

# Italian Mid Small Caps Monthly

- **Performance (-).** The Italian equity market (prices as at 16th October 2020) has decreased 2.9% in the last month and is down 17.3% YTD. The FTSE Italy Mid-Cap index (-3.8%) has underperformed the main index by 0.9% (remaining +0.9% YTD on a relative basis), while the FTSE Italy Small Caps index (-0.9%) has performed +2.0% better in the last month and 1.0% better compared to the main index in relative terms since the beginning of 2020. Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 0.5% in the last month, performing better than Italian mid-caps.
- **Estimates (-).** In light of the significant economic implications of the coronavirus outbreak, since the beginning of the year we have significantly cut our 2020 EPS estimates (-53.3%), while we have implemented a milder revision for 2021 (-33.4%), assuming a partial recovery. Our overall estimate revision for mid-caps (-53.1% YTD) has been broadly in line with large caps, while our revision for small caps has been greater (-79.7% YTD). In the last month, we have taken a more cautious view on some mid-caps (-8.8% and -3.2% on 2020 and 2021 EPS, respectively) while on some small caps we realised that we had factored in an excessively negative outlook for FY20.
- **Valuations (=).** If we compare performance YTD to the change in FY21 estimates over the same period, we can see that the YTD fall in market prices is much more limited than the cut to our FY21 estimates, implying a significant re-rating. Specifically, FTSE MIB stocks recorded a 17% re-rating YTD, while the figures for mid-caps and small caps are 13.5% and 21.7% respectively. The re-rating has declined slightly in the last month. This re-rating is consistent with the view that central banks will continue with their dovish approach. On a P/E basis, our panel is trading at a 22.9% premium to large caps, broadly in line with the historical average premium (23%) and with the level of one month ago (22.7%). The rising number of companies reporting an expected net loss this year is making this indicator less meaningful at the present time.
- **Liquidity (+).** Looking at official Italian index trends, we note that liquidity for large caps in the last month (as measured by average volumes multiplied by average prices in a specific period) has declined on the previous month, coming in 28% lower than the 1Y average. Interestingly, liquidity for mid-caps has declined 18% compared to the 1Y average, while the same metric has decreased by 5% for small caps. Conversely, average daily liquidity for our mid/small cap coverage has been Eu2,429k in the last month, up 18% on the corresponding period one year ago and up about 20% MoM.
- **Investment strategy.** The United States and Europe are seeing strong second waves of the virus. Unlike during the first wave, most countries are trying hard to avoid blanket lockdowns, tightening restrictions in steps and hoping to limit proliferation of the virus. In the meantime, the Chinese economy surged 4.9% in the July-to-September quarter, showing once again that a swift economic rebound is possible when the virus is brought under control. All in all, the situation remains extremely volatile and we expect investors' focus will be more on protecting YTD performance, remaining invested on key themes that have driven this year's performance, i.e. on companies whose businesses are related to digital transformation or ESG themes, those with visible revenue trends (too risky to play a rotation, in our view, in the absence of clear newsflow on a vaccine), or some laggards that should enjoy some relief in 2H20 on the back of encouraging indications expected from 3Q20 results. Since the cost of financing is very low, the market has been betting on a number of speculative cases, but, in general, we consider it too risky to take a punt on distressed cases. Among quality names, we consider luxury stocks to be expensive considering the poor in-store traffic, while there may be other beneficiaries of a very strange Christmas gifting season. As for liquidity, we have left our PIR estimates unchanged, expecting positive inflows in 4Q20. It is worth noting that regarding "Alternative PIR", the first ELTIF funds that are fully compliant with the "Relaunch Italy" decree have been launched and others should be presented soon.

by Intermonte Research Team

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## Performance

### Mid-caps underperformed in last month

The Italian equity market (prices as at 16<sup>th</sup> October 2020) has decreased 2.9% in the last month and is down 17.3% YTD. The FTSE Italy Mid-Cap index (-3.8%) has underperformed the main index by 0.9% (remaining +0.9% YTD on a relative basis), while the FTSE Italy Small Caps index (-0.9%) has performed +2.0% better in the last month and is 1.0% better compared to the main index in relative terms since the beginning of 2020.

#### Italian Market Indexes – performance analysis (prices as of 16<sup>th</sup> October 2020)

Index	Price (Eu)	%	%	%	%	%	%	%	%
		Change 1 Month	Change 3 Months	Change 6 Months	Change YTD	Change 1 Year	Change 2 Years	Change 3 Years	Change 5 Years
FTSE Italia Mid Cap	33,782	-3.8%	0.5%	12.6%	-16.4%	-11.4%	-9.3%	-21.5%	3.4%
FTSE Italia Small Cap	18,843	-0.9%	-0.2%	13.4%	-16.3%	-5.5%	-2.8%	-26.9%	-1.8%
FTSE Italia Star	40,294	1.7%	11.8%	29.2%	3.0%	14.6%	18.8%	5.7%	67.9%
FTSE AIM ITALIA	6,489	-3.0%	-5.8%	-4.6%	-16.9%	-16.4%	-29.2%	-31.9%	-32.0%
FTSE Italia All-Share	21,186	-2.9%	-4.4%	15.3%	-17.3%	-13.1%	-2.5%	-14.6%	-11.4%
FTSE MIB	19,390	-2.9%	-4.7%	15.6%	-17.5%	-13.5%	-1.7%	-13.5%	-13.2%
Relative Performance vs FTSE Italy All Share		%	%	%	%	%	%	%	%
		Change 1 Month	Change 3 Months	Change 6 Months	Change YTD	Change 1 Year	Change 2 Years	Change 3 Years	Change 5 Years
FTSE Italia Mid Cap		-0.9%	4.9%	-2.8%	0.9%	1.7%	-6.8%	-6.9%	14.9%
FTSE Italia Small Cap		2.0%	4.2%	-2.0%	1.0%	7.6%	-0.4%	-12.3%	9.7%
FTSE Italia Star		4.5%	16.2%	13.8%	20.4%	27.8%	21.3%	20.4%	79.4%

Source: Factset

Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 0.5% in the last month, performing better than Italian mid-caps.

#### European Market Indexes – performance analysis

Index	Price (Eu)	%	%	%	%	%	%	%	%
		Change 1 Month	Change 3 Months	Change 6 Months	Change YTD	Change 1 Year	Change 2 Years	Change 3 Years	Change 5 Years
MSCI Europe	122	-1.6%	-1.7%	11.8%	-12.9%	-8.1%	-1.3%	-7.9%	-0.9%
MSCI Europe Small Cap	362	0.5%	5.1%	23.0%	-9.7%	-0.9%	2.4%	-3.3%	16.0%

Source: Factset

For individual stocks, in the following tables we have ranked the best and worst performers over two periods: the last month and the year to date.

