

ITALY EQUITY OPPORTUNITIES

This report examines the Italian equity markets, their structure, constituents and metrics over time. We show that the Italian equity markets now offer a compelling investment opportunity. There are 436 companies that are listed and trade on the Borsa Italiana in Italy (Table 1) offering a sizeable group of businesses for superior stock selection.

Table 1: Borsa Italiana Listing Details

	29 DEC 2017	31 AUG 2018	28 SEP 2018
MTA Domestic	237	235	235
of which STAR	73	75	73
MTA Foreign	4	3	3
of which STAR	1	1	1
MIV (Investment Companies and SPAC)	3	2	2
Global Equity Market	82	83	83
AIM Italia - MAC	95	114	113
Listed Companies Total	421	437	436
Warrant	44	60	59
MIV Closed End Funds	17	17	17
ETF	785	854	870
ETC\ETN	315	315	315
OICR Open	126	119	124
ETF Plus Total	1 226	1 288	1 309
Securitised Derivatives	9 420	9 373	9 181
Convertibles Bonds	19	18	18
Mot - Government Bonds	124	128	128
Mot - Bonds	207	183	183
Mot - Eurobonds and ABSs	1 022	1 066	1 065
MOT Total	1 353	1 377	1 376
Extramot	1 254	1 296	1 306
Fixed Income Total	2 607	2 673	2 682

Source: Borsa Italiana Monthly update September 2018

Italy has a deeply rooted equity culture and the Borsa Italiana, founded in 1808, has had a long history of services provided to the stock market and the Italian economy. Originally known as Borsa di commercio di Milano (Milan Stock Exchange), Borsa Italiana was under public ownership until 1998, when it was privatized. On 1 October 2007, Borsa Italiana was merged with the London Stock Exchange in an all-share takeover, thus becoming part of the London Stock Exchange Group. A subsidiary of Borsa Italiana, Monte Titoli SpA, was formed in 1978 and is the national centralized securities depository.

The Borsa Italiana has a diversified offering to meet different needs, MTA – the main market, STAR – requires a 35% free float and MIV – a market for investment vehicles. The companies listed on MTA and MIV are represented by the FTSE Italian index series which is reviewed on a quarterly basis to ensure that companies are always included in the index that can most appropriately represent them. The MTA companies can be included in indices according to their characteristics: the top 40 companies in terms of size and liquidity are included in the FTSE MIB index. The STAR companies, in addition to inclusion in the indices pertaining to the MTA, also have their own specially conceived index.

Trading and participation

The annual value traded on the Borsa Italiana in 2017 was USD 759 billion and the ratio of value traded to market capitalisation was 98% (Table 2), which is well below the value traded to market capitalisation ratios of US stock exchanges of 124%. Both the annual value of share trading as a percentage of GDP and as a percentage of market capitalisation for Italy have decreased since 2010.

Table 2: Annual value of share trading (USD Billion)

	Annual Value of Share Trading (USD Billion)											
	Absolute amount				As a percentage of GDP				As a percentage of Market Cap			
	2010	2015	2016	2017	2010	2015	2016	2017	2010	2015	2016	2017
Italy	666	875	657	759	31%	48%	35%	39%	124%	140%	119%	98%
United States	36,025	41,399	42,071	39,786	241%	228%	226%	205%	208%	165%	154%	124%
Germany	1,495	1,445	1,124	1,559	44%	43%	32%	42%	105%	84%	66%	69%
Japan	4,270	5,572	5,230	5,778	75%	127%	106%	119%	67%	111%	100%	128%

Source: Horizon Research, WFE, World Bank, IMF, Borsa Italiana

An analysis of the average Household financial portfolio reveals that household investors accounted for as much as 5.4 per cent of market participation in 2000. However, their participation has steadily declined with the stagnation of the economy post-crisis and listed stocks accounted for only 1.3 per cent household assets at the end of 2016 (Table 3 and Table 4).

