

Green is The New Gold

Intermonte Research Team

Update

Green is The New Gold – Update

We published a report - “Green is the New Gold” - on 16 July 2020 in which we described the measures under consideration in Europe for the promotion of sustainable investments. The report analyses the main instruments announced by the EU, which plans to mobilise over Eu1tn of resources over the next ten years through Next Generation EU, the European Green Deal and the Action Plan.

Today we publish a new report - “Green is the New Gold – Update” - in which we analyse the main elements of the agreement achieved yesterday on the Recovery Plan.

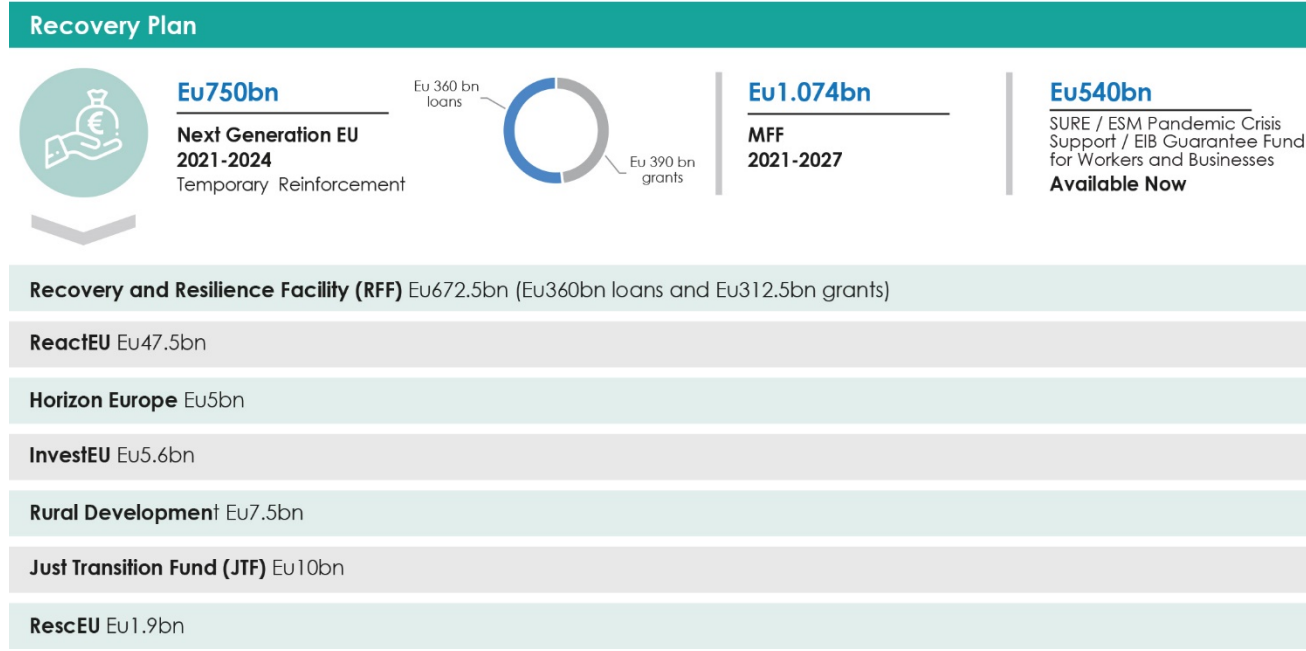
- **Agreement achieved on the Recovery Plan.** The figure for the Next Generation EU financial package remains unchanged at Eu750bn, with a smaller share for grants at Eu390bn and a larger one for loans at Eu360bn (vs the previous proposal of Eu500bn in grants and Eu250bn in loans). Italy is still one of the largest beneficiaries of the recovery instruments and potentially should receive ca. Eu208bn (vs the previous Eu172bn), of which Eu127bn as loans and Eu81bn as grants. The overall amount for the 2021-2027 MFF has been lowered to Eu1,074.3bn (vs the initial proposal in February of Eu1,100bn). In line with the first revised proposal by the president of the EU Council, an overall climate target of 30% will apply to the total amount of expenditure from the MFF and Next Generation EU and should be reflected in appropriate targets in sectorial legislation. The approval process for the national recovery plan (NRP) has been radically modified through the introduction of a stronger role for the council (ECOFIN) and the scaling-back of the EU Commission's role.
- **Europe to promote massive investments over the next 10 years: taxonomy is the key.** In a nutshell, the EU Commission is working on a wide and unprecedented package of measures, amounting to over Eu1tn, to relaunch the EU economy through sustainable, green investments. The combination of public and private capital that will be allocated to these investments represents a major opportunity that cannot be missed. The pandemic accelerated the process, with the urgent launch of the Next Generation EU plan building on the flagship Green Deal announced by the new EU Commission President Von der Leyen in December 2019 and the Action Plan. Our previous report, Green is the New Gold, explored the details of these plans and the Taxonomy. An economic activity is deemed to be taxonomy-aligned if it satisfies three conditions: 1) it substantially contributes to at least one of the six environmental objectives defined in the Regulation, the first two of which, Climate Change Adaptation and Climate Change Mitigation, will be implemented at the end of 2021; 2) it does no significant harm to any of the other five environmental objectives; 3) it complies with minimum social safeguards. There is no doubt that this represents a key element for the understanding, implementation and success of the EU's plans.
- **Sustainability, in particular ESG themes, will become increasingly crucial for listed companies and investors.** These themes are increasingly pervasive within the investment community. In our view, the crucial advantages for listed companies with a strong ESG focus will be: i) **increased resilience and a more sustainable growth profile;** ii) **reduced cost of capital;** iii) **gaining access to new investors and flows;** iv) **enhanced reputation.** We expect Italian companies to increase their focus on these factors, which will entail enhancing their efforts in terms of investing in sustainability, repositioning some businesses, and improving non-financial disclosure.
- **Our Selected List.** We have shortlisted 10 Italian stocks that we think have positive green investment angles and which, in our view, could deserve higher valuations and offer interesting upside potential. We have also tried to focus on stocks in the mid-small cap universe in order to highlight the potential hidden opportunities offered by some Italian stocks on these themes. Our preferred list includes Snam, A2A, Hera, ERG, STM, Saes Getters, Tinexta, Reno de Medici, Salcef, and Lu-Ve.