**Intermonte Mid & Small Cap Coverage – best and worst performers, 1M**

<b>Best Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. 1M (%)</b>
TINEXTA	21.2	998	20%
RENO DE MEDICI	1.0	388	18%
OVS GROUP	1.0	220	12%
DANIELI	13.7	916	11%
WIIT	166.5	442	8%
DE' LONGHI	30.4	4,572	6%
LU-VE	12.9	287	5%
ePRICE	0.1	22	5%
RETELIT	2.4	386	5%
SESA	84.8	1,314	4%
TXT E-SOLUTIONS	7.9	103	4%
EMAK	0.9	143	4%
SERI INDUSTRIAL	3.4	161	4%
GPI	7.0	111	4%
BE	1.1	151	3%
BREMBO	8.9	2,960	3%
REPLY	101.5	3,797	2%
ERG	22.0	3,301	2%
INDEL B	17.0	99	1%
ELICA	2.8	177	1%
<b>FTSE Italia Mid Cap</b>			-4%
<b>FTSE Italia Small Cap</b>			-1%
<b>FTSE MIB</b>			-3%
<b>Worst Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. 1M (%)</b>
AUTOGRILL	3.3	841	-23%
TECHNOGYM	6.5	1,305	-20%
CATTOLICA	4.2	732	-19%
SARAS	0.4	416	-19%
JUVENTUS	0.8	1,015	-18%
NOTORIOUS PICTURES	1.3	28	-16%
SOMEC	12.6	87	-15%
BANCA IFS	7.8	422	-14%
CREDITO EMILIANO	3.7	1,227	-13%
CELLULARLINE	4.4	95	-13%
GEOX	0.6	144	-13%
UNIPOLSAI	2.1	5,914	-13%
ASCOPIAVE	3.1	716	-13%
SAES GETTERS	22.5	448	-12%
MEDIASET	1.6	1,944	-11%
ENAV	3.2	1,718	-11%
B&C SPEAKERS	8.5	93	-11%
IEG	2.3	69	-11%
DOVALUE	8.6	690	-10%
AVIO	13.1	344	-9%

Source: Factset

**Intermonte Mid & Small Cap Coverage – best and worst performers YTD**

<b>Best Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. YTD (%)</b>
SERI INDUSTRIAL	3.4	161	108%
TINEXTA	21.2	998	82%
WIIT	166.5	442	81%
SESA	84.8	1,314	78%
DE' LONGHI	30.4	4,572	61%
RETELIT	2.4	386	48%
REPLY	101.5	3,797	46%
RENO DE MEDICI	1.0	388	25%
SALCEF GROUP	12.0	498	15%
FALCK RENEWABLES	5.4	1,587	14%
ERG	22.0	3,301	14%
IMA	67.4	2,913	5%
LU-VE	12.9	287	1%
CYBEROO	3.9	37	0%
CREDITO VALTELLINESE	7.1	498	0%
ACEA	17.7	3,776	-4%
EMAK	0.9	143	-4%
AVIO	13.1	344	-6%
ELICA	2.8	177	-9%
GUALA CLOSURES	6.5	405	-10%
<b>FTSE Italia Mid Cap</b>			-16%
<b>FTSE Italia Small Cap</b>			-16%
<b>FTSE MIB</b>			-18%
<b>Worst Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. YTD (%)</b>
SARAS	0.4	416	-70%
AUTOGRILL	3.3	841	-65%
ePRICE	0.1	22	-61%
TESMEC	0.2	19	-54%
IGD	2.9	317	-54%
GEOX	0.6	144	-53%
OVS GROUP	1.0	220	-52%
SOMECE	12.6	87	-50%
FILA	7.2	311	-50%
ELES	2.6	28	-49%
NOTORIOUS PICTURES	1.3	28	-49%
TOD'S	22.0	727	-47%
IEG	2.3	69	-46%
IERVOLINO ENTERTAINMENT	3.3	73	-46%
MAIRE TECNIMONT	1.3	440	-46%
SAFILO	0.6	168	-45%
TECHNOGYM	6.5	1,305	-44%
BANCA IFIS	7.8	422	-44%
AQUAFIL	3.6	154	-43%
MONDADORI	1.2	308	-43%

Source: Factset

## Earnings Momentum

### Estimates further reduced in the last month

In light of the significant economic implications of the coronavirus outbreak, since the beginning of the year we have significantly cut our 2020 EPS estimates (-53.3%), while we have implemented a milder revision for 2021 (-33.4%), assuming a partial recovery. Our overall estimate revision for mid-caps (-53.1% YTD) has been broadly in line with large caps, while our revision for small caps has been greater (-79.7% YTD). In the last month, we have taken a more cautious view on some mid-caps (-8.8% and -3.2% on 2020 and 2021 EPS, respectively) while on some small caps we realised we had factored in an excessively negative outlook for FY20.

### Italian Market – Intermonte changes to 2020 and 2021 estimates

EPS REVISION	Since January 1st 2020		Since 19/9/2020	
	% chg in EPS FY20	% chg in EPS FY21	% chg in EPS FY20	% chg in EPS FY21
<b>Total Market</b>	<b>-53.3%</b>	<b>-33.4%</b>	<b>-2.3%</b>	<b>-1.7%</b>
<b>Total Market - Ex Energy</b>	<b>-45.3%</b>	<b>-28.1%</b>	<b>-0.7%</b>	<b>-0.4%</b>
Domestic	-53.8%	-35.0%	-3.8%	-2.7%
Non domestic	-52.5%	-31.0%	0.0%	-0.1%
Non domestic - Ex Energy	-26.5%	-13.2%	3.8%	3.4%
<b>FTSE MIB</b>	<b>-54.1%</b>	<b>-34.3%</b>	<b>-1.6%</b>	<b>-1.5%</b>
<b>Mid Caps (our coverage)</b>	<b>-53.1%</b>	<b>-29.9%</b>	<b>-8.8%</b>	<b>-3.2%</b>
<b>Small Caps (our coverage)</b>	<b>-79.7%</b>	<b>-38.2%</b>	<b>14.5%</b>	<b>0.5%</b>
Intermonte Mid&Small Caps coverage	-55.6%	-30.8%	-7.9%	-2.8%

Source: Intermonte SIM

For individual stocks, the following tables rank the biggest changes to our 2020 adjusted net profit estimates YTD.

