

ESG

UTILITIES, THE WIN-WIN CHOICE

The high-performing and sustainable sector is the post-US election favourite and is riding the push towards the energy transition. Enel, Iberdrola and ENGIE are in the spotlight

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Sustainability is at the centre of international policies and has also been at the heart of policy plans throughout the American elections. In this context, the utilities sector was already indicated as the potential winner of the presidential elections for the stars and stripes in every possible scenario, in addition to being an asset class on which to focus with the energy transition, even at this economic time that is difficult to interpret. This is because "a significant part of revenue from utilities is regulated, thereby offering security that is not found in other sectors", explains Rebecca Chesworth, Senior Equity Strategist at SPDR ETFs.

Plus the sector, "in addition to being defensive and of low volatility, offers protection to dividend payments, making the sector's high return attractive", adds Chesworth. This is in line with Banor Capital's thinking, which underlines how "financial statement stability and stable liquidity guarantee remuneration". Less than 20% of electricity and gas production in the United States currently comes from renewable sources. "Aggressive objectives could create capacity and cost-related problems for utilities, but some of these could be transferred to consumers in the form of higher costs", underlines Chesworth. "As a result, return and cash flow could reap the benefits. Obviously, the impact of the change in the American administration should be greater for electricity suppliers based in the United States, but the demand

for skills could also involve renewable segment leaders outside of the country".

From this perspective, Gianmarco Rania, Head of Equities at Banor, points out some of the most interesting names, including Spain's Iberdrola, France's ENGIE and Italy's Enel. "These companies, also known as climate champions, are some of the most exposed to the push towards major investment in the renewable energy sector and will benefit from the electrification trend of the economies".

According to Banor Capital, "All three have highly ambitious business plans, the foundations of which are based on a substantial increase in investments, especially in wind and solar".

The win-win choice involving the utilities sector can also be interpreted from other fronts. "Any return to the value strategies could also include this sector", argues Chesworth.

The coronavirus crisis has created imbalance in the markets, with stock market valuations no longer reflecting the quality of the fundamentals. In the months immediately following the sell-off which followed the announcement of the COVID-19 pandemic, when equity returned to the path of growth, investors mostly concentrated on high-quality growth securities, overlooking securities where there was real value, especially regulated utilities.



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CHART FTSE ITA All-Share Utilities Index at five years



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