wrangler, and all New Ram 1500) as crucial and 1H18 is likely to be challenging; however, we think the realignment of production in NAFTA along with the launch of products and an expected lower weighting of realignment costs for next year should further support FCA's NAFTA margins. Lastly, considering that NAFTA accounted for around 85% of the group's adj. EBIT in 2016, we highlight that the fiscal reform in the US could represent a further significant trigger for FCA's future earnings;
- **Challenges and opportunities:** We believe that in 2018 the potential recovery of Brazil (where car market demand is expected up at a double-digit rate) along with the launch of new models in the country could underpin the group's operating figures. On the other hand, APAC remains a challenge for FCA and the achievement of the plans in China appear to depend heavily on Jeep, which is now produced locally;
- **A smart move for Alfa:** As for the other premium brands, we believe that the breakeven of Alfa is now just a matter of time related to the stronger penetration of this brand outside Europe along with the strengthening of the dealer network. FCA's decision to reinsert Alfa in the F1 World Championship in 2018 should act as a pull-through for Alfa volumes in the consumer market.
- **Room to grow for Maserati:** Lastly, we see significant scope for growth also for Maserati whose theoretical adj. EBIT target of EUR 1Bn could be attainable with the introduction of a new model. We expect further news flow on this front at the time of the new BP presentation.

Sample

Price performance, -1Y
06/12/2017



Source: FactSet

Valuation

After the strong set of 3Q results, which have greatly improved the group's visibility for the year-end, we believe that the market's attention is now focused on the new business plan and the potential spin-off of the non-OE activities. These issues will be addressed, likely in 1H18 at the time of the new Industrial Plan presentation. We believe that the new BP update and the future spin-off of the components businesses, which could also involve a valorisation of Comau, is not yet fully factored into the current price. We highlight that the final negative impact of the potential EPA fine (fully factored into our SOP analysis) might be more contained than the market's expectations and our forecasts at the beginning of 2017.

Key Risks

The main risks, in our view, are: 1) a stronger than expected price deterioration in NAFTA and a halt in the recovery of LATAM along with a weak execution in China; 2) much higher than expected recall and development costs, especially following the EPA allegations; 3) a higher than expected cash absorption in the implementation of the BP; 4) future GAAP applications; and 5) higher costs due to introduction of duties in Mexico or the transfer of production from Mexico to the US.

Priced at market close on 06.12.2017*			
Target price (€)			16.9
Target upside (%)			17.28
Market price (€)			14.41
52Wk range (€)			15.7/7.8
Market cap (€ M)			21,995.1
No. of shares			1,526.4
Free float (%)			69.6
Major shr			Exor
(%)			29.4
Reuters			FCHA.MI
Bloomberg			FCA IM
FTSE IT All Sh			24660
Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-7.6	-1M	-4.7
-3M	5.3	-3M	2.8
-12M	86.7	-12M	46.5

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 59 for full disclosures and analyst certification

Fiat Chrysler Automobiles - Key data					
Rating	**Target price (EUR/sh)**	**Mkt price (EUR/sh)**	**Sector**	**Free float (%)**	**Reuters Code**
ADD	**Ord 16.9**	**Ord 14.41**	**Automobiles & Components**	**69.6**	**FCHA.MI**

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	1,514.0	1,526.4	1,526.4	1,526.4	1,526.4
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	1,514.0	1,526.4	1,526.4	1,526.4	1,526.4
Market cap (EUR M)	13,379.4	9,866.8	21,995.1	21,995.1	21,995.1
Adj. EPS	1.34	1.66	2.25	2.95	3.18
CFPS	5.0	6.1	6.6	7.3	7.6
BVPS	2.3	3.5	5.7	8.6	11.6
Dividend ord	0	0	0	0	0
Dividend SAV Nc	0	0	0	0	0
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	113,191.0	111,017.7	110,635.5	115,923.5	121,416.8
EBITDA	8,537.0	11,799.8	13,803.8	14,878.0	15,479.7
EBIT	3,064.0	5,121.8	7,125.8	8,200.0	8,801.7
Pre-tax income	687.0	3,105.8	5,711.6	7,145.5	7,747.3
Net income	377.0	1,813.8	3,427.0	4,355.9	4,648.4
Adj. net income	2,026.0	2,515.8	3,427.0	4,509.3	4,850.2
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	377.0	1,813.8	3,427.0	4,355.9	4,648.4
Depreciation and provisions	5,473.0	6,678.0	6,678.0	6,678.0	6,678.0
Others/Uses of funds	1,825.0	2,361.3	510.0	276.9	-351.3
Change in working capital	-43.1	-613.8	12.1	-1,090.3	-1,232.6
Operating cash flow	7,631.9	10,239.2	10,627.1	10,220.4	9,742.5
Capital expenditure	-9,180.0	-8,812.0	-8,500.0	-8,900.0	-8,899.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-1,548.1	1,427.2	2,127.1	1,320.4	843.5
Dividends	0	0	0	0	0
Equity changes & Other non-operating items	3,190.2	0	0	0	0
Net cash flow	1,642.1	1,427.2	2,127.1	1,320.4	843.5
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	22,933.6	23,320.0	24,619.9	27,655.3	31,460.2
of which associates	0	0	0	0	0
Net debt/-cash	6,012.0	4,584.7	2,457.5	1,137.1	293.6
Minorities	377.0	377.0	377.0	377.0	377.0
Net equity	0	0	0	0	0
Minorities value	0	0	0	0	0
Enterprise value	20,829.1	15,150.4	25,400.4	23,765.0	22,755.8
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	6.6	3.9	6.4	4.9	4.5
P/CFPS	1.8	1.1	2.2	2.0	1.9
P/BVPS	3.8	1.9	2.5	1.7	1.2
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
Dividend yield (% sav)	0	0	0	0	0
FCF yield (%)	-11.6	14.5	9.7	6.0	3.8
EV/sales	0.18	0.14	0.23	0.21	0.19
EV/EBITDA	2.4	1.3	1.8	1.6	1.5
EV/EBIT	6.8	3.0	3.6	2.9	2.6
EV/CE	0.91	0.65	1.0	0.86	0.72
D/EBITDA	0.70	0.39	0.18	0.08	0.02
D/EBIT	2.0	0.90	0.34	0.14	0.03
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	7.5	10.6	12.5	12.8	12.7
EBIT margin	2.7	4.6	6.4	7.1	7.2
Tax rate	45.1	41.6	40.0	39.0	40.0
Net income margin	0.3	1.6	3.1	3.8	3.8
ROCE	13.4	22.0	28.9	29.7	28.0
ROE	NM	NM	NM	NM	NM
Interest cover	1.3	2.5	5.0	7.8	8.3
Debt/equity ratio	1,594.7	1,216.1	651.9	301.6	77.9
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		-1.9	-0.3	4.8	4.7
EBITDA		38.2	17.0	7.8	4.0
EBIT		67.2	39.1	15.1	7.3
Pre-tax income		NM	83.9	25.1	8.4
Net income		NM	88.9	27.1	6.7
Adj. net income		24.2	36.2	31.6	7.6

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

BANCA IMI

Equity Strategy Report

Pirelli

Automobiles & Components Top Pick 2018

Investment Case

Among Industrial Italian stocks, Pirelli fits well with our investment drivers for 2018.