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Agreement Achieved on Recovery Plan

Yesterday morning after four days of intense negotiations, EU Leaders reached agreement on the Recovery Fund-Next Generation EU. The figure for the financial package remains unchanged at **Eu750bn**, with a lower figure for grants at **Eu390bn** and a higher one for loans at **Eu360bn** (vs the previous proposal of Eu500bn and Eu250bn respectively). Italy is still one of the largest beneficiaries of the recovery instruments and potentially should receive ca. Eu208bn, about +Eu37bn (vs previous Eu172bn), of which Eu127bn as loans and Eu81bn as grants.

The New Recovery Plan



Source: EU Commission

Key element of the agreements. These are the main elements of the European Recovery Plan:

- **Next Generation EU:** the amount for recovery instruments, Eu750bn, remains unchanged on the previous proposal but the split between grants and loans differs; Eu390bn in grants (vs the previous proposal for Eu500bn) and Eu360bn in loans (vs previous proposal Eu250bn).
- **Recovery and Resilience Facility:** this instrument has been reinforced to Eu672.5bn (vs the previous Eu540bn), of which Eu360bn in grants and Eu312.5bn in loans. 70% of the grants provided by the RRF will be committed in the period 2021-2022 and the remainder by the end of 2023. To access the RRF funds, the allocation key for 2023, which was the 2015-2019 unemployment criterion, is replaced by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the 2020-2021 period, and will be calculated by 30 June 2022. In order to access RRF funds, a Member State will prepare a national Recovery and Resilience Plan for 2021-2023, setting out its own reform and investment agenda for those years. The approval process of the national recovery plans (NRP) is as follows:
 - **EU COMMISSION:** will assess NRPs within two months of the submission. In order to obtain a positive assessment of the Plan, the effective contribution to the green and digital transition is only one of the prerequisites. The criteria of consistency with the country-specific recommendations, as well as strengthening growth potential, job creation and economic and social resilience of the Member State will need the highest score in the assessment.
 - **COUNCIL (ECOFIN):** the assessment of the RRP will be approved by the Council (ECOFIN), by a qualified majority (55% of member states, representing at least 65% of the EU population) on a Commission proposal, through an implementing act that the Council will endeavour to adopt within 4 weeks of the proposal.
 - **ECONOMIC AND FINANCIAL COMMITTEE (ECOFIN technical committee):** the positive assessment of payment requests will be subject to satisfactory fulfilment of the relevant milestones and targets. The Commission will seek the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestones and targets. The Economic and Financial Committee will strive to reach a consensus.