### Intermonte Mid & Small Cap Coverage - largest changes to 2020 est. (up/down) YTD

Stock	Restated Net Profit 20	Restated net profit 20	% chg from
	as of 31/12/19	last estimate	31/12/19
<b>Upward Revision</b>			
UNIPOLSAI	607	789	29.9%
DE' LONGHI	176	183	4.0%
GPI	8	8	3.8%
<b>Downward Revision</b>			
JUVENTUS	-4	-48	-1201.8%
SAFILO	7	-64	-1046.8%
GEOX	5	-47	-956.5%
TOD'S	21	-101	-584.0%
AUTOGRILL	145	-468	-423.9%
SOGEFI	22	-34	-254.1%
FERRAGAMO	111	-72	-164.6%
SARAS	218	-138	-163.4%
TESMEC	6	-3	-155.6%
IEG	14	-7	-150.7%

Source: Intermonte SIM

## Valuation

### Multiple re-rating has declined slightly in the last month

If we compare YTD performance to the change in FY21 estimates over the same period, we can see that the YTD fall in market prices is much more limited than the cut to our FY21 estimates, implying a significant re-rating. Specifically, FTSE MIB stocks recorded a 17% re-rating YTD, while the figures for mid-caps and small caps are 13.5% and 21.7% respectively. The re-rating has declined slightly in the last month. This re-rating is consistent with the view that central banks will continue with their dovish approach.

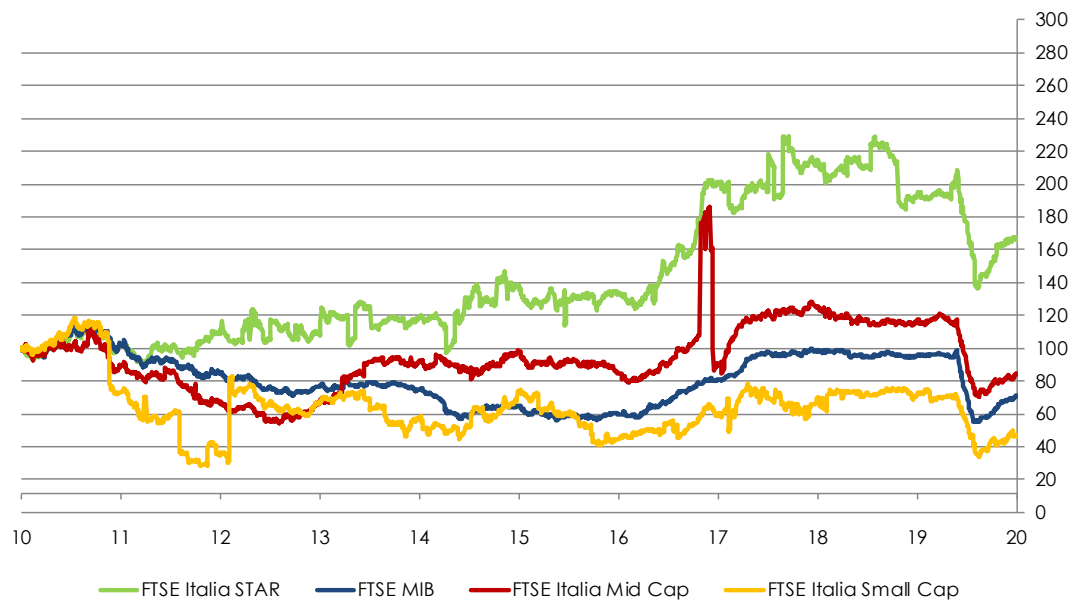
#### Italian Market – re/de-rating by index

Index	% Change YTD	on FY21 estimates	
		Chg in estimates	Re/De-rating
FTSE MIB	-17.5%	-34.3%	16.8%
FTSE Italia Mid Cap	-16.4%	-29.9%	13.5%
FTSE Italia Small Cap	-16.3%	-38.2%	21.9%

Source: Intermonte SIM and Factset

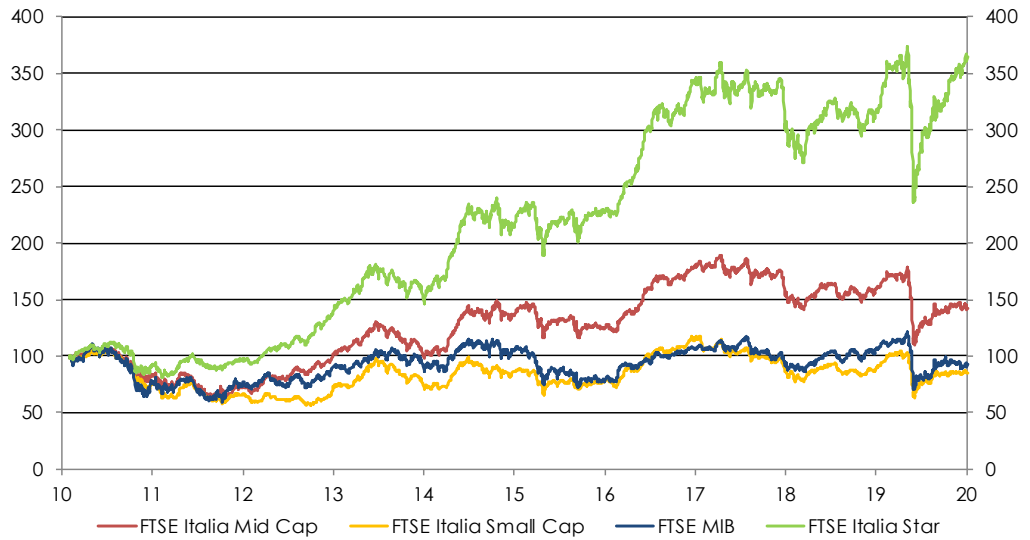
The following graph shows earnings direction over the last 10 years.