- **A leading premium consumer player:** Firstly, Pirelli is the only leading player in the tyre manufacturing industry fully focused on consumer tyres and strongly positioned in the higher growth/higher margin part of the consumer tyre market, the High Value tyres segment (i.e. performance tyres ≥18 inches or tyres characterised by special features), for which consumers are willing to pay a premium price;
- **Strong competitive features:** Among the tyre players, along with a competitive and flexible manufacturing footprint, the group enjoys a number of advantages, including: 1) a strong focus on the wealthiest markets, such as the US, Europe and APAC; and 2) a market share among Prestige car manufacturers above 40% and the highest level of homologations in OE, which generates a significant pull-through effect on the Replacement market. All these features together with a high technological content of its tyres and an iconic brand allow Pirelli to transfer the increase of material costs to final clients through price increases and to ultimately deliver a superior profitability level within the sector;
- **Opportunities from emerging markets this year:** With Latam and Russia accounting for 17% and 3%, respectively, the expected recovery of the Brazilian car market (+11.7% in 2018, according to IHS) and the rise in auto demand in Russia (+7.5%, according to the same source) could represent a further growth trigger for Pirelli in 2018. We highlight that in Latam, while continuing to satisfy the local market demand, Pirelli plans to cut its Standard tyre capacity and reconvert part of it into High Value capacity in order to meet NAFTA demand. These actions, if supported by a sound car demand in Brazil, should allow an increase in the group's capacity utilisation ratio with a sound spill-over effect on Latam's expected profitability;
- **A better mix vs. peers and an expected 28.6% CAGR in adj. EPS over the BP:** We also highlight the group's strong results in 9M17, especially in 3Q, when Pirelli enjoyed a particularly strong price mix (+7.3%) and above all mix effect (+5%) above the sector level. In 3Q17, High Value tyres continued to record a strong trend, with a +10.8% revenues increase. This enhanced our confidence in the full achievement of FY17 guidance (a 9% revenue growth; weighting of High Value tyres from 55% to above 57% of total revenues). By year-end, the weighting of High Value tyres is expected at 83% of adjusted EBIT without start-up costs. Over 2017-20E we expect the implementation of the group's industrial and strategic plan to translate into an adj. EPS CAGR of 28.6%, above the Tier1 sector average.

Sample

Valuation

We think Pirelli's solid financial profile and expected earnings growth, which implies an attractive PEG of around 0.6, justify a premium versus Tier1 players, at least as regards the High Value operations. On a peers' comparison and a DCF valuation, **we confirm our target price at EUR 8.5/sh**, given the attractive upside potential (+22%). **BUY.**

Key Risks

The main risks to our rating and target price are: 1) the cyclicality of the tyre industry; 2) the potential headwinds from raw material prices although Pirelli has demonstrated its ability to amply offset the impact of raw materials through strong price/mix actions; 3) a potential intensification of competition in the High Value tyre market in the future; and 4) the high net debt starting point may represent a constraint for future capex.

See page 59 for full disclosures and analyst certification

BUY

Target Price: EUR 8.5

Italy/Automobiles & Components
Top Picks Selection

Intesa Sanpaolo Research Department

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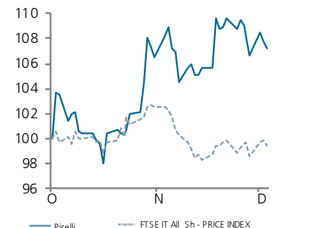
Price performance, -1M



Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	8.5
Target upside (%)	22.07
Market price (€)	6.94
52Wk range (€)	NA/NA
Market cap (€ M)	6,940.0
No. of shares	1,000.0
Free float (%)	36.9
Major shr	Marco Polo
(%)	63.1
Reuters	PIRC.MI
Bloomberg	PC IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-0.9	-1M	2.3
-3M	NA	-3M	NA
-12M	NA	-12M	NA

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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Pirelli - Key data					
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 8.5	Ord 6.94	Automobiles & Components	36.9	PIRC.MI

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Market cap (EUR M)	NA	NA	6,940.0	6,940.0	6,940.0
Adj. EPS	0.39	0.30	0.43	0.51	0.60
CFPS	0.19	0.53	0.68	0.82	0.94
BVPS	1.6	2.6	4.1	4.5	4.9
Dividend ord	0	0	0	0	0
Dividend SAV Nc	0	0	0	0	0
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	5,021.0	4,976.4	5,424.8	5,858.1	6,311.3
EBITDA	1,053.1	1,029.0	996.5	1,210.7	1,388.1
EBIT	772.1	686.4	645.0	797.5	952.3
Pre-tax income	-85.60	239.2	309.1	553.5	719.1
Net income	-375.8	154.8	188.5	386.6	502.3
Adj. net income	389.0	297.0	430.6	510.6	604.9
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	-378.4	164.0	200.4	398.5	517.7
Depreciation and provisions	310.6	342.6	351.5	413.3	435.8
Others/Uses of funds	149.6	-4,758.4	204.6	-45.4	-106.1
Change in working capital	-59.1	-2.3	26.2	-5.4	-5.7
Operating cash flow	22.6	-4,254.1	782.8	761.0	841.8
Capital expenditure	-349.0	-340.0	-488.2	-475.0	-505.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	22.6	-4,254.1	782.8	761.0	841.8
Dividends	-167.9	0	0	0	-154.7
Equity changes & Other non-operating items	330.0	842.0	1,364.2	0	0
Net cash flow	184.7	-3,412.1	2,147.0	761.0	687.2
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	2,920.6	7,678.7	7,584.6	7,697.1	7,878.0
of which associates	0	0	0	0	0
Net debt/-cash	1,284.0	5,045.0	3,398.4	3,124.4	2,957.6
Minorities	53.8	64.7	64.7	64.7	64.7
Net equity	1,582.8	2,568.7	4,121.5	4,508.1	4,855.7
Minorities value	0	0	0	0	0
Enterprise value	NA	NA	10,690.4	10,407.0	10,233.1
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	NA	NA	16.1	13.6	11.5
P/CFPS	NA	NA	10.2	8.5	7.4
P/BVPS	NA	NA	1.7	1.5	1.4
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	NA	NA	0	0	0
FCF yield (%)	NA	NA	2.7	5.0	6.2
EV/sales	NA	NA	2.0	1.8	1.6
EV/EBITDA	NA	NA	10.7	8.6	7.4
EV/EBIT	NA	NA	16.6	13.0	10.7
EV/CE	NA	NA	1.4	1.4	1.3
D/EBITDA	1.2	4.9	3.4	2.6	2.1
D/EBIT	1.7	7.3	5.3	3.9	3.1
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	21.0	20.7	18.4	20.7	22.0
EBIT margin	15.4	13.8	11.9	13.6	15.1
Tax rate	NM	31.5	10.9	28.0	28.0
Net income margin	-7.5	3.1	3.5	6.6	8.0
ROCE	26.4	8.9	8.5	10.4	12.1
ROE	-22.2	7.5	5.6	9.0	10.7
Interest cover	2.5	1.6	2.0	3.6	4.5
Debt/equity ratio	78.5	191.6	81.2	68.3	60.1
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		-0.9	9.0	8.0	7.7
EBITDA		-2.3	-3.2	21.5	14.6
EBIT		-11.1	-6.0	23.6	19.4
Pre-tax income		NM	29.2	79.0	29.9
Net income		NM	21.8	NM	29.9
Adj. net income		-23.7	45.0	18.6	18.5

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

BANCA IMI

Equity Strategy Report

Telecom Italia Savings

Telecommunication Services Top Pick 2018

BUY

Target Price: EUR 0.89

Italy/Telecommunication Services
Top Picks Selection

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Investment Case

While we acknowledge that the equity story looks tricky, we make a valuation call on Telecom Italia savings shares, based on: i) its underperformance YTD (-27% vs. the FTSE MIB Index and -9% vs. the DJ Stoxx Telecom Index), implying a 12% avg. discount to peers on the core domestic 2018-19 EV/EBITDA; ii) our view that the competitive threats from Open Fiber and Iliad are overplayed; iii) our take that the current governance issues (Vivendi's dominant position, golden power decrees) could ultimately turn into an opportunity, with or without a network spin-off; iv) an improving cash flow profile (9.3% FCF yield in 2018E excl. 5G capex); and v) the savings shares' minimum statutory DPS of EUR 2.75 cent (4.5% yield at the current share price).