- **ONE OR MORE MEMBER STATES OPTION:** if, exceptionally, one or more Member States deem that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets (EU Commission Recommendations, reform plans, green and digital transitions, etc.), they may ask the President of the European Council to refer the matter to the next European Council. If the matter is referred to the European Council, no Commission decision concerning the satisfactory fulfilment of the milestones and targets and on the approval of payments will be taken until the next European Council has exhaustively discussed the matter.
- **MFF 2021-2027:** the overall amount has been lowered to Eu1,074.3bn (vs the initial proposal in February of Eu1,100bn). For the 2021-2027 period, a lump-sum reduction has been proposed for the GNI-based contributions by Denmark, Germany, the Netherlands, Austria and Sweden.

In the final proposal, the fact has been highlighted that climate actions will be mainstreamed into policies and programmes financed under the Next Generation EU and MFF. As a general principle, all EU expenditure under the Recovery Plan should be in line with the objective of EU climate neutrality by 2050 and with the Paris Agreement. In line with the first revised proposal by the president of the EU Council, an overall climate target of 30% will apply to the total expenditure from the MFF and Next Generation EU and should be reflected in appropriate targets in sectorial legislation.

Our Selected List on Green Wave

The main focus of this report is on green plans to support sustainable investments and industrial transition, and to achieve the ambitious EU goals on emissions. We are in the process of stepping-up our analysis of these themes along with ESG for Italian listed stocks. We will focus on mid-small caps, which are currently much less under the spotlight regarding these trends, with the exception of some specific situations. In our preliminary screening, stocks pertaining to the utilities sector appear to be the clear beneficiaries of green investments. However, we believe that in the future, with greater knowledge and details of the plans, the universe of investable stocks for green issues will increase significantly. Among sectors, we see opportunities for tech, industrials and some consumers in particular. We have shortlisted 10 Italian stocks that we think have positive green investment angles and which, in our view, could deserve higher valuations and offer interesting upside potential. We have also tried to focus on stocks in the mid-small cap universe in order to highlight the potential hidden opportunities offered by some Italian stocks on these themes.

Among our preferred list we include some utilities such as Snam (hydrogen), A2A and Hera (hydro and waste), and ERG (renewables). We also include a large-cap tech stock such as STM, whose products are functional to the environmentally friendly transition to electric mobility, and in general for industrial processes. We have also listed some Italian mid-small caps that we like for their positive green angles such as Saes Getters, Tinexta, Reno de Medici, Salcef, and Lu-Ve.

Our Selected List on Green Wave

Company	Sector	Mkt Cap	Price	TP	Upside	Recommendation
STMICROELECTRONICS	Industrials	24,370	26.78	25.80	-3.7%	OUTPERFORM
SNAM	Utilities	15,685	4.67	4.90	5.0%	OUTPERFORM
HERA	Utilities	4,960	3.33	4.20	26.1%	OUTPERFORM
A2A	Utilities	3,971	1.27	1.70	34.1%	OUTPERFORM
ERG	Utilities	3,139	20.88	21.00	0.6%	OUTPERFORM
TINEXTA	Industrials	647	13.98	16.00	14.4%	BUY
SALCEF GROUP	Industrials	504	11.90	12.90	8.4%	OUTPERFORM
SAES GETTERS	Industrials	488	25.00	30.00	20.0%	OUTPERFORM
RENO DE MEDICI	Industrials	310	0.82	1.00	22.0%	OUTPERFORM
LU-VE	Industrials	262	11.80	12.50	5.9%	OUTPERFORM