#### Italian Market Indices – EPS estimates for the last 10 years (base 100)



Source: Factset

**Italian Market Indices – performances for the last 10 years (base 100)**

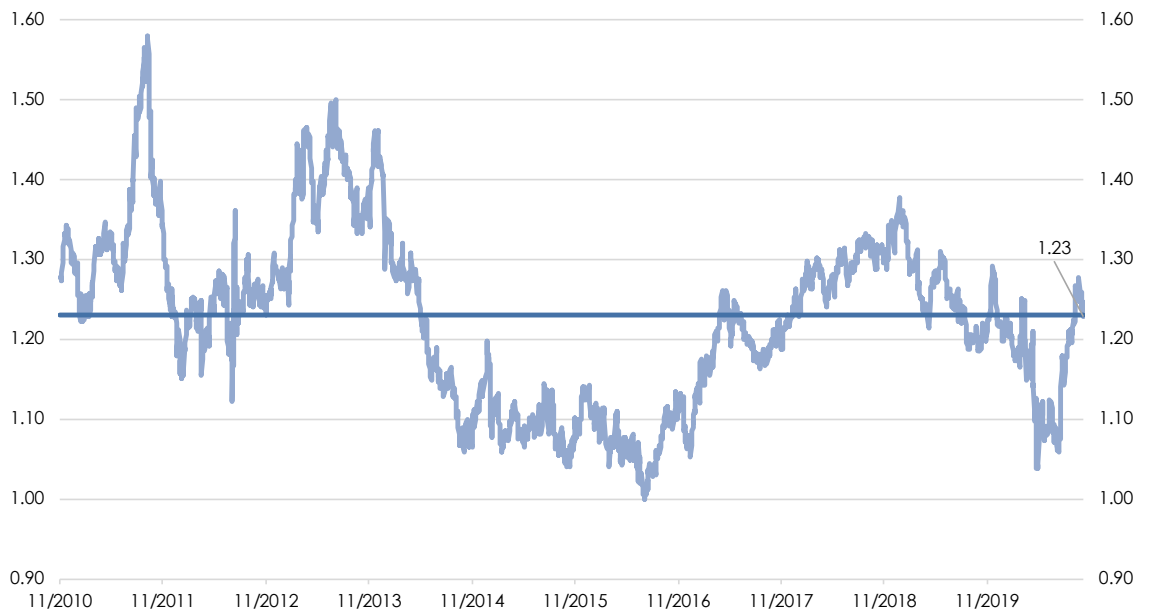


Source: Factset

In addition to our analysis of the main Italian market indices, we have also compared valuations for our panel of Italian mid/small caps against the main FTSE MIB index.

**On a P/E basis, our panel is trading at a 22.9% premium to large caps, broadly in line with the historical average premium (23%) and with the level of one month ago (22.7%).** The rising number of companies reporting an expected net loss this year is making this indicator less meaningful at the present time.

**Intermonte Mid & Small Cap Panel – next twelve months' P/E relative to FTSE MIB, last 10 years**



Source: Intermonte SIM and Factset

The table on the next page shows the stocks in our mid/small cap coverage that have posted the largest re-ratings/de-ratings since January 2020, based on 2020 estimates.

#### European Market – valuations

	P/E 08	P/E 09	P/E 10	P/E 11	P/E 12	P/E 13	P/E 14	P/E 15	P/E 16	P/E 17	P/E 18	P/E 19	P/E 20	P/E20 vs Italian Equivalent	Last 10Y Avg	Premium vs Avg
<b>FTSE MIB</b>	5.6 x	14.9 x	12.8 x	11.4 x	11.4 x	18.8 x	19.7 x	16.7 x	n.m.	15.7 x	11.8 x	11.9 x	21.9 x	-	15.5 x	41.4%
<b>FTSE Italy Mid Ca</b>	9.5 x	18.0 x	17.3 x	15.4 x	15.4 x	22.0 x	20.2 x	16.6 x	18.4 x	19.2 x	14.5 x	19.5 x	29.6 x	-	19.1 x	55.2%
<b>FTSE Italy Small C</b>	11.8 x	35.8 x	23.9 x	33.2 x	23.7 x	nm	nm	29.6 x	50.3 x	nm	18.3 x	18.9 x	67.4 x	-	34.5 x	95.6%
<b>Germany DAX (T</b>	10.7 x	15.3 x	12.7 x	11.6 x	11.6 x	14.6 x	16.6 x	12.6 x	15.0 x	13.9 x	13.8 x	14.8 x	20.3 x	-7.2%	14.5 x	40.3%
<b>Germany MDAX</b>	7.2 x	-77.3 x	15.2 x	17.1 x	28.3 x	26.6 x	23.7 x	18.1 x	23.0 x	22.5 x	18.9 x	21.1 x	84.6 x	185.8%	28.4 x	198.2%
<b>France CAC 40</b>	7.2 x	15.8 x	12.3 x	11.3 x	15.4 x	16.5 x	17.7 x	16.0 x	16.0 x	15.9 x	15.0 x	15.6 x	28.2 x	28.6%	16.8 x	68.0%
<b>France CAC Mid</b>	13.7 x	52.2 x	17.0 x	13.9 x	17.6 x	22.2 x	24.8 x	19.7 x	19.7 x	29.6 x	15.7 x	15.1 x	117.1 x	295.3%	29.5 x	296.5%
<b>France CAC Smx</b>	10.4 x	n.m.	17.6 x	13.0 x	21.5 x	27.8 x	24.5 x	22.9 x	25.5 x	28.7 x	21.9 x	23.0 x	-20.3 x	-130.1%	18.8 x	-207.6%
<b>FTSE 100</b>	7.2 x	15.8 x	12.3 x	10.9 x	12.1 x	15.0 x	14.6 x	15.3 x	18.6 x	14.7 x	13.1 x	12.6 x	19.9 x	-9.1%	14.7 x	35.5%
<b>FTSE 250</b>	7.6 x	14.3 x	13.6 x	12.5 x	14.6 x	17.4 x	17.1 x	15.3 x	15.3 x	13.9 x	12.7 x	13.3 x	25.2 x	-14.8%	15.7 x	60.3%
<b>IBEX 35</b>	6.3 x	12.5 x	12.0 x	10.7 x	29.3 x	19.9 x	19.9 x	19.0 x	15.9 x	13.5 x	13.8 x	13.1 x	33.4 x	52.5%	18.8 x	77.2%
<b>IBEX MEDIUM</b>	10.0 x	19.1 x	17.4 x	11.2 x	18.3 x	28.6 x	18.1 x	20.5 x	18.9 x	20.9 x	17.0 x	13.8 x	17.8 x	-40.1%	18.5 x	-4.0%