Table 2a: Italian Market Capitalization past 10 years (in EUR Billion)

ITALY	Market capitalization of listed domestic companies (current US\$ Billion)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
In USD	1,073	522	656	535	431	482	615	587	623	553	772
In EUR	727	375	455	402	333	370	450	486	574	525	640

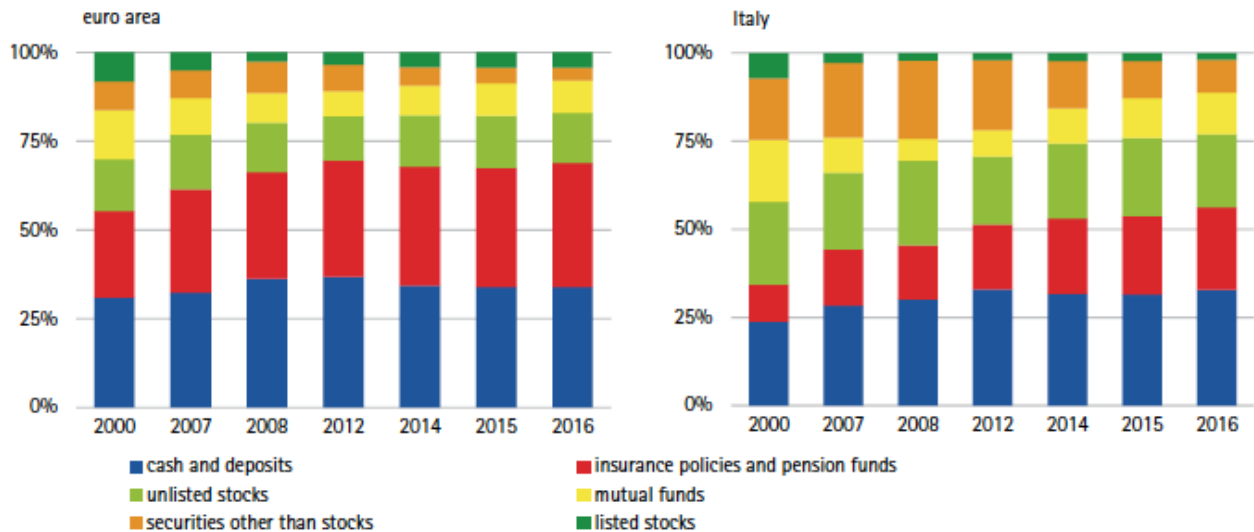
Source: Horizon Research, WFE, World Bank, IMF, Borsa Italiana

Table 3: Household Financial portfolio breakdown

	Total Asset	Currency & deposits	Bonds		Stocks		Investment funds	Pension funds & life pr
			Total	Issued by banks	Total	Listed		
Italy	€ bn	%	%	%	%	%	%	%
1995	1,809	38.0%	22.5%	1.9%	19.2%	2.8%	5.8%	9.3%
2000	3,058	22.8%	16.5%	6.3%	29.3%	5.4%	16.9%	10.5%
2005	3,897	23.4%	18.9%	7.0%	28.0%	2.4%	10.9%	14.8%
2010	3,691	30.4%	19.6%	10.0%	19.9%	1.9%	7.6%	18.2%
2014	4,070	30.6%	12.6%	6.1%	23.1%	1.6%	10.1%	19.7%
2016	4,185	31.8%	8.7%	3.3%	22.5%	1.3%	11.3%	21.8%
2017 Q3	4,291	31.2%	7.6%	2.5%	23.1%	1.6%	12.1%	22.4%
2017 Q3								
France	5,320	27.9%	1.2%	n.a.	21.6%	5.0%	5.7%	36.1%
Germany	5,959	39.1%	2.6%	n.a.	10.8%	5.6%	10.6%	30.3%
UK	7,449	24.2%	0.4%	n.a.	11.1%	4.0%	4.8%	54.9%
USA	66,792	13.0%	5.0%	n.a.	36.5%	n.a.	11.9%	31.5%

Source: The Italian Asset Management Market association

Table 4: Trends in Household Wealth and Saving 2017



Source: CONSOB

In contrast a study by industry body Unimpresa in 2015 found that more than half the value of Italy’s stock market was in foreign ownership. The value of foreign investments in listed companies rose to 279 billion euros (USD 300 billion) in June 2015, or 51.1 percent of the total, up from 44.3 percent a year earlier.