Source: EU Commission

Our Selected List on Green Wave -Multiples

Company	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22	P/E 20	P/E 21	P/E 22	ND/EBITDA 20	ND/EBITDA 21	ND/EBITDA 22
STMICROELECTRONICS	13.5.x	9.2.x	6.9.x	32.7.x	19.7.x	15.8.x	0.4.x	0.7.x	0.9.x
SNAM	11.0.x	10.7.x	10.8.x	14.0.x	13.3.x	13.4.x	-5.7.x	-5.6.x	-5.8.x
HERA	7.4.x	7.0.x	6.8.x	16.9.x	15.0.x	14.2.x	-3.0.x	-2.8.x	-2.6.x
A2A	6.6.x	6.5.x	6.2.x	12.7.x	12.0.x	10.7.x	-2.9.x	-2.9.x	-2.8.x
ERG	9.4.x	8.9.x	8.4.x	35.7.x	31.4.x	30.3.x	-3.0.x	-2.8.x	-2.5.x
TINEXTA	10.5.x	8.8.x	7.7.x	18.0.x	15.0.x	13.6.x	-1.5.x	-0.8.x	-0.3.x
SALCEF GROUP	6.0.x	5.1.x	4.6.x	12.9.x	11.7.x	11.0.x	0.8.x	1.1.x	1.4.x
SAES GETTERS	12.5.x	9.3.x	7.6.x	55.2.x	25.5.x	20.4.x	3.8.x	3.0.x	2.8.x
RENO DE MEDICI	4.7.x	3.9.x	3.5.x	13.2.x	9.9.x	9.3.x	-0.5.x	-0.1.x	0.2.x
LU-VE	8.6.x	6.1.x	5.2.x	20.7.x	11.7.x	9.4.x	-2.5.x	-1.4.x	-0.9.x

Source: EU Commission

Action on the Stocks

- STM (OUTPERFORM TP Eu25.80):** STMicroelectronics has been a signatory to the United Nations Global Compact since 2000, and has contributed to 10 of the 17 SDGs. The company is positively exposed to long-term environmental trends reshaping society: STM technologies and products are key enablers of safer, greener mobility, and advanced power & energy management across all types of systems and devices. Company solutions address four end markets: Automotive (~30% of turnover); Industrial (~30% of turnover), Personal Electronics (~25%) and Communications (~15%). The company has also set ambitious environmental targets for 2020, such as tripling the percentage of revenues generated by responsible products vs 2016; as of 2019, 62% of new manufactured products were classed as sustainable technology. Despite the short-term challenges due to Covid-19, we think that the current emergency is reinforcing the pre-existing secular growth trends in the sector. More importantly, we see STM products gaining traction, which suggests technological and commercial leadership. On top of that, we continue to appreciate the balanced exposure by end-market, and the strong relationships with industry leaders such as Apple,

Huawei, Samsung, Tesla, Bosch, Continental, Mobileye, HP and Ciena. We value the company through an 2021/22 EV/IC approach, which better reflects returns on capital, risks and growth, incorporating a 8.3% WACC and 3% terminal growth rate.