- **Open Fiber and network debate: not all silver linings:** While TI's domestic fixed-line revenues are finally close to stabilisation, all eyes are on the long-term threats from Open Fiber on both areas A and B (FTTH target to pass 2.4M homes by end-2017 and 7.5M by end-2020) and areas C and D (Infratel tenders). TI's picture, however, is nonetheless encouraging with a 73% FTTC coverage and 1.8M homes FTTH connected to-date. Can two parallel networks cohabit? Our view is that, unless we assume a regulatory loosening (AGCOM to start the 2018-21 review soon), they are destined to converge, politics permitting. Whether this will happen through a network deal (functional separation, structural separation, split, merger) is still controversial. However, the recent talks between TI and Calenda suggest optimism for a constructive approach;
- **Iliad: the sooner, the better:** For years, the Italian mobile market has suffered from aggressive price competition which drove ARPU to the lows in Europe and forced Wind and Tre to merge at end-2015. However, the initial euphoria of the merger was tarnished by concerns over the remedy-taker Iliad, which stated its intention to disrupt the Italian market similar to its strategy in France. While we acknowledge this risk (we estimate TI's domestic mobile service revenues down by 1% yoy in 2018E) and we think that the market is already selectively playing down ahead of Iliad's entry (moreover by commoditising data), we also question the sustainability of such an approach given the experience of the recent years, a still low fiber penetration in Italy, stricter than abroad security MNP requirements in Italy and the stronger focus on network quality and coverage than in the past. 2018 will tell if Iliad is really the threat that the market is fearing;
- **Reminder of positives:** Overshadowed by competition risks, the share price performance has ignored the gradual stabilisation of domestic wireline sales, the resilience to date of domestic mobile sales, cost efficiencies, the strong performance of TIM Brazil (partly capped by FX) and an expected improving cash flow profile (FCF yield of 9.3% in 2018E excl. 5G spectrum);
- **Governance is tricky, but…** Consob's assessment of Vivendi's control over TI, the first-time approval of two golden power decrees and Vivendi's undeniable conflict of interest on potential content agreements reasonably raise questions on governance. However, artfully we also argue that impairment risks on Vivendi (average purchase price of EUR 1.0710/ord. share and value of the interest accounted for under the equity method of EUR 1.1575/ord. share) should align Vivendi's interest to that of public shareholders (free float).

Sample

Valuation

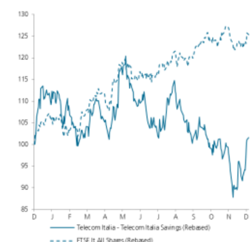
We have a SOTP based TP of EUR 1.11 on ordinary shares and EUR 0.89 on savings shares. On a STUB valuation, at the current market price, TI's core domestic business is trading at an implied EV/EBITDA of 4.6x in 2018x and 4.5x in 2019E, at an average 12% discount to peers.

Key Risks

As stated, the equity story is currently overshadowed by some concerns: Open Fiber's roll-out, the entry of Iliad, application of golden power decrees, governance issues, revision of the 28-day billing system.

Price performance, -1M

06/12/2017



Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	0.89
Target upside (%)	46.90
Market price (€)	0.61
52Wk range (€)	0.75/0.55
Market cap (€ M)	14,684.2
No. of shares	21,067.2
Free float (%)	76.1
Major shr	Vivendi SA
(%)	23.9
Reuters	TLIT.nMI
Bloomberg	TITR IM
FTSE IT All Sh	24660

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

See page **59** for full disclosures and analyst certification

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Telecom Italia - Key data					
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 1.11	Ord 0.73	Telecommunication Services	76.1	TLIT.MI
BUY	Sav 0.89	Sav 0.61			TLITn.MI

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	13,336.2	15,039.4	15,039.4	15,039.4	15,039.4
No. NC saving/preferred shares (M)	6,027.8	6,027.8	6,027.8	6,027.8	6,027.8
Total no. of shares (M)	19,363.9	21,067.2	21,067.2	21,067.2	21,067.2
Market cap (EUR M)	20,203.8	16,519.3	14,684.2	14,684.2	14,684.2
Adj. EPS	0.07	0.08	0.07	0.08	0.08
CFPS	0.25	0.27	0.28	0.28	0.28
BVPS	0.91	1.0	1.1	1.1	1.2
Dividend ord	0	0	0	0	0
Dividend SAV Nc	0.03	0.03	0.03	0.03	0.03
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	19,718.7	19,024.5	19,725.3	19,614.2	19,754.5
EBITDA	7,005.3	8,002.1	8,509.5	8,615.9	8,757.7
EBIT	2,962.3	3,722.1	4,025.3	4,130.6	4,221.3
Pre-tax income	448.3	2,799.1	2,545.6	2,681.3	2,830.0
Net income	-70.74	1,808.1	1,518.2	1,603.2	1,654.2
Adj. net income	1,290.0	1,678.9	1,489.5	1,580.4	1,631.4
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	658.3	1,966.1	1,654.6	1,769.7	1,867.8
Depreciation and provisions	4,043.0	4,280.0	4,484.3	4,485.3	4,536.4
Others/Uses of funds	428.0	-78.0	135.5	536.5	497.4
Change in working capital	-295.8	-670.6	-282.1	-959.3	-956.1
Operating cash flow	4,833.5	5,497.5	5,992.3	5,832.1	5,945.4
Capital expenditure	-5,196.5	-4,875.5	-5,566.7	-4,326.3	-4,100.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	-246.0	460.0	-57.0	-70.0	-80.0
Free cash flow	-609.0	1,082.0	368.6	1,435.8	1,765.4
Dividends	-204.0	-227.0	-249.1	-249.1	-256.6
Equity changes & Other non-operating items	186.0	1,304.0	0	0	0
Net cash flow	-627.0	2,159.0	119.5	1,186.7	1,508.8
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	49,808.0	49,508.0	50,721.1	51,045.5	51,147.9
of which associates	0	0	0	0	0
Net debt/-cash	28,475.0	25,955.0	25,725.5	24,529.4	23,020.6
Minorities	3,723.0	2,346.0	2,482.4	2,648.9	2,862.5
Net equity	17,610.0	21,207.0	22,513.2	23,867.3	25,264.8
Minorities value	4,271.4	1,827.4	1,619.2	1,629.7	1,663.7
Enterprise value	53,173.2	44,820.7	42,638.9	41,462.8	39,988.0
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	16.6	10.0	10.4	9.8	9.5
P/CFPS	4.4	3.0	2.6	2.6	2.6
P/BVPS	1.2	0.79	0.69	0.65	0.61
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
Dividend yield (% sav)	3.0	4.1	4.5	4.5	4.5
FCF yield (%)	-2.8	6.5	2.1	9.3	11.4
EV/sales	2.7	2.4	2.2	2.1	2.0
EV/EBITDA	7.6	5.6	5.0	4.8	4.6
EV/EBIT	18.0	12.0	10.6	10.0	9.5
EV/CE	1.1	0.91	0.84	0.81	0.78
D/EBITDA	4.1	3.2	3.0	2.8	2.6
D/EBIT	9.6	7.0	6.4	5.9	5.5
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	35.5	42.1	43.1	43.9	44.3
EBIT margin	15.0	19.6	20.4	21.1	21.4
Tax rate	89.5	31.4	35.0	34.0	34.0
Net income margin	-0.4	9.5	7.7	8.2	8.4
ROCE	5.9	7.5	7.9	8.1	8.3
ROE	-0.4	9.3	6.9	6.9	6.7
Interest cover	1.2	4.1	2.7	2.9	3.0
Debt/equity ratio	133.5	110.2	102.9	92.5	81.8
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		-3.5	3.7	-0.6	0.7
EBITDA		14.2	6.3	1.2	1.6
EBIT		25.7	8.1	2.6	2.2
Pre-tax income		NM	-9.1	5.3	5.5
Net income		NM	-16.0	5.6	3.2
Adj. net income		30.1	-11.3	6.1	3.2