Source: Intermonte SIM and Factset



**Intermonte Mid & Small Cap Coverage – YTD de-rating/re-rating on 2021 estimates**

Stock	Restated Net Profit 21 as of 31/12/19	Restated net profit 21 last estimate	% Chg in Net Profit 21	Share Price perf. YTD	De-rating(-) Re- rating(+)
SARLO	4.2	-28.4	-771%	(45%)	725.6%
JUVENTUS	19.0	-30.8	-262%	(39%)	223.4%
TOD'S	35.6	-59.6	-267%	(47%)	220.5%
AUTOGRILL	158.5	-106.1	-167%	(65%)	102.4%
WIIT	12.4	10.6	-15%	81%	96.0%
FERRAGAMO	122.8	-22.7	-118%	(30%)	88.1%
TINEXTA	47.0	46.5	-1%	82%	83.5%
RETELIT	23.8	17.1	-28%	48%	75.7%
SARAS	151.7	-58.7	-139%	(70%)	69.2%
DE' LONGHI	186.3	180.6	-3%	61%	64.4%
GEOX	20.6	-3.0	-114%	(53%)	61.3%
SESA	47.5	56.7	19%	78%	58.7%
SOGEFI	27.4	0.4	-99%	(42%)	56.4%
REPLY	128.5	124.5	-3%	46%	49.2%
FALCK RENEWABLES	57.9	40.3	-30%	14%	44.8%
CREDITO VALTELLINESE	70.6	40.1	-43%	(0%)	42.9%
IMA	156.2	101.1	-35%	5%	40.4%
BRUNELLO CUCINELLI	58.4	30.2	-48%	(13%)	35.2%
RENO DE MEDICI	30.7	29.2	-5%	25%	29.5%
GUALA CLOSURES	24.8	15.8	-36%	(10%)	26.0%
LU-VE	30.6	23.1	-24%	1%	25.1%
ERG	121.5	110.7	-9%	14%	23.1%
DANIELI	113.8	69.6	-39%	(16%)	22.6%
SERVIZI ITALIA	13.9	7.2	-48%	(28%)	20.0%
ELICA	14.3	10.2	-29%	(9%)	19.9%
MEDIASET	280.8	120.3	-57%	(38%)	19.0%
CFT	5.3	2.2	-58%	(40%)	17.3%
BANCA IFIS	135.3	55.3	-59%	(44%)	15.1%
IEG	13.0	5.1	-61%	(46%)	14.2%
AQUAFL	35.7	15.4	-57%	(43%)	13.7%
DATALOGIC	65.6	37.3	-43%	(32%)	11.4%
SALCEF GROUP	43.7	46.1	6%	15%	9.8%
FINCANTIERI	236.8	118.3	-50%	(41%)	8.8%
PIAGGIO	72.0	56.7	-21%	(13%)	7.9%
EMAK	18.9	16.7	-12%	(4%)	7.5%
OVS GROUP	59.2	25.5	-57%	(52%)	5.1%
BREMBO	243.8	183.5	-25%	(20%)	4.9%
SAES GETTERS	29.2	20.4	-30%	(26%)	4.3%
B&C SPEAKERS	10.4	6.0	-42%	(40%)	2.3%
INDEL B	14.0	10.7	-24%	(22%)	2.2%
AVIO	33.1	30.5	-8%	(6%)	2.1%
ACEA	307.1	294.6	-4%	(4%)	0.2%
SOMEC	17.3	8.6	-50%	(50%)	(0.0%)
CEMENTIR	103.0	91.6	-11%	(11%)	(0.2%)
BE	12.8	11.4	-11%	(11%)	(0.6%)
RAI WAY	72.9	64.4	-12%	(14%)	(2.0%)
GEFRAN	10.2	6.9	-32%	(37%)	(4.4%)
TECHNOGYM	109.1	66.2	-39%	(44%)	(4.8%)
MAIRE TECNIMONT	95.9	57.1	-40%	(46%)	(5.5%)
OPENJOBMETIS	12.5	9.3	-26%	(34%)	(8.4%)
ALKEMY	3.7	2.8	-24%	(33%)	(8.9%)
BANCA SISTEMA	33.6	32.9	-2%	(11%)	(9.0%)
ASTM	281.0	207.6	-26%	(36%)	(9.8%)
MONDADORI	42.1	28.4	-33%	(43%)	(10.2%)
MARR	70.3	52.1	-26%	(37%)	(10.8%)
GPI	8.3	8.0	-3%	(14%)	(10.9%)
TXT E-SOLUTIONS	4.8	4.5	-7%	(18%)	(11.8%)
ASCOPIAVE	47.6	43.8	-8%	(20%)	(12.0%)
TESMEC	9.5	5.6	-41%	(54%)	(12.9%)
FINE FOODS	12.3	11.9	-3%	(17%)	(13.8%)
CERVED	124.8	109.2	-13%	(27%)	(14.2%)
CELLULARLINE	23.9	18.7	-22%	(37%)	(15.7%)
CREDITO EMILIANO	194.0	168.6	-13%	(29%)	(15.8%)
EL.EN.	31.0	25.7	-17%	(34%)	(16.4%)
FILA	64.5	43.8	-32%	(50%)	(17.4%)

Source: Intermonte SIM

## Liquidity

### Average trading volumes weak but up YoY and MoM

Looking at official Italian index trends, we note that liquidity for large caps in the last month (as measured by average volumes multiplied by average prices in a specific period) has declined on the previous month, coming in 28% lower than the 1Y average. Interestingly, liquidity for mid-caps has declined 18% compared to the 1Y average, while the same metric has decreased by 5% for small caps.

Conversely, average daily liquidity for our mid/small cap coverage has been Eu2,429k in the last month, up 18% on the corresponding period one year ago and up about 20% MoM.

#### Italian Market – liquidity analysis

	Avg Daily Volume * Avg Price (Eu mn)					% Changes	
	1M	3M	6M	1Y	3Y	1M vs 1Y	3M vs 1Y
FTSE MIB							
All stocks	37.20	37.23	42.30	51.87	50.49	(28.3%)	(28.2%)
Top 20% by market cap	101.54	106.58	120.88	152.62	151.42	(33.5%)	(30.2%)
FTSE Italia Mid Cap							
All stocks	2.66	2.54	2.71	3.22	3.37	(17.6%)	(21.3%)
Top 20% by market cap	4.87	5.01	5.05	5.66	5.96	(13.9%)	(11.5%)
FTSE Italia Small Cap							
All stocks	0.35	0.30	0.30	0.36	0.36	(4.7%)	(18.6%)
Top 20% by market cap	0.86	0.66	0.68	0.80	0.80	7.0%	(18.2%)

Source: Factset

For individual stocks, the following table ranks liquidity in our mid/small cap coverage.

#### Intermonte Mid & Small Cap Coverage – most liquid stocks

Stock	Market Cap (Eu mn)	6M Avg Volume * Avg Price (Eu)
IMA	2,913	10,343,095
FERRAGAMO	2,204	8,351,578
AUTOGRILL	841	7,025,391
UNIPOLSAI	5,914	6,314,525
BREMBO	2,960	5,614,500
SARAS	416	5,254,547
ANIMA	1,234	5,243,285
TECHNOGYM	1,305	5,105,563
CATTOLICA	732	5,032,894
FALCK RENEWABLES	1,587	4,978,840
JUVENTUS	1,015	4,910,038
REPLY	3,797	4,880,138
ERG	3,301	4,632,472
IREN	2,709	3,836,079
MEDIASET	1,944	3,572,861
ASTM	2,428	3,513,308
DE' LONGHI	4,572	3,403,013
BRUNELLO CUCINELLI	1,867	3,240,440
CERVED	1,244	3,105,777
ENAV	1,718	2,970,109
PIAGGIO	854	2,844,803
ACEA	3,776	2,840,561
OVS GROUP	220	2,737,043
CREDITO VALTELLINESE	498	2,322,670
FINCANTIERI	920	2,029,200
MARR	857	1,973,179
TINEXTA	998	1,930,188
MAIRE TECNIMONT	440	1,926,000
TOD'S	727	1,898,574
BANCA SISTEMA	132	1,611,411

Source: Factset

## Criteria for investing in mid/small caps

### Italian Mid & Small Cap Coverage - geographical breakdown of sales (FY20)

Stock	Italy	Europe (incl. Russia, UK, Turkey)	North America (incl. Mexico)	South America	Asia (incl. China, India, South East Asia)	RoW (Africa, Middle East, Australia, Japan)
<b>Intermonte Coverage</b>	52.9%	22.9%	10.0%	1.0%	5.9%	7.3%

Source: Company data and Intermonte SIM (financial companies excluded from the sample)

A ranking of stocks with the highest expected earnings growth for 2021 vs 2020, and the highest 2020 dividend yields can be found in the following tables.