- **SNAM (OUTPERFORM, TP Eu4.90):** Looking at environmental protection, the investments announced in the company's business plan include targets to reduce methane emissions, with ongoing work to reduce overall emissions and maximise energy efficiency and the development of new businesses, such as bio-methane, CNG and SSLNG. Specifically, Snam also intends to investigate the potential of hydrogen as an energy storage solution to favour more efficient usage of intermittent renewable energy sources. The clean hydrogen theme could represent an interesting investment opportunity as it could be the missing energy transition link, greatly reducing the stranded assets risk for the existing network and providing new investment opportunities.
- **HERA (OUTPERFORM, TP Eu4.20):** the group has long been one of the most focused on sustainability matters. 70% of the growth projects in the 2023 business plan contribute to the UN's Sustainable Development Goals (SDG). Investments of over Eu955mn are planned in technological developments for smarter cities; for projects in areas such as energy efficiency, recovery and reuse of materials, and air quality; and for strengthening networks affected by climate change.
- **A2A (OUTPERFORM, TP Eu1.70).** The European Commission projects that applying ambitious circular economy measures in Europe could increase EU GDP by an additional 0.5% by 2030, creating around 700,000 new jobs. In particular, the focus is on the Waste sector and recycling. A2A's business plan is based on climate action, the circular economy and smart solutions. In the Waste segment, A2A aims to become a national leader in recycling, with a target of twelve new municipal solid waste treatment plants, nine of which have already been authorised. Despite the uncertainty related to the pandemic and the continuing macro headwinds in the form of weaker commodity prices, we believe A2A could benefit in the coming quarters from a return to 'more normalised' hydro conditions, very solid margins for thermal gas plants, and resilient figures at Networks and Waste. We confirm our positive view on the stock, currently trading at undemanding valuations (2020 EV/EBITDA 6.6x, P/E 12.8x) while offering an appealing dividend yield (6.4%).
- **ERG (OUTPERFORM, TP Eu21.00).** The recovery plan proposed by the EU Commission focuses on renewable energies and clean hydrogen in parallel, stating that both are needed for extreme decarbonisation. On renewables, rumours have hinted at a potential EU tendering scheme for renewable electricity projects amounting to 15 GW over 2 years, with a total capital investment of Eu25bn. Support for national schemes is planned, using EIB co-financing. In this context, we continue to see ERG as one of the most attractive 'pure plays' among European Renewables thanks to a solid pipeline of investment opportunities and a sustainable dividend yield of 3.6%. We expect more visibility on the planned repowering process of its Italian wind farms in the coming months, with a potential acceleration in the authorisation processes.
- **TINEXTA (BUY, TP Eu16.00)** The pandemic and its consequences for people's lives and the economy have once again highlighted the importance of digitalisation across all areas of business and society. In the long run, this is likely to trigger permanent structural changes in society and the economy: more teleworking, e-learning, e-commerce, e-government. Tinexta is exposed to these through its Digital Trust division (45% of Group revenues), which handles IT solutions for digital identity and the dematerialisation of processes according to applicable legislation (including the recent European eIDAS regulation), via products and services such as certified electronic mail, electronic archiving, digital signatures, electronic invoicing, and solutions for the secure and simplified transmission of legal and financial documents. In its recent Recovery Plan for Europe, the EU highlights the potential of developing a universally accepted e-ID - public electronic identity - to allow for simple, trusted and secure access to cross-border digital public services. In a similar vein, in its "Simplification Decree" the Italian government aims to expand public sector use of digital services through the existing public digital identity system (SPID), digital ID cards (CIE) and ApplO. Although we see no immediate positive impact on company numbers (Infocert basically offers SPID for free), we think the increased focus on issues such as the development of a digital identity infrastructure increases visibility on the Digital Trust business, which we foresee growing structurally at around 10% p.a. in the medium term. Our positive view on the stock is mainly based on expectations for: 1) a structural growth trend in the Digital Trust market; 2) cross-selling opportunities between different divisions and geographical areas; and 3) further accretive M&A deals to broaden the customer base and complete the product offering. Moreover, we think that a sound financial structure and solid cash generation are real advantages in times of uncertainty and will enable the company to avoid passing up potential acquisition opportunities arising on the market. The stock is still trading at attractive multiples: 15x P/E and 8.8x EV/EBITDA on 2021 figures, and offers a 8% FCF yield.
- **SALCEF (OUTPERFORM, TP Eu12.90):** The company is a national leader in rail infrastructure maintenance and is also expanding in Europe (growing subsidiary in Germany). Rail is poised to become a privileged green transportation mode for both passengers and freight thanks to its lower greenhouse gas footprint

compared to other forms of transport (railways only represented 0.5% of European greenhouse gas emissions in 2017 vs 72% from road, 14% from aviation, and 13% from maritime transportation, according to EEA data). Consequently, green investments from European funds for rail transport infrastructure upgrades are set to be substantial (€100bn per year, including a further €30bn per year for the core European rail TEN-T network). Salcef's core rail maintenance and construction business is set to benefit from the increased investments in rail infrastructure in the short term and from the potential rise in traffic in the long run.