Note: Net debt is on a reported basis and therefore before the adjustment for the reversal of fair value measurement of derivatives and related financial assets/liabilities; NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

Unicredit

Banks Top Pick 2018

ADD

Target Price: EUR 20.0

Italy/Banks
Top Picks Selection

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Investment Case

One year after the presentation of its Business Plan, Unicredit seems well on track to achieve its 2019 targets, which were confirmed in the last Capital Markets Day (CMD) even though the company seems ahead of its plan on cost reduction, cost of risk and capital base. During the CMD, Unicredit improved its guidance on the pay-out ratio (from 20% to 30% in 2019T and up to 50% afterwards), confirming a more constructive view on the capital base, despite the regulatory headwinds. After the de-risking actions taken in 2017, Unicredit stands among the best-in-class in Italy in terms of coverage and NPE ratios: during the CMD it improved its 2019T gross NPE ratio target by 60bps to 7.8%. At Unicredit, sustainable profitability above 8% couples with an above-peers asset quality and a capital base sufficient to offset the regulatory headwinds.

- **Among the best-in-class on asset quality:** Thanks to the de-risking actions put in place in 2017 and its geographical and business diversification, Unicredit's gross NPE ratio at September 2017 stood at 10.6% compared with a 20% simple average of listed Italian banks. During its CMD, Unicredit improved its 2019T gross NPE ratio target from 8.4% to 7.8% (by reducing gross NPE by EUR 4Bn), the lowest disclosed target in Italy. With a cost of risk at 54bps in 9M17A and an improved FY17 guidance of 55-60bps, the company is already close to its 2019T target (55bps), whose visibility is progressively improving. Unicredit plans to completely run down the Non-Core portfolio by 2025T (EUR 32.5Bn gross, mainly NPE as of September 2017A) by leveraging on recoveries and disposals and using EUR 3.5Bn capital allocated to the Non-Core area, thus eliminating any legacy with the past on asset quality;
- **More than sufficient capital base to overcome regulatory headwinds:** With a CET1 at 13.5% as of September 2017A, we believe that Unicredit's capital base is sufficient to face the regulatory headwinds. During the CMD, the company disclosed that it expects a 440bps negative impact deriving from regulation up to 2027 (IFRS9, Basel 4, FRTB, EBA guidance, calendarized provisioning and models' update), that it expects to offset with internal capital generation keeping the CET1 above 12.5%, and despite the improved guidance on the dividend pay-out. We consider this as a solid level as: 1) it embeds an MDA buffer above 250bps after 2019 and a 330bps buffer compared with the improved CET1 SREP requirement (9.2%, down by 50bps compared with the previous one as recognition for the de-risking achieved); and 2) it embeds good visibility as it already incorporates the disclosed negative impact from regulation;
- **Quicker cost reductions:** Efficiency actions are proceeding ahead of plan thanks to staff reductions (59% of BP targets achieved as of end-2017) and branch closures (72% of BP target in Western Europe achieved at November 2017). Unicredit is investing the extra savings achieved via the accelerated efficiency actions, creating the basis for future revenue growth, in our view.

Sample

Valuation

Trading at a 2017E P/TBV at 0.7x for a 2020E adjusted ROTE at 8.3%, we calculate an 18% upside potential on the stock. **We rate the stock an ADD, with a target price at EUR 20.0/share**. Our equity story is based on: i) the company's low-risk profile, in absolute and relative terms, after the de-risking actions taken in 2017; ii) limited BP execution risk, which is mainly based on actions under management's control; and iii) management's strong commitment to the plan execution.

Key Risks

Deterioration of the macroeconomic scenario in core Europe and CEE, FX changes in CEE countries, possible write-downs/write-ups on the financial asset portfolio, regulatory changes, fiscal and legal charges and strategic plan execution risk, are among the key risks we see for the stock.

Price performance, -1Y

06/12/2017

Source: FactSet

Priced at market close on 06.12.2017*	
Target price (€)	20.0
Target upside (%)	18.20
Market price (€)	16.92
52Wk range (€)	18.4/12.1
Market cap (€ M)	37,681.4
No. of shares	2,225.9
Free float (%)	88.5
Major shr	Aabar Invest
(%)	5.0
Reuters	CRDI.MI
Bloomberg	UCG IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	3.8	-1M	7.1
-3M	-0.1	-3M	-2.5
-12M	48.6	-12M	16.6

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 59 for full disclosures and analyst certification

Unicredit - Key data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
ADD	Ord 20.0	Ord 16.92	Banks	88.5	CRDI.MI