### Intermonte Mid & Small Cap Coverage – dividend yield 2020

Stock	Price (Eu)	Mkt Cap (Eu mn)	EPS 20	DPS 20	Yield 20 %	PayOut 20 %	Net Debt/EBITDA 19
DEA CAPITAL	1.1	291		0.120	11.0%	#VALUE!	
CELLULARLINE	4.4	95	0.532	0.360	8.2%	68%	-2.4x
NOTORIOUS PICTURES	1.3	28	0.304	0.102	8.1%	34%	0.0x
IEG	2.3	69	-0.223	0.180	8.0%	-81%	-23.1x
IGD	2.9	317	0.500	0.228	7.9%	46%	-11.2x
UNIPOLSAI	2.1	5,914	0.284	0.160	7.7%	56%	
BANCA IFIS	7.8	422	0.157	0.500	6.4%	317%	
CREDITO VALTELLINESE	7.1	498	0.078	0.440	6.2%	562%	
ASCOPIAVE	3.1	716	0.184	0.180	5.9%	98%	-4.4x
ANIMA	3.3	1,234	0.439	0.180	5.4%	41%	
BANCA SISTEMA	1.6	132	0.329	0.085	5.2%	26%	
ENAV	3.2	1,718	0.109	0.160	5.0%	147%	-0.9x
SERVIZI ITALIA	2.2	68	-0.008	0.100	4.7%	-1209%	-2.4x
WEBUILD	1.0	935	0.213	0.048	4.5745%	22%	-1.8x
IREN	2.1	2,709	0.165	0.095	4.6%	57%	-3.5x
ACEA	17.7	3,776	1.332	0.804	4.5%	60%	-3.1x
RAI WAY	5.3	1,439	0.223	0.223	4.2%	100%	-0.4x
CREDITO EMILIANO	3.7	1,227	0.409	0.140	3.8%	34%	
EMAK	0.9	143	0.097	0.031	3.6%	32%	-2.6x
ERG	22.0	3,301	0.679	0.750	3.4%	110%	-2.9x
SALCEF GROUP	12.0	498	0.892	0.401	3.4%	45%	0.3x
AVIO	13.1	344	0.953	0.408	3.1%	43%	1.4x
ASTM	17.3	2,428	0.830	0.500	2.9%	60%	-2.2x
GEFRAN	4.3	62	0.191	0.117	2.7%	61%	-1.0x
BE	1.1	151	0.073	0.029	2.6%	40%	-0.3x
DATALOGIC	11.5	673	0.249	0.300	2.6%	120%	0.0x
CERVED	6.4	1,244	0.511	0.153	2.4%	30%	-2.8x
CEMENTIR	6.0	950	0.400	0.140	2.3%	35%	-0.8x
SOMEK	12.6	87	0.672	0.283	2.3%	42%	-2.5x
IMA	67.4	2,913	2.145	1.500	2.2%	70%	-2.5x

Source: Intermonte SIM and Factset

**Intermonte Mid & Small Cap Coverage – EPS growth, 2021 vs 2020**

Stock	Price (Eu)	Mkt Cap (Eu mn)	P/E 20	P/E 21	EPS Growth
ELICA	2.8	177	nm	17.4	2206%
CREDITO VALTELLINESE	7.1	498	90.6	12.4	629%
BANCA IFIS	7.8	422	49.8	7.6	553%
OVS GROUP	1.0	220	54.7	8.6	536%
MARR	12.9	857	93.9	16.5	470%
GUALA CLOSURES	6.5	405	nm	27.7	389%
DOVALUE	8.6	690	43.2	12.0	260%
CYBEROO	3.9	37	58.8	18.5	218%
AQUAFIL	3.6	154	37.5	11.9	215%
DATALOGIC	11.5	673	46.2	18.1	156%
SAES GETTERS	22.5	448	61.2	24.3	152%
GEFRAN	4.3	62	22.6	9.0	151%
ELES	2.6	28	32.1	13.5	138%
OPENJOBMETIS	5.7	79	18.7	8.1	131%
ENAV	3.2	1,718	29.1	14.9	94%
CATTOLICA	4.2	732	8.8	4.6	92%
B&C SPEAKERS	8.5	93	29.5	15.4	91%
PIAGGIO	2.4	854	28.1	15.0	88%
SOMEC	12.6	87	18.7	10.0	86%
BREMBO	8.9	2,960	29.1	15.7	85%
ASTM	17.3	2,428	20.8	11.7	78%
MEDIASET	1.6	1,944	27.4	16.2	70%
LU-VE	12.9	287	20.4	12.4	64%
ALKEMY	5.9	33	18.8	11.6	62%
CELLULARLINE	4.4	95	8.2	5.2	58%
DANIELI	13.7	916	25.0	16.0	56%
TECHNOGYM	6.5	1,305	30.3	19.7	54%
EL.EN.	21.9	429	24.5	16.6	47%
CEMENTIR	6.0	950	14.9	10.4	44%
RETELIT	2.4	386	31.9	22.5	42%
SESA	84.8	1,314	31.9	23.2	38%
TXT E-SOLUTIONS	7.9	103	27.8	20.3	37%
WIIT	166.5	442	55.4	41.6	33%
FILA	7.2	311	11.1	8.4	32%
IERVOLINO ENTERTAINMENT	3.3	73	5.9	4.6	28%
INDEL B	17.0	99	11.8	9.3	27%
FOS	2.5	16	14.9	11.9	26%
BANCA SISTEMA	1.6	132	5.0	4.0	24%
CREDITO EMILIANO	3.7	1,227	9.0	7.3	24%

Source: Intermonte SIM and Factset

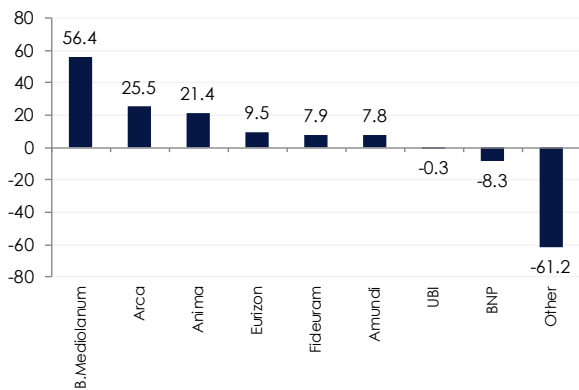
## Update on the Individual Savings Plan (PIR)

