

# BREMBO

# UNDERPERFORM

Sector: Industrials

Price: Eu13.25 - Target: Eu11.90

## Five Smoking Guns Pointing to Merger with PIRC

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### Stock Rating

**Rating:** Unchanged

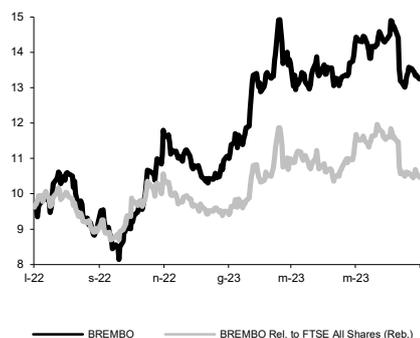
**Target Price (Eu):** Unchanged

	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

### Next Event

 2Q Results Out July 27<sup>th</sup>

### BREMBO - 12M Performance



### Stock Data

**Reuters code:** BRBI.MI

**Bloomberg code:** BRE IM

Performance	1M	3M	12M
Absolute	-7.8%	-0.6%	34.3%
Relative	-10.0%	-2.4%	8.9%
12M (H/L)		14.92/8.14	
3M Average Volume (th):		336.66	

### Shareholder Data

**No. of Ord shares (mn):** 323

**Total no. of shares (mn):** 325

**Mkt Cap Ord (Eu mn):** 4,285

**Total Mkt Cap (Eu mn):** 4,285

**Mkt Float - Ord (Eu mn):** 1,880

**Mkt Float (in %):** 43.9%

**Main Shareholder:**

Bombassei 53.5%

### Balance Sheet Data

**Book Value (Eu mn):** 2,157

**BVPS (Eu):** 6.53

**P/BV:** 2.0

**Net Financial Position (Eu mn):** -440

**Enterprise Value (Eu mn):** 4,478

■ **HQ shift to support transformational M&A.** At the EGM called for 27 July, BRE will propose the relocation of its registered office to Netherlands to provide shareholders a strengthened voting rights mechanism (1 additional vote for each year of uninterrupted ownership after the relocation, up to a maximum of 9). The move aims to provide greater flexibility in pursuing M&A opportunities, which may involve the issue of new shares. A special reward is provided to existing shareholders that already have double voting rights, meaning Mr. Bombassei would have ~79% of voting rights (ex-treasury shares) vs. 71.2% currently. The process should be completed by YE23.

■ **BRE's M&A strategy? All elements point to PIRC.** The 6% stake built in PIRC, the ambition to explore potential common areas of development with Camfin, the change in BRE's articles of association approved in 2021 to broaden BRE's corporate purpose (now including tyres, among other elements), and the cooling of any interest in pursuing a deal in aviation or electronics all clearly point to PIRC as the stand-out candidate for the transformational deal BRE is seeking. Relocation to Netherlands is key to Bombassei, as he would retain control even with a diluted stake. The change in corporate purpose precludes withdrawal rights in the event of a merger with PIRC.

■ **BRE+PIRC combination: a national champion, but we are sceptical on short-term value creation potential.** A BRE+PIRC merger would create a company with pro-forma 2024 revenues of €11.2bn, EBITDA of €2.2bn (20% margin), EBIT of €1.5bn (13% margin) and net debt of €2.0bn (1.0x net debt/EBITDA). The dual rationale could be to create a national auto supplier champion ready to act as industry consolidator, and to bring about broader product integration (Sensify + Cyber Tyre?). However, there will be an impact on current business. As things stand, we are sceptical about the potential value creation from such a deal: i) from a business perspective, as we believe potential synergies would be limited at this stage; ii) M&A firepower would improve, but merger terms will play a key role; iii) a holding discount could be applied.

■ **Merger terms: premium to PIRC as control goes to BRE.** Assuming the merger goes through, we think the key transaction condition is a premium of ~20% to PIRC shareholders (part in cash and part in paper given the size and nature of the deal) in exchange for Mr Bombassei taking control (thanks to increased voting rights). In this scenario, the agreement could foresee a special dividend of €1.0 per share for PIRC shareholders and an exchange ratio of 0.396 (PIRC's post-merger stake would be 55%, but Mr Bombassei would have 52% of voting rights). At the same time, Sinochem's stake would be reduced to ~20% (vs. 37% today) enabling an easier exit.

■ **UNDERPERFORM; target €11.9.** In this note, we analyse the potential consequences of BRE's proposal to relocate its registered office to Netherlands to provide shareholders a strengthened voting rights mechanism to be exploited in M&A. We found FIVE smoking guns clearly pointing to PIRC as the candidate for the transformational deal BRE is seeking. We are nevertheless sceptical on the short-term value creation potential of such a deal from business and valuation perspectives, and find the rationale relatively weak for minority shareholders. Last but not least, we expect any deal to offer a premium to PIRC shareholders, as they would basically cede control to BRE's main shareholder. We aren't including any discount to our TP for now, but reiterate our UNDERPERFORM rating on the back of a stock that is trading at pre-Covid levels, while: i) ROCE is well below and is not expected to return to pre-Covid levels; ii) outperformance of the industry is set to dwindle as the production mix normalises; iii) uncertainties around the PIRC situation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	2,778	3,629	3,956	4,114	4,279
EBITDA Adj (Eu mn)	503	625	682	715	748
Net Profit Adj (Eu mn)	215	293	300	307	320
EPS New Adj (Eu)	0.666	0.900	0.923	0.944	0.983
EPS Old Adj (Eu)	0.666	0.900	0.923	0.944	0.983
DPS (Eu)	0.270	0.280	0.287	0.294	0.306
EV/EBITDA Adj	7.5	5.8	6.6	6.1	5.6
EV/EBIT Adj	13.0	9.4	10.7	10.0	9.4
P/E Adj	19.9	14.7	14.4	14.0	13.5
Div. Yield	2.0%	2.1%	2.2%	2.2%	2.3%
Net Debt/EBITDA Adj	0.8	0.8	0.6	0.4	0.2