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. of outstanding shares (M)	597.9	617.8	2,225.7	2,225.7	2,225.7
No. of f.d. shares (M)	2,225.7	2,225.7	2,225.7	2,225.7	2,225.7
Market cap (EUR M)	17,665.4	8,483.3	37,681.9	37,681.9	37,681.9
Adj. EPS	1.0	2.1	1.2	1.4	1.9
TBV PS	74.5	55.4	23.1	23.4	25.0
PPP PS	11.0	10.3	3.5	3.8	4.4
Dividend ord	0.12	0	0.26	0.30	0.41
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net interest income	10,921.9	10,307.0	10,244.0	10,421.4	10,857.4
Net commission/fee income	5,518.5	5,458.0	6,611.0	6,864.5	7,127.0
Net trading income	1,485.3	2,080.0	1,702.1	1,443.1	1,443.4
Total income	18,865.8	18,801.0	19,407.0	19,610.8	20,363.1
Total operating expenses	12,265.7	12,453.0	11,694.4	11,202.1	10,560.3
Gross operating income	6,600.1	6,348.0	7,712.6	8,408.7	9,802.8
Provisions for loan losses	3,990.8	12,207.0	2,727.8	2,561.3	2,343.5
Pre-tax income	749.2	-10,978.0	5,824.2	4,647.4	6,258.2
Net income	1,694.3	-11,790.0	4,909.9	3,345.3	4,572.7
Adj. net income	616.1	1,310.0	2,631.1	3,050.4	4,216.5
Composition of total income (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net interest income	57.9	54.8	52.8	53.1	53.3
Trading income	7.9	11.1	8.8	7.4	7.1
Commission income	29.3	29.0	34.1	35.0	35.0
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Total assets	860,433.4	859,532.8	848,981.3	849,582.2	853,554.8
Customer loans	445,382.0	444,607.5	453,998.7	461,649.2	471,948.2
Total customer deposits	553,483.1	567,854.7	578,283.3	588,635.0	599,428.9
Shareholders' equity	48,198.7	36,952.6	54,740.8	55,373.6	58,917.4
Tangible equity	44,546.6	33,761.2	51,493.6	52,126.4	55,670.3
Risk weighted assets	390,598.9	387,136.0	389,072.3	397,017.4	404,035.5
Stock market ratios (X)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	28.7	6.5	14.3	12.3	8.9
P/TBV	0.40	0.25	0.73	0.72	0.68
P/PPP	2.7	1.3	4.9	4.5	3.8
Dividend yield (% ord)	0.4	0	1.5	1.8	2.4
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
ROE	3.47	-27.69	10.71	6.08	8.00
Adj. ROTE	1.39	3.35	6.17	5.89	7.82
RoRWA	0.42	-3.03	1.27	0.85	1.14
Leverage	5.20	3.94	6.09	6.16	6.55
Cost income ratio	65.0	66.2	60.3	57.1	51.9
Cost of risk (bps)	90	275	60	55	50
Tax rate	-13.15	-6.49	13.28	24.74	24.26
Dividend payout	4.2	0	20.0	20.0	20.0
Other (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
cT1/CET1 ratio	10.73	8.15	12.89	12.78	12.66
cT1/CET1 ratio fully loaded	10.94	7.52	12.78	12.78	12.66
Net impaired loans ratio	8.59	5.62	4.71	4.35	4.01
Net impaired loans on TBV	85.90	74.03	41.53	38.54	33.96
Growth (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Total income	-16.2	-0.3	3.2	1.1	3.8
Gross operating income	-23.9	-3.8	21.5	9.0	16.6
Net income	-15.6	NM	NM	-31.9	36.7
Adj. net income	-71.5	NM	NM	15.9	38.2
BS growth (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Customers' loans	-5.4	-0.2	2.1	1.7	2.2
Customers' deposits	-1.3	2.6	1.8	1.8	1.8
Shareholders' funds	-2.4	-23.3	48.1	1.2	6.4
Structure (no. of)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Branches	6,934	6,221	5,921	5,721	5,571
Employees	125,510	117,659	111,460	105,785	101,835

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

BANCA IMI

Equity Strategy Report

Unipol

Insurance Top Pick 2018

Investment Case

Our positive view leverages on the equity story's safer profile, following the effective clean-up of the banking portfolio and the reorganisation of the related business, which could also facilitate the pursuit of possible strategic options for the 'good bank' Unipol Banca in the context of the sector's consolidation process. At the same time, the streamlining of the insurance business, with the planned transfer of the controlling stake in Arca Vita (63.39%) to UnipolSai as a final step, should complete the transformation of Unipol into a pure holding company. Hence, we expect the holding discount (currently at approx. 27%, according to our calculations) to narrow, though not disappear (our SOP incorporates a 10% fair holding discount), as CEO Cimbri has several times stated that the merger between Unipol and UnipolSai (which we see as the final step of the group's streamlining and would lead the holding discount to zero, in our view) is not an option in the short-term.

- We believe that the effective **clean-up of the banking portfolio** and the **restructuring of the related business** announced at end-June streamlines the management process of the NPLs transferred to the Newco and could also facilitate the pursuit of possible strategic options that should arise for the 'good bank' Unipol Banca in the context of the sector's consolidation process;
- **Ongoing insurance business' streamlining**: at the same time, after the completion of the sale of Linear and UniSalute to UnipolSai and the extension to 2022 of the bancassurance partnership with BPER and Banca Popolare di Sondrio, the controlling stake in Arca Vita (63.39%) should be transferred to UnipolSai by 1H18, thus completing the reorganisation of the group's core insurance business and the transformation of Unipol into a pure holding company;
- Hence, **we would expect the holding discount (currently at approx. 27%,** according to our calculations) **to narrow**, though not disappear as, based on the CEO Cimbri's statements, we consider a potential merger between UnipolSai and Unipol only as a medium-term option;
- We also highlight that **Unipol offers an attractive dividend yield (5% in 2017E)**.

Valuation

We value Unipol through a SOP model, with a 10% holding discount, incorporating a separate valuation of: 1) the 72.12% stake currently held in UnipolSai (at our EUR 2.1/share TP); 2) the banking business following the restructuring process announced at end-June; and 3) the other insurance activities currently held by Unipol (Arca Vita and Arca Assicurazioni), and adjusting for the estimated net debt and DTA benefits of the Unipol holding company.

Key Risks

We see the main generic risks as being: 1) a slower-than-expected macroeconomic recovery in Italy; 2) the current low-yield environment, which puts pressure especially on the life business' profitability; and 3) regulatory changes either on capital or affecting the operational and competitive scenario in the Italian insurance sector. In our view, the specific risks relate to: a) the still-challenging scenario for the real estate sector and the banking business (however, in this respect we highlight that the group has recently conducted a clean-up, which we consider as effective); b) a potential widening of the BTP-Bund spread, given the approximately EUR 31.3Bn held in Italian government bonds at end-September 2017; and c) the possibility of not achieving the business plan targets.

See page 59 for full disclosures and analyst certification

BUY

Target Price: EUR 5.0

Italy/Insurance
Top Picks Selection

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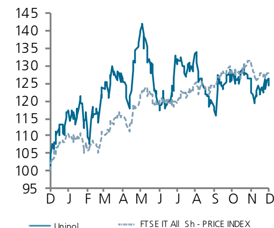
Price performance, -1Y



Source:FactSet

Priced at market close on 06.12.2017*	
Target price (€)	5.0
Target upside (%)	32.00
Market price (€)	3.79
52Wk range (€)	4.32/3.18
Market cap (€ M)	2,717.8
No. of shares	717.5
Free float (%)	44.0
Major shr	FinSOE
(%)	31.4
Reuters	UNPI.MI
Bloomberg	UNI IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-1.5	-1M	1.6
-3M	5.8	-3M	3.2
-12M	24.5	-12M	-2.3

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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Sample