The Indices

The FTSE MIB index with an (4.4)% CAGR between 2007-2017 has under performed their peer indices over the past 10 years (Table 3).

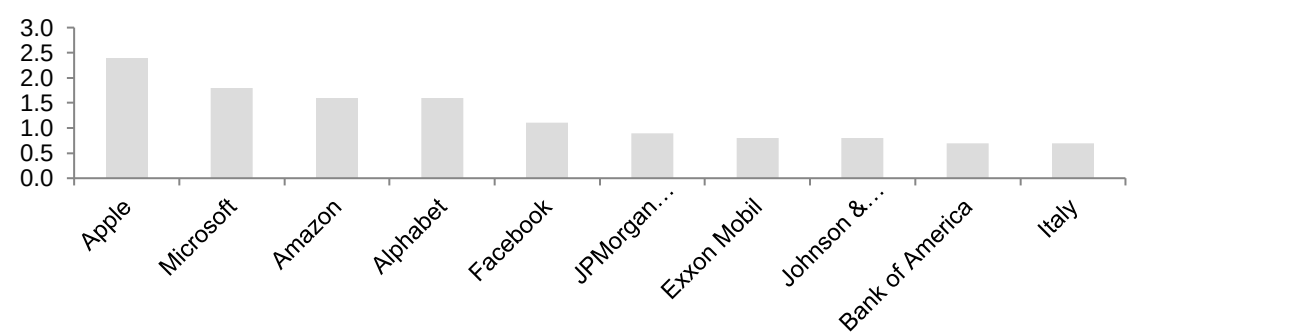
Table 5: Performance of Italian Vs. International Indices (2007-2017)

Index	Index level				CAGR			
	2007	2012	2017 10/01/2018		2007-12	2012-17	2007-17	CYtD
S&P 500	1,478.5	1,430.2	2,673.6	2,924.6	-0.7%	13.3%	6.1%	9.4%
Dax	8,067.3	7,636.2	12,917.6	12,339.0	-1.1%	11.1%	4.8%	-4.5%
Nikkei 225	15,307.8	9,737.6	22,764.9	24,245.8	-8.7%	18.5%	4.0%	6.5%
CAC 40	5,605.4	3,661.4	5,312.6	5,506.8	-8.2%	7.7%	-0.5%	3.7%
FTSE 100	6,434.1	5,925.4	7,687.8	7,495.7	-1.6%	5.3%	1.8%	-2.5%
FTSE MIB [1]	34,230.0	16,273.4	21,853.3	20,610.0	-13.8%	6.1%	-4.4%	-5.7%

[1] FTSE MIB data since June 2009. Prior to 2009 S&P MIB; data sourced from Google and Yahoo Finance

Nine single stocks hold a higher weighting in the iShares MSCI World ETF than all-Italian equities (Table 6).

Table 6: Share of holdings in the iShares MSCI World ETF



Source: Bloomberg, Data as of May 30 2018

There is a heavy concentration of market capitalization represented through the primary indices. The stocks that participate in the MIB Index represent over 79.2% (USD 488 billion) of all Borsa listed company’s market capitalization (Bloomberg covered Italian Equites) (Table 7).

