

## **Translation for convenience only !**

Value Column by Hans Peter Schupp

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*Hans Peter Schupp, member of the board of Fidecum AG and Portfoliomanager of the Contrarian Value Euroland Fund, comments in Renditewerk on the good outlook for Italian stocks.*

### **"Bella Italia!" - an El Dorado for Deep Value**

'Quite a few investors are currently rubbing their eyes being amazed: the leading index of the Milan Stock Exchange, FTSE MIB, has been one of the top performers worldwide since the beginning of the year! Italian shares? Leading the world? Yes! And what's more: the rise has been remarkably consistent so far. Since the inception of the index in 1998, Italian stocks have never shown such consistent upward movement. Over the last 6 months, the FTSE MIB has even risen by over 20 percent. What is behind this and what does it mean for investors?

#### **Meloni government surprises positively**

It all started with a pronounced fear which then turned out to be misplaced. When the right-wing populist Giorgia Meloni and her coalition of right-wing parties took over the government, there was great fear that Italy would break with the EU. She had propagated this over and over again during the election campaign. But since she has been in power, even Brussels has been surprised at how cooperative the new government has been. Meloni is even largely continuing the fiscal policy course of her predecessor Mario Draghi. Malicious tongues claim that this has a very pragmatic background: Meloni does not want to jeopardize the allocations from Brussels to which Italy is entitled from the European Union's Corona compensation pot. Rome is entitled to around 190 billion euros. It would rather not get into the ring with Brussels. Even the budget adopted shortly before the end of the year met the EU's deficit targets. Brussels breathes a sigh of relief. Italy and the EU are currently cozying up.

#### **Investors return to Italy**

But fears of another chaotic government had driven investors out of the country. This has caused share prices to fall further and further. In this way, Italy has become an El Dorado for deep value investors.

We have been overweight in Italy for years with our Contrarian Value Euroland fund. Our portfolio is invested there at 12.5 percent, while the weighting in the benchmark is just 6.5 percent. P/E ratios of well below 5 were found there in abundance. Examples? Companies like Eni or Telecom Italia are also well-known in this country. But Danieli, DeLonghi or Webuild? We have been invested here for years.

#### **Focus on second-line stocks**

Danieli equips steel companies with the latest technical equipment, operates a large model plant in its home country and also has a fat bank account in Luxembourg which, according to our calculations, covers the entire stock market value of the company. The self-developed technology can massively reduce carbon dioxide emissions in steel production. The order books are full to the brim - and because of the high cash position, investors pay practically nothing for their investment.

DeLonghi is one of the leading coffee machine manufacturers. Early on, we were already invested at single-digit prices. Then the price ran up to over 30 euros. We got out. But now that the price had plummeted, we reinvested again, because the company has by no means exhausted its potential market. And let's not forget: The replacement and service demand for coffee machines is high. This is a profitable business for DeLonghi, which is not dependent on the sale of individual machines.

And last but not least: Webuild. The Group has now risen to become Italy's largest construction company. Here, the circle between Brussels and Rome closes again, because the Meloni government wants to invest a large part of the EU corona funds in the country's infrastructure, some of which is in a state of disrepair. It needs urgent investment, for example in bridge construction or the modernization of waste disposal in many of the country's cities. This is where Webuild has now achieved a strong market position. In addition, Webuild is well positioned internationally, especially in the USA. The highest growth is expected there.

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