Unipol - Key data					
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code
BUY	Ord 5.0	Ord 3.79	Insurance	44.0	UNPI.MI
Values per share (EUR)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
No. ordinary shares (M)	717.5	717.5	717.5	717.5	717.5
Total no. of shares (M)	717.5	717.5	717.5	717.5	717.5
Market cap (EUR M)	3,251.7	2,178.6	2,717.8	2,717.8	2,717.8
Adj. EPS	0.46	0.55	-0.33	0.58	0.63
BVPS	7.70	7.87	7.28	7.60	7.96
NAVPS	4.77	4.95	4.35	4.67	5.03
DPS-ordinary shares	0.18	0.18	0.19	0.20	0.21
Dividend payout (%)	47.5	39.1	NM	39.3	37.5
Income Statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Total premiums	16,476.0	14,806.0	12,288.9	11,941.7	12,743.4
Non-life underwriting result	479.0	328.5	276.5	313.5	351.7
Pre-tax income	958.1	706.1	-168.7	763.9	832.9
Non-life pre-tax income	907.1	471.0	600.7	519.8	560.0
Life pre-tax income	343.3	379.0	392.3	330.5	343.5
Investment income	2,395.9	2,041.4	1,856.9	1,565.1	1,678.5
Net income	271.7	330.1	-296.7	365.0	402.1
Adjusted net income	330.9	394.6	-236.7	414.0	451.1
Balance sheet and other (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net investments	73,074.2	74,850.9	65,893.9	67,793.9	69,443.9
Net technical reserves	62,252.1	63,231.0	53,823.0	55,175.5	60,106.2
Net technical reserves non-life	15,769.8	15,062.0	15,310.0	15,962.5	16,334.1
Net technical reserves life	46,482.3	48,169.0	38,513.0	39,213.0	43,772.1
Life net inflows	1,822.0	1,030.9	996.4	933.8	905.3
Excess of investments	10,822.1	11,619.9	12,070.9	12,618.4	9,337.7
Net invested capital	12,720.6	12,410.1	12,215.4	12,483.3	12,787.1
Financial debt	4,276.0	4,276.0	4,476.0	4,476.0	4,476.0
Shareholders' net equity	5,523.6	5,649.3	5,223.4	5,452.1	5,710.7
Excess capital	2,399.7	1,905.6	2,234.3	2,475.5	2,707.8
Stock Market Ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
P/E	12.0	6.6	Neg.	7.4	6.8
Adj. P/E	9.8	5.5	Neg.	6.6	6.0
P/BVPS	0.59	0.39	0.52	0.50	0.48
P/NAV	0.95	0.61	0.87	0.81	0.75
Dividend yield (% ord)	4.0	5.9	5.0	5.3	5.5
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Gross premiums life/total premiums	52.2	47.3	36.2	33.0	35.8
Net retention total business	91.7	92.5	93.5	93.7	94.5
Net loss ratio (non life)	66.6	68.1	68.3	67.6	67.2
Net expense ratio (non-life)	27.3	27.6	27.9	28.3	28.2
Net combined ratio	93.9	95.6	96.3	95.9	95.4
Cover ratio	200.0	192.9	195.2	199.4	199.8
Life expense ratio	4.2	5.1	6.6	8.2	7.9
Tax rate	39.6	24.2	20.0	30.0	30.0
ROE	4.8	5.9	Neg.	6.8	7.2
RONAV	7.9	9.5	Neg.	11.3	11.6
Net profit/total reserves	0.4	0.6	Neg.	0.6	0.6
Solvency	150.0	139.7	153.2	156.9	159.5
Leverage	33.6	34.5	36.6	35.9	35.0
Revenues breakdown (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Non-life premiums	7,883.0	7,809.0	7,843.6	8,006.6	8,176.3
Life premiums	8,593.0	6,997.0	4,445.3	3,935.1	4,567.1
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Adj. EPS		19.2	NM	NM	9.0
Non-life premiums		-0.9	0.4	2.1	2.1
Life premiums		-18.6	-36.5	-11.5	16.1
Non-life reserves		-4.5	1.6	4.3	2.3
Life reserves		3.6	-20.0	1.8	11.6

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

BANCA IMI

Equity Strategy Report

YNAP Group

Branded Goods Top Pick 2018

ADD

Target Price: EUR 32.3

Italy/Branded Goods
Top Picks Selection

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Investment Case

Excluding one-offs and forex, we see YNAP as on track to meet its FY17 targets (although management now points to the lower end of its 17/20% sales growth range) and to maintain this pace going forward. The integration with Net-A-Porter looks on track given the completion of the omni-stock programme for Off-Season with the launch of the Outnet site on the new platform and the feedback during 9M results call. We select YNAP as our top pick given:

- A still **attractive valuation** even considering the recently-reduced 2017E-19E estimates, aligning our sales assumption with FactSet consensus while we stand 6% below the average EBITDA;
- We **see opportunities related to the start of trading of the JV in the Middle East** coupled with the ongoing addition of high-end brands within the watch and jewellery segments;
- Considering the recent market rumours of **potential M&A**, we see the potential dilution of sales and EBITDA multiples of other main e-commerce players, coupled with increasing competition, as a reasonable buy opportunity in a sector expected to maintain a 15% yoy growth to 2025;
- While expecting a negative **forex impact** in 1H18 (USD 1.19, JPY 132 and GBP 0.90 in our model) YNAP is relatively less impacted than other names under our coverage (excluding Geox);
- A potential benefit, not yet included in our scenario, relates to the **ongoing US fiscal reform** (YNAP books approx. 30% of sales in the region).

Sample

Valuation

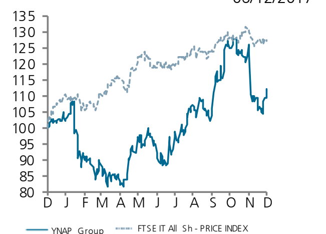
Incorporating a more cautious stance in our estimates, with a slight improvement in the conversion rate and in our AOV assumption, we now look for EUR 3.2Bn sales in 2020E (CAGR 15%), assuming that YNAP will be able to safeguard its competitive advantage in the medium term, maintaining a development path aligned with the sector. We now calculate an adjusted EBITDA target of 9.6% in 2020E (10.3% before) with a 130bps boost over our estimates period.

The DCF model generate an equity value of EUR 27.1/share. Applying historical discounted multiples to 2020E figures, we obtain a full merger equity value of EUR 37.5/share. From these two models, we obtain a midpoint fair value of EUR 32.3/share, to which we were previously applying a merger execution discount of 20% to define our target price. Given the integration steps completed so far, we removed this discount, recently setting **a target price at EUR 32.3/share with an ADD rating,** implying an Exit 2018 1.9x Sales and 19x EBITDA, below the average ratios recorded in the past. In terms of potential M&A, we see this mid-way value as reasonable as a possible entry level for a further partner. In a longer-term approach, the EUR 37.5/sh 2020E full merger fair value would imply an EV/EBITDA multiple in the range of 15x, in line with brick & mortar retail business, a PEG stable in the range of 2/3x and a ROIC at around the 22% level.

Key Risks

Any delays or management uncertainty on the integration process could negatively impact the share price. Other risks include: i) difficulties in finding/retaining highly-skilled employees at the group's average salary level; and ii) a significant rise in the oil price (i.e. transportation costs).