- **SAES GETTERS (OUTPERFORM, TP Eu30.00):** Despite its modest current contribution to earnings, Packaging is a key strategic focus for SAES. In 2019, the company announced partnerships with Novamont (biomaterials) and Sacchital (converter) for the production of flexible packaging solutions that can be fully recycled or composted. Products (paper, mono-material plastics, biomaterials) use SAES's coating technology initially developed for OLED displays. In mid-June, the press reported that Colussi (Misura brand) had decided to adopt innovative packaging products based on this technology as part of a partnership also involving Novamont, IMA, Sacchital and TicinoPlast. Although this announcement has no material impact on 2020 estimates, it adds visibility on the reliability of the coating technology developed by SAES and we expect that it will boost its top-line growth in coming years. Taking the net cash position (Eu112mn) and treasury shares held by the company (Eu100mn at market price) into account, the stock trades below 6.0x EV/EBITDA FY21e, which in our view does not reflect the growth/cashflow profile of the group, and the defensive characteristic of SAES's business (half of EBIT is generated in the medical business, where both nitinol and the devices are subject to FDA approval). At target, we value SAES at 10x EV/EBITDA 2021e, which we think is supported by a SOP valuation (i.e. a 12.0x multiple in the medical business and a 8.0x multiple in the industrial business, each representing around half of the current business). This leaves the value creation opportunity in advanced packaging (we estimate sales to double by 2022) for free.
- **RENO DE MEDICI (OUTPERFORM, TP Eu1.00):** Reno De Medici is the second largest European player in white-lined chipboard (WLC), the production of Cartonboard from recycled fibers. WLC represents around 87% of the Group's installed capacity and is set to become even more important thanks to the exploitation of trends such as plastic substitution with cartonboard-based solutions. Studies are underway with other sector companies to develop new products that can substitute plastic in sectors such as Food and Pharma, which represent 70% of the company's end markets. Moreover, we highlight the fact that the company is actively pursuing the reduction of carbon and energy intensity, water usage and to minimise waste sent to landfill. In the last 3 years, the company has achieved a 25% decrease in Carbon Intensity (tCO₂e/ton), of which -7.5% in the last year, and 19% in energy intensity (MWh/ton), of which -7% in the last year. In the coming years a continuation of these trends is to be expected thanks to planned investments. We confirm our positive view on the stock as we believe that in a deteriorating economic scenario, the company's exposure to end-markets that present limited cyclicality (Food and Pharma) coupled with its solid financial structure (net debt/EBITDA <0.5x at YE20) are solid elements backing up our positive stance on the stock. In the past 3 years the management has proven its ability in reducing the cyclicality of the company and has developed a solid track-record in acquisitions, which we expect to continue in the near future (management just confirmed for the next 3 years). Valuation remains attractive, with the stock trading at 4.0x EV/EBITDA and 10x P/E on 2021 numbers.
- **LUVE (OUTPERFORM, TP Eu12.50):** LuVe is a leading European player in the design and manufacture of air cooling and heat exchange systems for the refrigeration and air conditioning markets. The main growth driver in these core markets is the growing focus on environmental sustainability issues. Natural refrigerant fluids that are gradually being introduced such as carbon dioxide, ammonia and propane represent a valid alternative to hydrofluorocarbons (HFC) and enable a significant reduction of the greenhouse gases associated with climate change. However, solutions using natural refrigerant fluids are characterised by certain limitations that must be managed carefully in order to ensure performance and safety during use. LuVe is among the few global players able to comply with the strictest regulation and constantly invests in R&D in order to find solutions capable of minimising environmental impact and noise emissions of finished products. We confirm our positive view on the stock as we believe that in a volatile economic scenario, the Group's core business is exposed to sectors (such as the food supply cold chain) that should suffer more limited impact, while also being related to green investment themes. The financial structure appears solid, with good flexibility on covenants. The valuation remains relatively attractive, with the stock trading at 6.2x EV/EBITDA and 11.8x P/E on 2021 numbers.