PIR: official figures for 2Q20

	Net Inflows							Nr. Of Funds at June 2020		Invested Capital at June 2020	
	2Q20 (Eu mn)	1Q20 (Eu mn)	4Q19 (Eu mn)	3Q19 (Eu mn)	FY19 (Eu mn)	FY18 (Eu mn)	FY17 (Eu mn)	# Funds	%	(Eu mn)	in %
<b>Total</b>	<b>59</b>	<b>(234)</b>	<b>(380)</b>	<b>(354)</b>	<b>(1,097)</b>	<b>3,950</b>	<b>10,903</b>	<b>72</b>	<b>100.0%</b>	<b>16,767</b>	<b>100.0%</b>
<b>Newly established funds</b>	29	(83)	(333)	(256)	(760)	3,403	7,864	44	61.1%	9,983	59.5%
<b>Pre-existing funds</b>	30	(151)	(48)	(98)	(337)	547	3,039	28	38.9%	6,784	40.5%
<b>EQUITY FUNDS</b>	(14)	(153)	(48)	(105)	(369)	349	2,260	29	40.3%	4,235	25.3%
o/w Italy Equity	(14)	(153)	(48)	(105)	(369)	349	2,260	29	40.3%	4,235	25.3%
<b>BALANCED FUNDS</b>	13	(33)	(237)	(218)	(587)	2,525	5,962	26	36.1%	7,752	46.2%
o/w Balanced Equity	6	(2)	(33)	(22)	(63)	181	279	2	2.8%	395	2.4%
o/w Balanced	9	(34)	(105)	(92)	(258)	752	1,849	10	13.9%	2,290	13.7%
o/w Balanced bonds	(1)	2	(99)	(104)	(267)	1,592	3,834	14	19.4%	5,067	30.2%
<b>FIXED INCOME FUNDS</b>	2	1	(3)	4	(20)	10	75	4	5.6%	213	1.3%
o/w Italy Bonds	(3)	1	(4)	5	1	(9)	13	2	2.8%	71	0.4%
o/w Europe Bonds	5	0	1	(1)	(21)	19	62	1	1.4%	47	0.3%
o/w Mixed	(0)	1						1	1.4%	95	0.6%
<b>FLEXIBLE FUNDS</b>	58	(50)	(92)	(35)	(121)	1,067	2,605	13	18.1%	4,567	27.2%

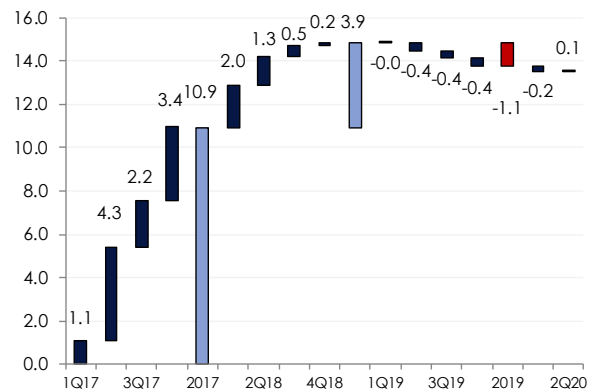
Source: Assogestioni, Quarterly Report, September 2020

### PIR - Net Inflows by asset manager (Eu mn, 2Q20)



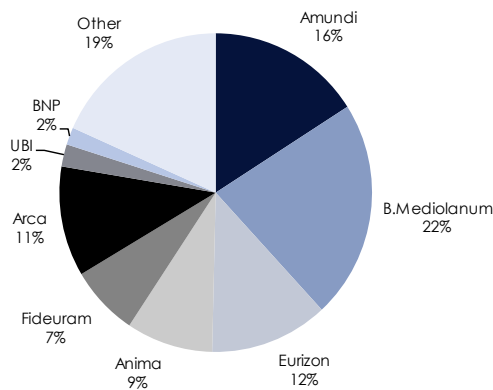
Source: Assogestioni

### PIR - Inflows by quarter (Eu bn)



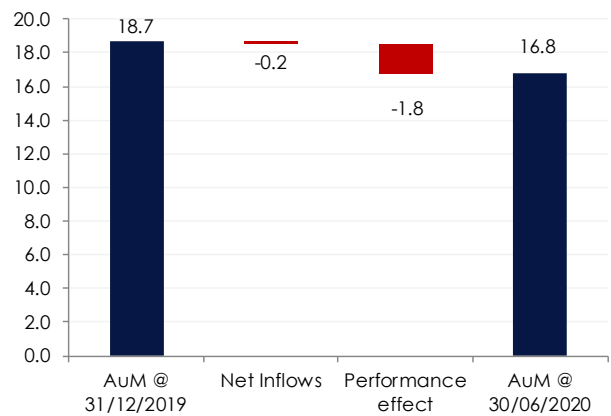
Source: Intermonte SIM estimates, Assogestioni

### PIR - Market share by asset manager (on AuM at 30/06/20)



Source: Assogestioni

### PIR - Inflows and total AuM (Eu bn)



Source: Assogestioni

## PIR inflows back to positive territory in 2Q20

As shown on the previous page, **Assogestioni released updated figures on 2Q20 PIR inflows** in its quarterly review on 2 September 2020. Net inflows amounted to Eu58.7mn in 2Q20, with all the major players reporting positive numbers, partially compensated by outflows registered by smaller players. The quarter therefore showed a significant improvement on the last quarter of 2019 (Eu-380mn) and the first quarter of 2020 (Eu-234mn).

While 2Q20 represented a positive step towards a recovery, **initial indications on July and August were less favourable**, as *il Sole 24 Ore's* 'Osservatorio PIR' reported outflows of Eu24.3mn and Eu18.5mn respectively. Official Assogestioni data on 3Q20 should be released at the end of November.

As a reminder, the features of PIR 3.0 are as follows: at least 70% of the fund must be invested in securities issued by listed Italian or EU companies having stable organisation in Italy; of this 70%, 25% (i.e. 17.5% of the total fund) must be invested in securities that are not on the main index (FTSE MIB in the case of Italian-listed stocks). The principal novelty in the new regulation is a mandatory minimum investment of 5% of the 70% (or 3.5% of the total fund) in small caps that are not listed on either the FTSEMIB or the FTSE MID indexes. This measure is likely to channel flows into a universe of small companies that are expected to obtain particular benefits from renewed investor interest. The new regulation also allows Italian pension funds to invest up to 10% of their assets in PIR funds. The fiscal benefit (unchanged) still relates to the elimination of capital gains tax after the investment is maintained in the fund for at least 5 years.

A recent report published by Assogestioni (October 2020) gave its findings on PIR fund subscriptions by small retail investors: as at YE19, the average/median cumulative investment per capita was only Eu16,383/Eu10,553, with only 3% of total subscribers reaching the maximum annual allowance of Eu30,000 per year.