Price performance, -1Y



Source:FactSet

Priced at market close on 06.12.2017*	
Target price (€)	32.3
Target upside (%)	9.16
Market price (€)	29.59
52Wk range (€)	33.6/21.5
Market cap (€ M)	3,964.2
No. of shares	134.0
Free float (%)	59.6
Major shr	Richemont SA
(%)	24.9
Reuters	YNAP.MI
Bloomberg	YNAP IM
FTSE IT All Sh	24660

Performance %			
Absolute		Rel. to FTSE IT All	
-1M	-10.7	-1M	-7.9
-3M	7.9	-3M	5.3
-12M	12.6	-12M	-11.7

*unless otherwise indicated within the report. Source: FactSet and Intesa Sanpaolo Research estimates

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YNAP Group - Key data					
Rating	**Target price (EUR/sh)**	**Mkt price (EUR/sh)**	**Sector**	**Free float (%)**	**Reuters Code**
ADD	**Ord 32.3**	**Ord 29.59**	**Branded Goods**	**-**	**YNAP.MI**

Values per share (EUR)	2015A	2016A	2017E	2018E	2019E
No. ordinary shares (M)	130.1	133.7	134.0	134.0	134.0
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	130.1	133.7	134.0	134.0	134.0
Market cap (EUR M)	3,548.7	3,512.5	3,964.2	3,964.2	3,964.2
Adj. EPS	0.46	0.52	0.38	0.49	0.63
CFPS	0.85	1.2	1.3	1.6	1.9
BVPS	15.6	14.5	14.8	15.0	15.4
Dividend ord	0	0	0	0	0
Dividend SAV Nc	0	0	0	0	0
Income statement (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Revenues	1,665.0	1,870.7	2,095.9	2,432.2	2,854.6
EBITDA	126.5	143.3	163.6	208.9	258.4
EBIT	69.55	51.09	47.57	62.86	92.77
Pre-tax income	70.85	47.39	32.97	56.95	84.40
Net income	53.45	32.79	21.46	36.92	54.53
Adj. net income	59.70	69.30	50.72	65.95	84.29
Cash flow (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net income before minorities	53.5	32.8	21.5	36.9	54.5
Depreciation and provisions	56.9	92.2	116.0	146.0	165.6
Others/Uses of funds	-14.5	-70.6	0	0	0
Change in working capital	-136.6	-1.7	-49.9	-18.1	-47.0
Operating cash flow	-40.7	52.8	87.6	164.9	173.1
Capital expenditure	-165.0	32.2	-166.6	-162.9	-175.1
Financial investments	-48.4	9.4	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-254.1	94.3	-79.0	2.0	-2.0
Dividends	0	0	0	0	0
Equity changes & Other non-operating items	0	0	0	0	0
Net cash flow	-254.1	94.3	-79.0	2.0	-2.0
Balance sheet (EUR M)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Net capital employed	1,973.8	1,830.9	1,932.5	1,949.1	1,972.8
of which associates	0	0	0	0	0
Net debt/-cash	-62.9	-104.8	-43.9	-64.2	-95.0
Minorities	0	0	0	0	0
Net equity	2,036.5	1,934.9	1,976.4	2,013.3	2,067.8
Minorities value	0.2	0.2	0.2	0.2	0.2
Enterprise value	3,486.0	3,407.8	3,920.4	3,900.1	3,869.4
Stock market ratios (x)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
Adj. P/E	59.4	50.7	78.2	60.1	47.0
P/CFPS	32.2	22.1	23.1	18.3	15.6
P/BVPS	1.7	1.8	2.0	2.0	1.9
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	-7.2	2.7	-2.0	0.0	-0.1
EV/sales	2.1	1.8	1.9	1.6	1.4
EV/EBITDA	27.6	23.8	24.0	18.7	15.0
EV/EBIT	50.1	66.7	82.4	62.0	41.7
EV/CE	1.8	1.9	2.0	2.0	2.0
D/EBITDA	Neg.	Neg.	Neg.	Neg.	Neg.
D/EBIT	Neg.	Neg.	Neg.	Neg.	Neg.
Profitability & financial ratios (%)	**2015A**	**2016A**	**2017E**	**2018E**	**2019E**
EBITDA margin	7.6	7.7	7.8	8.6	9.1
EBIT margin	4.2	2.7	2.3	2.6	3.2
Tax rate	24.6	30.8	34.9	35.2	35.4
Net income margin	3.2	1.8	1.0	1.5	1.9
ROCE	3.5	2.8	2.5	3.2	4.7
ROE	4.9	1.7	1.1	1.9	2.7
Interest cover	-53.5	13.8	3.3	10.6	11.1
Debt/equity ratio	-3.1	-5.4	-2.2	-3.2	-4.6
Growth (%)		**2016A**	**2017E**	**2018E**	**2019E**
Sales		12.4	12.0	16.0	17.4
EBITDA		13.3	14.2	27.7	23.7
EBIT		-26.5	-6.9	32.2	47.6
Pre-tax income		-33.1	-30.4	72.7	48.2
Net income		-38.7	-34.6	72.0	47.7
Adj. net income		16.1	-26.8	30.0	27.8

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Sample

Notes

Sample

Disclaimer

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Coverage policy and frequency of research reports

The list of companies covered by the Research Department is available upon request. Intesa Sanpaolo SpA aims to provide continuous coverage of the companies on the list in conjunction with the timing of periodical accounting reports and any exceptional event that affects the issuer's operations. The companies for which Banca IMI acts as sponsor or specialist or other regulated roles are covered in compliance with regulations issued by regulatory bodies with jurisdiction. In the case of a short note, we advise investors to refer to the most recent company report published by Intesa Sanpaolo SpA's Research Department for a full analysis of valuation methodology, earnings assumptions, risks and the historical of recommendation and target price. In the Equity Daily note and Weekly Preview report the Research Department reconfirms the previously published ratings and target prices on the covered companies (or alternatively such ratings and target prices may be placed Under Review). Research is available on Banca IMI's web site (www.bancaimi.com) or by contacting your sales representative.

Sample

Equity Research Publications in Last 12M

The list of all recommendations on any financial instrument or issuer produced by Intesa Sanpaolo Research Department and distributed during the preceding 12-month period is available on the Intesa Sanpaolo website at the following address:

http://www.group.intesasanpaolo.com/scriptIsir0/si09/studi/eng_archivio_racc_equity.jsp

Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows:
We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

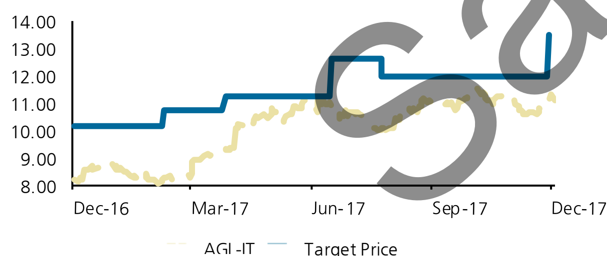
Equity rating key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

Autogrill

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
06-Dec-17	BUY	13.5	11.1
01-Aug-17	ADD	12.0	10.1
23-Jun-17	ADD	12.6	10.9
03-Apr-17	BUY	11.2	9.38
15-Feb-17	BUY	10.7	8.28

Banca Mediolanum

Target price and market price trend (-1Y)

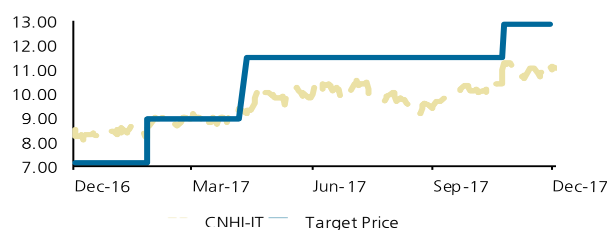
Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
27-Jun-17	ADD	8.20	7.25
24-Feb-17	ADD	7.10	6.17
22-Feb-17	UNDER REVIEW	U/R	6.38