Table 7: Market Capitalization of Primary Indices

BY MARKET CAPITALISATION	Number of Co's	Market Cap (USD MN)	Share of Total Market Cap	EV (USD MN)	Net Debt (USD MN)	ROE: 2017	FCF Yld: 2017	Dvd Yld: 2017	P/E: 2017	EV/ EBITDA: 2017	P/BV: 2017	PEG Ratio	Total Return: Y-5 (I)	Total Return: Y-1 (I)	EPS T12M
FTSE MIB	40	488,191	79.2%	1,131,708	643,517	12.5%	18.2%	3.3%	17.3	9.0	2.2	1.1	40.7%	13.0%	0.5
FTSE Italia Star	73	40,107	6.5%	44,570	5,022	18.5%	11.8%	1.8%	28.0	11.1	3.8	0.5	66.0%	43.0%	1.2
FTSE AIM Italia	110	7,403	1.2%	(46,170)	(50,557)	4.0%	0.8%	0.8%	51.0	16.4	3.3	-	3.5%	27.1%	(0.1)
FTSE Italia Brands	21	131,884	21.4%	148,704	16,820	17.1%	3.8%	0.8%	22.5	14.7	3.9	2.0	79.9%	15.2%	2.2
Bloomberg covered ITA equities	351	616,530	100.0%	1,328,622	716,286	12.6%	16.6%	3.1%	19.4	9.6	2.4	1.0	40.7%	18.7%	(0.1)
Top 10 Companies by M Cap	10	308,100	50.0%	684,278	376,178	11.3%	20.2%	3.3%	17.7	8.4	1.9	1.1	44.3%	8.5%	0.4
Top 25 Companies by M Cap	24	439,057	71.2%	961,137	522,080	12.4%	17.3%	3.3%	17.7	9.4	2.2	1.2	38.9%	13.3%	0.5
Top 50 Companies by M Cap	48	526,511	85.4%	1,159,069	632,559	12.5%	17.6%	3.2%	18.0	9.3	2.2	1.1	41.7%	15.2%	0.5
Top 100 Companies by M Cap	52	590,360	95.8%	1,333,403	744,208	12.9%	16.9%	3.1%	18.4	9.4	2.4	1.1	41.4%	17.9%	(0.1)
Top 200 Companies by M Cap	52	611,544	99.2%	1,370,447	762,058	12.7%	16.7%	3.1%	19.1	9.6	2.4	1.0	40.9%	18.6%	(0.1)
Top 115	54	597,242	96.9%	1,342,375	746,298	12.8%	16.8%	3.1%	18.4	9.4	2.4	1.1	41.2%	18.3%	(0.1)
Mid 115	52	16,625	2.7%	(19,302)	(33,490)	5.7%	11.3%	1.8%	48.1	18.1	2.1	-	26.8%	34.6%	0.1
Bottom 116	54	2,664	0.4%	5,549	3,478	-5.9%	18.6%	0.7%	64.3	12.0	3.6	-	15.7%	20.0%	(0.1)

Source: Bloomberg, Data as of October 1, 2018

The balance of shares not captured by the MIB index equates to approximately 311 companies, and result in opportunities for superior stock selection. Our efforts emphasize valuations with catalysts, and believe that a significant portion of small and mid-caps present opportunities for investment.

The Italian equity market quantity of traded companies offers investment diversification opportunities within the Italian market itself. The MIB Index also offers diversity of the market, with the MIB Index comprising companies across 8 of the 10 broad industry segments (Table 8).

Table 8: Market Capitalization of by Industry

BY INDUSTRY	BROAD MARKET		FTSE MIB		Market Cap of FTSE MIB securities as a % of the broad market
	Number of securities	Market Cap in USD MN	Number of securities	Market Cap in USD MN	
Basic Materials	4	1,186	0	0	0%
Communications	45	25,475	2	13,110	51%
Consumer, Cyclical	63	132,784	7	110,223	83%
Consumer, Non-cyclical	43	49,138	3	27,938	57%
Diversified	12	1,837	0	0	0%
Energy	19	69,137	2	61,781	89%
Financial	69	165,066	15	141,488	86%
Industrial	65	73,022	5	47,650	65%
Technology	19	15,912	1	13,107	82%
Utilities	12	82,973	5	72,894	88%

Source: Bloomberg, Data as of October 1, 2018

The Italian Economy - Comparative Economic indicators

While Italian GDP (at current USD) has decreased from USD 2,203 billion in 2007 to USD 1,935 billion in 2017, the total market capitalization to GDP ratio is below global levels leading to lower valuations in the Italian equity markets. Italian broad market capitalization of USD 530 billion in 2017 represents 27% of Italian GDP. This is below the long-term average trend and is lower than the recent peak 2007 of 49%. In comparison, the ratio of US, Germany, France and Japan market capitalization to GDP in 2017 are significantly higher at 166%, 62%, 106 and 128% (Table 9).

