AREA STUDI MEDIOBANCA

Industrial multinationals: from the pandemic to the war, with a focus on Russian and Ukrainian groups

The war is affecting different sectors on the stock market differently, with fashion, entertainment and automotive the hardest hit
Shares in Russian companies have plummeted

Total sales rose in 2021, to higher than their pre-Covid levels, except for means of transport. Impressive performances by new economy and high tech stocks in particular

Margins and investments also higher in 2021

Milan, 7 April 2022

The Mediobanca Research Area has analysed the annual financial statements of 215 global industrial multinationals, with aggregate revenues of €10,000bn in 2021, and an aggregate market capitalization as at end-March 2022 of €26,200bn.

The presentation is available for download from **www.areastudimediobanca.com.**

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Effects of the war on stock market value of multinationals: geographies and sectors

The global geopolitical scenario is affecting the global economy and all economic players, including the **large industrial multinationals,** whose **aggregate market capitalization** at **end-March 2022** was **down 2.1%** on prices at year-end 2021, after last year's acceleration (up 20.1% on 2020) which enabled pre-Covid levels to be comfortably recovered (23.0% higher than in 2019). In the first three months of 2022, the latter part of which reflects the impact of the war (which has differed according to sector), groups operating in the following sectors reported double-digit declines in their stock market performances: fashion (down 15.5%), media & entertainment (down 14.5%), and automotive (down 10.2%), followed by software and internet (down 8.3%), the digital payments industry (down 4.6%), food (down 3.4%) and aircraft manufacturers (down 2.0%). Beverages, iron and steel, electronics, pharmaceuticals and large-scale organization showed some resilience, with their market capitalization basically stable (from a reduction of 1.4% to an increase of 1.7%. The oil and gas industry giants bucked this trend, recording double-digit increases (up 20.5%), as did the telecoms (up 5.6%).

Again in 1Q 2022, by geographical macro-area and excluding the energy sector, only the South American groups recorded positive stock market performances (up 6.9%), while the North American companies suffered (down 3.7%), and even more so the European multinationals (down 6.0%) and the Asian companies (down 6.7%). Inevitably the large Russian groups were hit hardest, losing 35.4% in the first three months of the year. In Europe, only the UK multinationals performed well on the stock market, driven by the pharmaceutical companies (up 5.4%), with the German, French and Italian groups all posted reductions (of 9.2%, 9.7% and 11.5% respectively).

Multinationals' 2021 financial statements: comparison between sectors

Total sales posted by the largest global industrial multinationals were **up 20.6% on 2020**, and are now **15.0% higher than their pre-Covid levels.** Aircraft and automotive manufacturers are the only sectors still struggling (22.4% and 2.6% below their 2019 levels respectively), while new economy and high-tech companies continue to grow. Comparison with 2019 reveals the difference in performances between software and internet companies, which posted an increase of 50.1%, followed some way behind by the digital payments industry (up 27.2%), electronics (up 24.6%), and pharmaceutical companies (up 22.9%). The iron and steel multinationals also delivered impressive growth in revenues, of 20.9%, driven by the upturn in demand and the increase in prices. Meanwhile, below-average but still double-digit increases were reported by the food industry (up 11.8%) and large-scale distribution (up 11.0%), while more modest improvements were recorded by the following sectors: media and entertainment (up 6.6%), beverages (up 5.6%), fashion (up 5.4%), telecommunications (up 5.1%), and oil and gas (up 2.2%).

The multinationals' **Ebit margin (operating income to net sales)** recovered to **17.6%, compared with 15.8% in 2019 (up 1.8 p.p.).** The digital payments sector was the most profitable, recording the highest Ebit margin in 2021 (29.2%; down 5.0 p.p. on 2019), followed by the pharmaceutical companies (24.2%; up 1.6 p.p.) and the oil and gas giants (23.8%; up 4.7 p.p.). Above-average profitability levels were also recorded by the electronics industry (20.7%; up 4.3 p.p.), iron and steel (20.0%; up 14.7 p.p.), and the beverages sector (19.3%; down 2.5 p.p.). Despite the aircraft manufacturers' Ebit margin returning to positive territory in 2021, this was still the least profitable sector, at 1.8% (up 2.7 p.p. on 2019).

In 2021 **investments showed an average increase on 2019 of 10.1%**, with major progress reported by the software and internet companies (up 72.4%), followed, at considerable distance, by the electronics groups (up 38.9%), the food industry multinationals (up 31.3%), and the digital payments industry (up 29.3%). Double-digit reductions in investments were reported by the aircraft manufacturers (down 29.5%), the oil and gas giants (down 22.0%), the automotive industry (down 18.6%) and the fashion groups (down 14.7%), sectors which have had to postpone their projects still further to a more normalized scenario in the future, a prospect which is now in jeopardy once again because of the war.

As for the multinationals' **financial structure,** the data shows an improvement due to the increase in equity (up 11.8%), and to a lesser extent, the reduction in debt (down 1.0%). The net debt/equity ratio now stands at 76.4% (down 11.4 p.p. since year-end 2020, when it was 87.8%). In 2021 the automotive industry had the highest recourse to financial leverage (net debt/equity ratio 143.6%), followed by the beverage industry (119.4%) and large-scale distribution (103.6%). Conversely, the sectors with the most solid capital structures were electronics, software and internet, iron and steel, and oil and gas.

After a liquidity buffer was established in 2020, in the form of new borrowings to counter the uncertainties of the economic scenario, in 2021 liquid assets were down 2.4% on the previous year.

Focus on Russian and Ukrainian industrial multinationals: a wealth of natural resources

The large Russian and Ukrainian groups reflect the economies of their respective countries, which are mostly based on the wealth of their natural resources and agriculture. The top three positions in the Russian rankings are occupied by oil and gas giants: Lukoil, the largest privately-owned Russian oil company, Gazprom and Rosneft Oil, both of which are state-owned. A glance at the leading 22 Russian industrial groups with total sales of over €6bn in 2021, confirms which are the key sectors for the Russian economy: seven operate in iron and steel, five in oil and gas, three in telecommunications, two in mining and large-scale distribution, one in the chemical industry (fertilizers), one specializing in electronics and defence (state-owned), and e-retailer Wildberries (Russia's Amazon).

Among the smaller Russian groups, the following are worth noting: Yandex, the Russian search engine with total sales of €4.2bn in 2021, almost 55x below those of Alphabet (Google), AvtoVaz, the leading automotive manufacturer (68%-owned by French group Renault), and VK Company, which runs Russian internet community VKontakte, with total sales of €1.5bn, 70x lower than those of Meta Platforms (Facebook). Lastly, National Payment Card System, owned by the Russian central bank, manages the Russian domestic payment system MIR, with 95 million cards in circulation (30.6% of the total), a long way off the 3.6 billion cards issued by US group Visa and further still behind the 7 billion issued by Chinese group UnionPay.

The leading Ukrainian multinational, iron and steel group Metinvest, has a turnover of €16bn (far below the €103bn of the first-ranking Russian company Lukoil), and has production facilities in Ukraine, the United Kingdom, Bulgaria and Italy. The last two places among the top three Ukrainian companies are occupied by Naftogaz, the state-owned oil and gas company, and food group Kernel.

Media Relations
Tel. no.: (0039) 02-8829.914/766
media.relations@mediobanca.com