Sample

CNH Industrial

Target price and market price trend (-1Y)

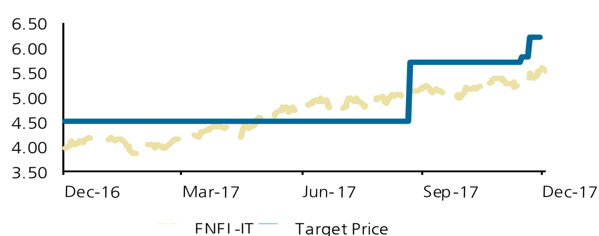


Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
01-Nov-17	BUY	12.8	11.3
18-Apr-17	BUY	11.5	9.13
02-Feb-17	HOLD	8.97	8.61
01-Feb-17	UNDER REVIEW	U/R	8.17

Enel

Target price and market price trend (-1Y)

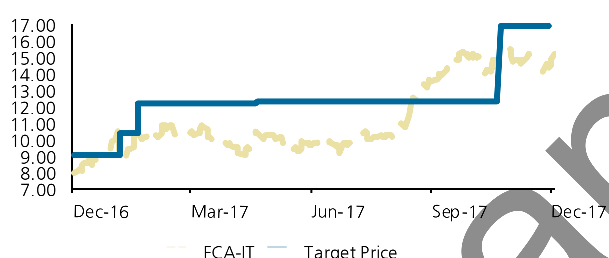


Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
28-Nov-17	ADD	6.20	5.41
22-Nov-17	ADD	5.80	5.31
29-Aug-17	ADD	5.70	5.03
21-Mar-17	HOLD	4.50	4.22

Fiat Chrysler Automobiles

Target price and market price trend (-1Y)

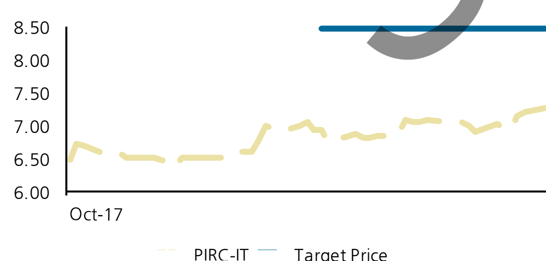


Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
30-Oct-17	ADD	16.9	14.8
20-Oct-17	ADD	U/R	14.2
28-Apr-17	ADD	12.3	10.4
27-Apr-17	ADD	U/R	10.3
27-Jan-17	ADD	12.2	10.4
13-Jan-17	ADD	10.4	9.19

Pirelli

Target price and market price trend (-1Y)

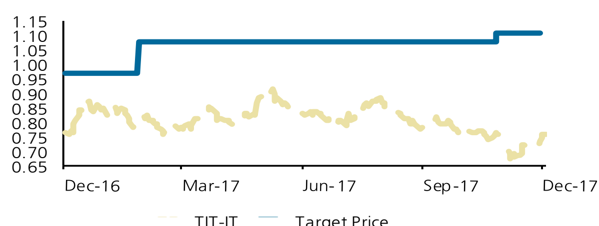


Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
09-Nov-17	BUY	8.47	6.92

Telecom Italia

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
24-Nov-17	BUY	1.11	0.72
03-Nov-17	BUY	1.11	0.76
03-Feb-17	BUY	1.08	0.82

Sample

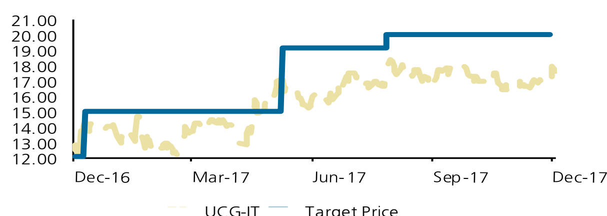
Telecom Italia Savings

Target price and market price trend (-1Y)

Historical recommendations and target price trend (-1Y)			
Date	**Rating**	**TP**	**Mkt Price**
24-Nov-17	BUY	0.89	0.60
03-Nov-17	BUY	0.89	0.62
03-Feb-17	BUY	0.86	0.67

Unicredit

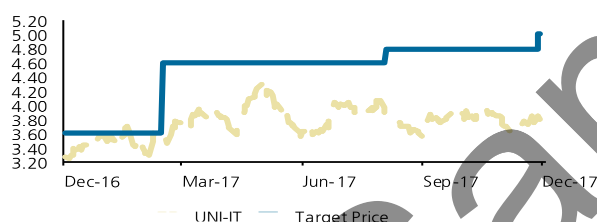
Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)			
Date	**Rating**	**TP**	**Mkt Price**
04-Aug-17	ADD	20.0	17.9
16-May-17	ADD	19.2	17.1
07-Mar-17	ADD	15.0	13.7
16-Dec-16	ADD	15.0	14.4

Unipol

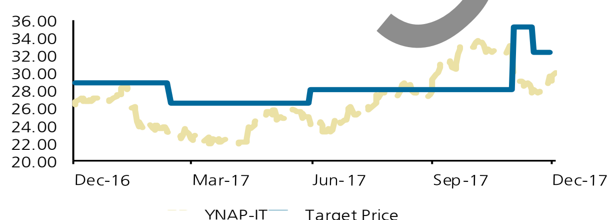
Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)			
Date	**Rating**	**TP**	**Mkt Price**
05-Dec-17	BUY	5.00	3.84
11-Aug-17	BUY	4.80	3.82
21-Feb-17	BUY	4.60	3.58

YNAP Group

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)			
Date	**Rating**	**TP**	**Mkt Price**
24-Nov-17	ADD	32.3	28.1
09-Nov-17	HOLD	35.2	29.3
06-Jun-17	ADD	28.0	24.2
20-Feb-17	ADD	26.6	23.1
08-Feb-17	UNDER REVIEW	U/R	23.5

Sample

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at November 2017)					
Number of companies considered: 106	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	33	30	33	3	1
of which Intesa Sanpaolo's Clients (%) (*)	71	75	46	33	100

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term ‘long/short’ vs. long-term ‘buy/sell’). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the “Intesa Sanpaolo Banking Group”) have adopted written guidelines “Modello di Organizzazione, Gestione e Controllo” pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scriptIsir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage https://www.bancaimi.com/en/bancaimi/chisiamo/documentazione/normative) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 69-quater and 69-quinquies of the Issuers’ Regulation issued by Consob with Resolution no. 11971 of 14.05.1999 as subsequently amended and supplemented, Article 24 of “Rules governing central depositories, settlement services, guarantee systems and related management companies” issued by Consob and Bank of Italy, FINRA Rule 2241 and NYSE Rule 472, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4.9 and COBS 12.4.10 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo is available in the "Research Rules" and in the extract of "A business model for managing privileged information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scriptIsir0/si09/studi/eng_archivio_conflitti.jsp you can find the archive of Intesa Sanpaolo Banking Group's conflicts of interest.

Furthermore, in accordance with the aforesaid regulations, the disclosures of the Intesa Sanpaolo Banking Group’s conflicts of interest are available through the above-mentioned webpage. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report.

We highlight that disclosures are also available to the recipient of this report upon making a written request to Intesa Sanpaolo – Equity & Credit Research, Via Manzoni, 4 - 20121 Milan - Italy.

Sample

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