Table 9 – Market Capitalization and GDP

Country	Market capitalization of listed domestic companies (current US\$ Billion)			GDP (current US\$ Billion)			Market capitalization of listed domestic companies (% of GDP)		
	2007	2012	2017	2007	2012	2017	2007	2012	2017
Italy	1,073	482	772	2,203	2,073	1,935	49	23	40
Germany	2,105	1,486	2,262	3,440	3,544	3,677	61	42	62
France	2,740	1,808	2,749	2,657	2,684	2,583	103	67	106
Japan	4,331	3,479	6,223	4,515	6,203	4,872	96	56	128
United States	19,922	18,668	32,121	14,478	16,155	19,391	138	116	166

Source: Horizon Research, World Bank, Borsa Italiana

Table 10: GDP Per Capita

GDP Per Capita (Current USD)											
Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Italy	27,387	31,175	31,959	33,411	37,699	40,640	36,977	35,849	38,335	34,814	35,370
Germany	41,815	45,699	41,733	41,786	46,810	44,065	46,531	48,043	41,324	42,233	44,470
France	41,508	45,334	41,575	40,638	43,791	40,875	42,593	43,009	36,613	36,870	38,477
Japan	35,275	39,339	40,855	44,508	48,168	48,603	40,454	38,109	34,568	38,972	38,428
United States	48,062	48,401	47,002	48,375	49,794	51,451	52,782	54,697	56,444	57,589	59,532
United Kingdom	50,134	46,768	38,262	38,893	41,412	41,791	42,724	46,783	44,306	40,412	39,720

Source: Horizon Research, World Bank, Borsa Italiana

Graph 1: GDP Per Capita

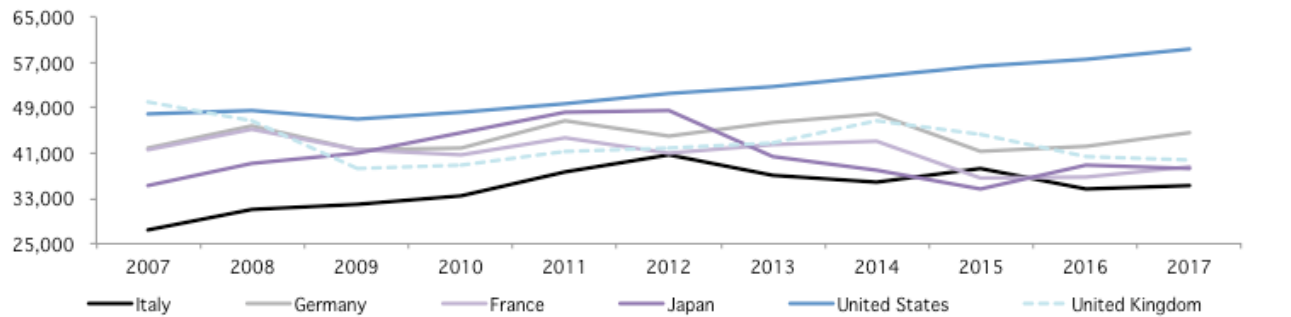


Table 11: Merchandise Trade as a percentage of GDP

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Italy	46	46	38	44	48	48	47	47	47	47	50
Germany	69	70	60	68	73	72	70	69	70	69	71
France	45	46	39	43	46	46	45	44	44	44	45
Japan	30	31	22	26	27	27	30	31	29	25	28
United States	22	23	18	22	24	24	23	23	21	20	NA
United Kingdom	35	39	37	41	45	44	44	40	38	39	42

