

IVECO Group

Sector: Industrials

OUTPERFORM

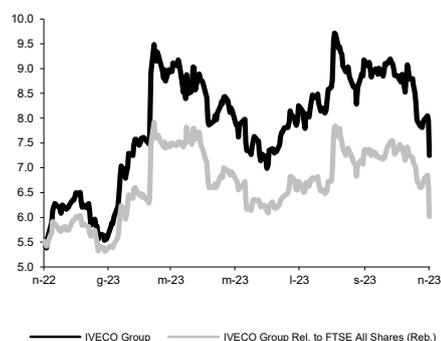
Price: Eu7.25 - Target: Eu10.10

FY23 Guidance Raised; Some Clouds on FY24, but Mix/Cost Improvements Structural
Gianluca Bertuzzo +39-02-77115.429
 gianluca.bertuzzo@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 10.70 to 10.10		
	2023E	2024E	2025E
Chg in Adj EPS	76.0%	13.0%	2.6%

IVECO Group - 12M Performance



Stock Data

Reuters code:	IVG.MI		
Bloomberg code:	IVG IM		
Performance	1M	3M	12M
Absolute	-18.2%	-17.4%	31.4%
Relative	-17.1%	-12.3%	10.9%
12M (H/L)	9.72/5.38		
3M Average Volume (th):	1,564.71		

Shareholder Data

No. of Ord shares (mn):	272
Total no. of shares (mn):	273
Mkt Cap Ord (Eu mn):	1,971
Total Mkt Cap (Eu mn):	1,971
Mkt Float - Ord (Eu mn):	1,439
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data

Book Value (Eu mn):	2,587
BVPS (Eu):	9.48
P/BV:	0.8
Net Financial Position (Eu mn):	1,985
Enterprise Value (Eu mn):	-7

■ **3Q23 results: operating results better, FCF worse.** IVG reported another strong quarter, with EBIT and profitability beating forecasts thanks to pricing, again, but also mix, while FCF was below expectations. Revenues came to €3.76bn, up +7% YoY, with pricing +10%* (vs. +7% exp.), vol&mix +8%* (vs. +6%) partly offset by more negative ForEx -11%* (vs. -5% exp.). Adj. EBIT was €213mn vs. our/cons. €200/193mn, up +111% YoY for a 5.7% margin vs. 2.9% in 3Q22, as net price far outpaced almost neutral cost inflation, ForEx and higher SG&A (GATE, IVG's pay-per-use platform for CVs) and R&D costs. Adj. net income was €76mn vs. our/cons. €86/74mn penalised by higher financial charges amid rising interest rates and hyperinflation in Argentina and Turkey. Ind. FCF was €-375mn vs. our/cons. €-203/-223mn, on larger-than-expected NWC absorption due to higher inventories of finished goods linked to bottlenecks at body builders (customisation of trucks). The situation is expected to return to normal between 4Q23 and 1Q24. (* estimated).

■ **2023 guidance: upgraded.** On the back of a strong quarter, a slightly improved industry outlook and the evolution of order books including no unusual levels of cancellations, IVG upgraded its FY23 guidance. It now envisages consolidated adj. EBIT of €870-900mn from €750-800mn, ~3% above consensus at the high end. 4Q is expected to normalise given the tough comparison (strong delivery push on M&HD in 4Q22).

■ **Looking at 2024: mix to offset market softness; consensus already factors in caution.** After the strong 2023 at ~+15%, we note Volvo said it expects a -10/-20% decline in the EU M&HD market in 2024, but firmly backed its pricing/commercial discipline. IVG echoed this view, saying that the intention is to maintain its EBIT margin. We view the volume drop as cyclical, but more importantly we believe IVG is well placed to offset it through product mix and a more balanced exposure between M&HD, LCVs, Buses and Specialty vehicles (~30/30/15/10% of IVG's sales, the rest is Powertrain and Financial Services, VOLV ~70% M&HD). Indeed, IVG is launching its refreshed MY24 line-up with better TCO (fuel consumption -8/-10% vs. previous models).

■ **Change in estimates.** We are significantly upgrading our FY23 forecast, as our last update came in March before the 1Q and 2Q guidance upgrades. On FY24, we expect a slight revenue drop (-2%) driven by lower volumes (-6%, based on a double-digit drop in M&HD and a single-digit fall in Buses, but stable LCVs and growing Specialty), partly offset by a positive mix (+3%, as the contribution will be more 3Q/4Q weighted due to a gradual transition to MY24). On price, we assume an almost neutral contribution, but a negative price-cost dynamic (more relevant) on a more balance supply/ demand situation. This leads us to estimate adj. EBIT of €844mn, -9% YoY for a 5.5% margin, still well above our previous forecast and consensus.

■ **OUTPERFORM; target to €10.1 on updated SOP.** IVG is well placed to deliver outstanding earnings growth and margin expansion in FY23, capitalising on a favourable pricing environment that far outstripped cost inflation. While cyclical clouds are looming over FY24, we appreciate the improved profitability profile and management's work to streamline costs and deliver an enhanced product line-up that offers better TCO and ultimately sustainable mix&price opportunities. Moreover, given the consolidated industry structure, we believe our FY24 price-to-cost assumptions are conservative enough to motivate our still positive view on the stock. TP to €10.1 from €10.7, as we are updating our SOTP model with higher estimates, but only making minor changes to our assumptions, still incorporating a discount vs. more profitable peers. At ~5x NTM P/E, a ~60% discount vs. the historical sector average and a ~35% discount to current peers multiples, we consider the valuation to be relatively attractive.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	12,651	14,357	15,728	15,352	15,804
EBITDA Adj (Eu mn)	1,094	1,203	1,627	1,543	1,559
Net Profit Adj (Eu mn)	116	213	394	359	419
EPS New Adj (Eu)	0.428	0.783	1.444	1.314	1.536
EPS Old Adj (Eu)	0.428	0.783	0.821	1.163	1.497
DPS (Eu)	0.000	0.000	0.313	0.315	0.371
EV/EBITDA Adj		nm	nm	nm	nm
EV/EBIT Adj		nm	nm	nm	nm
P/E Adj	16.9	9.3	5.0	5.5	4.7
Div. Yield	0.0%	0.0%	4.3%	4.4%	5.1%
Net Debt/EBITDA Adj	-1.0	-1.4	-1.2	-1.4	-1.7