### **"Alternative PIR" officially launched, August decree has increased maximum investment per annum from Eu150k to**

**Eu300k**: the Alternative PIR is a wrapper with tax benefits similar to PIR (i.e. tax exemption of capital gains for investments held for at least 5 years) and in turn is capable of investing in ELTIFs, private equity funds or private debt funds. Because of the investments in illiquid assets (closer to the real economy but riskier), affluent investors are the target clients. The maximum investible amount per year is Eu300k per person (vs Eu30k for PIR) up to a cumulative maximum of Eu1.5mn per person. Moreover, the concentration limit (i.e. max cumulative investment in a single stock) has been set at 20% (10% being the limit for regular PIR funds).

Investor interest is likely to be high (inflows of Eu3-5bn a year estimated by Assogestioni). These alternative instruments would indeed be suitable for overcoming market volatility given their long-term commitment and are complementary to PIR funds in a broader sense (they are designed for semi-professional rather than retail investors). We believe the introduction of Alternative PIRs could also represent a smart solution to the current impasse at EU level over ELTIF, as the new Alternative PIRs are entitled to buy ELTIF funds, thereby indirectly benefitting ELTIFs.

### **ALTERNATIVE PIR vs. PIR 3.0**

	<b>PIR 3.0</b>	<b>Alternative PIR</b>
<b>Investor Target</b>	Retail Investors	Semi-institutional investors
<b>Main Investment Focus</b>	Mid and Small Caps	Small and Micro Caps, Privately held SMEs
<b>Type of Fund</b>	Open-end Funds	Closed-End Funds, such as ELTIF, private equity funds, private debt funds
<b>Max per capita investment</b>	Eu30,000 a year (max Eu150,000)	Eu300,000 a year (max Eu1.5mn)
<b>Concentration limit</b>	Up to 10%	Up to 20%
<b>Investment Criteria</b>	At least 70% of the fund must be invested in securities issued by listed Italian or EU companies having stable organisation in Italy; of this 70%, 25% (i.e. 17.5% of the total fund) must be invested in securities that are not on the main index (FTSE MIB in the case of Italian-listed stocks) and 5% (or 3.5% of the total fund) in small caps that not listed on either the FTSEMIB or the FTSE MID indexes.	At least 70% of the fund must be invested in securities issued by Italian or EU companies having stable organisation in Italy that are small caps not listed on either the FTSEMIB or the FTSE MID indexes.
<b>Fiscal benefits</b>	Zeroing capital gains tax after maintaining the investment in the fund for at least 5 years	Zeroing capital gains tax after maintaining the investment in the fund for at least 5 years

Source: Intermonte SIM

### Our Estimates for PIRs

In this report we confirm the assumption of net inflows of ~Eu150mn in 2020. In the long term, our assumptions are based on expectations that interest in this product will remain fairly high thanks to the fiscal benefit and, from a distributor point of view, to the fact that it can count on long-term commitment from the investor.

Our main assumptions are as follows:

- For 2020, we assume Eu230mn in inflows from new PIR subscribers, followed by Eu850mn for 2021 and Eu2.4bn for 2022;
- For continuing subscribers, we expect that overall inflows in year two will amount to a portion of the sum set aside in the first year (from 35% to 40% in our model); in the remaining years (i.e. from the third to the fifth year) we expect stable inflows, equivalent on average to 60% of the investments made in the second year;
- Finally, we calculate the amount of capital that will be withdrawn by investors who decide to exit the fund before the five-year time limit (for whatever reason) at ~6% of Assets under Management in 2020 (previously 12%) and 3.5% in the following years.

### PIR – Our Assumptions

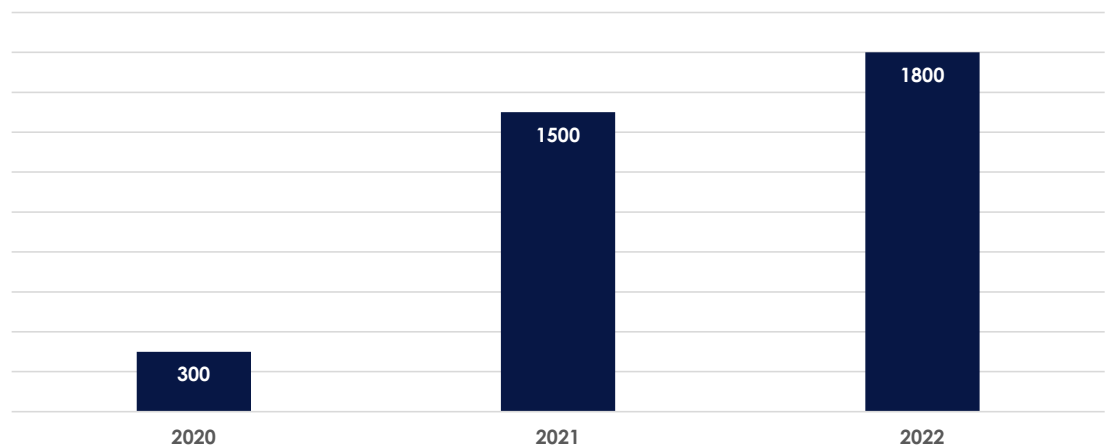
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
<b>Mutual Funds AUM (Eu mn)</b>	<b>887,408</b>	<b>900,318</b>	<b>1,011,183</b>	<b>955,114</b>	<b>1,071,299</b>			
<b>PIR Net Inflows (Eu mn)</b>			<b>10,903</b>	<b>3,950</b>	<b>(1,097)</b>	<b>147</b>	<b>1,261</b>	<b>3,029</b>
<i>YoY Growth</i>				-63.8%	<i>nm</i>	<i>nm</i>	758.5%	140.2%
<i>o/w From Continuing Subs.</i>			-	3,414	989	894	986	1,298
<i>o/w From New Subscribers</i>			10,903	1,325	-	230	850	2,350
<i>o/w Transformation of Existing Funds/Exit from PIR</i>			4,867	(788)	(2,086)	(977)	(575)	(619)

Source: Intermonte SIM

### Our Estimates for Alternative PIRs

On publication of the June report, we also added our estimates on the inflows expected for Alternative PIRs. Several important Italian asset managers have now launched their new funds, mostly ELTIF, compliant with the Alternative PIR regulation and definition (and subject therefore to the fiscal benefits). Based on our expectations for ELTIF, we foresee inflows of Eu300mn in 2020, Eu1.5bn in 2021 and Eu1.8bn in 2022, thus reaching cumulative AuM of Eu3.6bn by YE22. For the moment, our estimates are more cautious than the Assogestioni forecast for this product, which is for inflows of between Eu3bn and Eu5bn per year.

### Alternative PIRs – Our estimates (Eu mn)



Source: Intermonte SIM

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**GUIDE TO FUNDAMENTAL RESEARCH**

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
  - Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
  - Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
  - For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)
- Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P MIB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

Further information is available at the following link: <http://research.intermonte.it/Disclosures.ASP>

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