NA- Data not available

Source: Horizon Research, World Bank

Graph 2: Merchandise Trade as a percentage of GDP

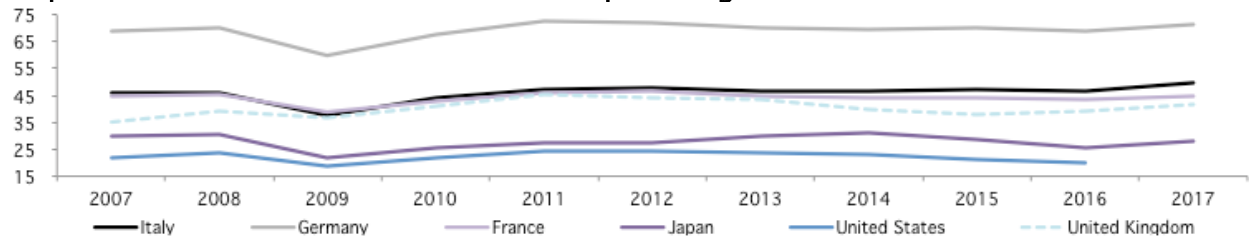


Table 12: Foreign direct investment, net (BoP, current US\$ Billion)

Foreign direct investment, net (BoP, current US\$ Billion)											
Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Italy	54	77	2	21	17	7	1	3	3	(4)	(13)
as a % of GDP	3.0	(0.4)	0.8	0.5	1.5	0.0	0.9	0.8	0.7	1.1	1.0
Germany	90	67	43	61	10	34	26	95	75	33	47
as a % of GDP	1.5	0.8	1.7	2.5	2.6	1.8	1.8	0.5	1.6	1.7	2.1
France	48	68	70	34	20	19	(14)	47	(2)	29	(1)
as a % of GDP	3.2	2.3	0.7	1.5	1.5	1.2	1.1	0.2	1.8	1.4	2.0
Japan	51	89	61	72	118	117	145	118	133	135	150
as a % of GDP	0.5	0.5	0.2	0.1	(0.0)	0.0	0.2	0.4	0.1	0.8	0.4
United States	177	2	152	86	173	127	105	101	(195)	(168)	76
as a % of GDP	2.3	2.3	1.1	1.7	1.7	1.5	1.7	1.4	2.8	2.6	1.8
United Kingdom	161	103	(63)	(12)	54	(35)	(8)	(173)	(115)	(213)	85
as a % of GDP	6.8	8.8	0.6	2.7	1.0	1.8	2.0	1.9	2.0	10.0	1.8

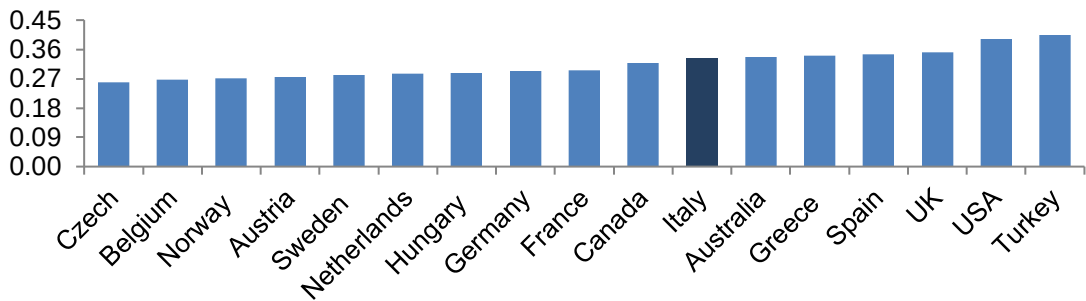
Source: Horizon Research, World Bank

Table 13: Portfolio equity, net inflows (BoP, current USD Billion)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Italy	(6.05)	(29.03)	20.91	3.82	6.05	20.85	17.44	26.68	12.90	(3.32)	17.15
Germany	76.96	(68.64)	20.83	4.76	(5.49)	(2.52)	15.30	2.68	19.92	(7.57)	(5.50)
France	(10.38)	(18.10)	66.98	(5.02)	8.34	37.08	34.37	10.03	11.71	23.70	7.44
Japan	45.45	(69.69)	12.43	40.33	5.64	34.94	169.75	32.97	11.27	(44.84)	16.63
United States	275.62	126.81	219.30	178.95	123.36	239.06	(62.64)	154.31	(187.31)	(141.08)	166.83
United Kingdom	(14.97)	94.77	37.30	(19.87)	(13.37)	12.73	56.15	28.27	79.35	(149.60)	73.72

Source: Horizon Research, World Bank

Graph 3: GINI Co efficient



Source: Horizon Research, World Bank, OECD

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