Intermonte

Milan, 13 February 2023

Italian Equity Research – 4Q22 Results

IVECO Group

OUTPERFORM

Sector: Industrials

Price: Eu8.91 - **Target: 10.70**

Credibility of 2024 targets enhanced following an outstanding 2022

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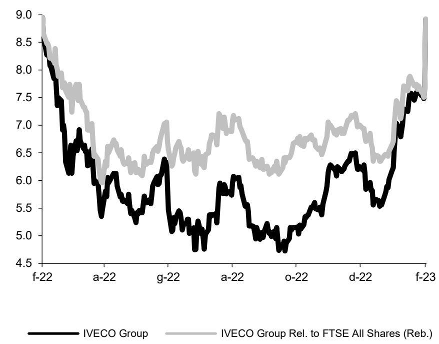
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 8.20 to 10.70
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-1.4%	3.4%	

Next Event

1Q23 Results Out May 11th 2023

IVECO Group - 12M Performance



Stock Data			
Reuters code:			IVG.MI
Bloomberg code:			IVG IM
Performance	**1M**	**3M**	**12M**
Absolute	43.1%	43.2%	-0.4%
Relative	35.8%	31.6%	0.0%
12M (H/L)			8.91/4.73
3M Average Volume (th):			1,604.35

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	272
Mkt Cap Ord (Eu mn):	2,425
Total Mkt Cap (Eu mn):	2,425
Mkt Float - Ord (Eu mn):	1,770
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data	
Book Value (Eu mn):	2,436
BVPS (Eu):	9.38
P/BV:	1.0
Net Financial Position (Eu mn):	-1,779
Enterprise Value (Eu mn):	1,104

- **4Q results widely beat estimates and guidance.** The beat was driven by a stronger volume-mix, primarily from Medium & Heavy Trucks (M&HT) and FPT, while pricing remained healthy (CSV pricing +10% vs our est. +7%). 4Q net Industrial sales grew +31% YoY to €4.36bn (vs Inte./Cons. €3.61bn/€3.59bn, guid. top end €3.46bn) with CSV/FPT +34%/+26% (vs +9%/+9% expected). Adj. Ind. EBIT margin stepped up +3.0ppYoY to 4.3%, above our/cons. 2.4%/2.7% amid stronger volume-mix. Cash generation was another highlight of 4Q, with Ind. FCF at €1.04bn (excl. one-off items), beating our €0.7bn forecast amid higher earnings and solid WC contribution. Net Ind. cash improved consequently to €1.7bn from €0.6bn/€1.1bn as of 3Q22/FY21 (vs guid. ">€1.2bn").
- **2023 guidance above consensus, still reflects prudence on low 2H23 visibility.** Truck and Bus markets are expected flattish in 2023 (EU flat/slightly up, LatAm slightly down). Nevertheless, top-line growth guidance of "+2% to +3%" looks cautious in our view. This prudence reflects limited visibility on 2H23 amid macro uncertainty and potential pricing pressure tracking cooling input costs. However, 2023 guidance calls for an increase in forecasts for both cashflow (implied Ind. FCF c.€0.3bn vs c.€0.1bn cons.) and EBIT (Group adj. EBIT at €550-590mn is 23% above cons. at mid-point, adj. Ind. EBIT at €460-500mn is 29% above). Order books are still solid (covering 30-35 weeks). M&HT activities are seen reaching breakeven in FY23. However, the consensus EPS uptick is likely to be more limited given financial expenses indicated at roughly c. €280mn.
- **2024 targets re-iterated, as expected.** IVG re-affirmed its aim of achieving the 2024 adj. Ind. EBIT margin target of "4.0% to 5.0%", as expected. We highlight that the strong FY22 results enhance our confidence on IVG's ability to get closer to its objectives. We note the FY23 guidance implies a step-up in margin growth in FY24: at mid-point, 0.7pp of additional adj. Ind. EBIT margin will be needed to reach the bottom end of FY24 target, vs +0.3pp guided for 2023. IVG counts on launching a new product line-up for model year 2024, vowing to keep focusing on price-cost to at least defend, if not extend, margins from 2H23, and to keep focusing on cost control to reach such targets. IVG will also continue focusing on cash generation, despite the plan's initial net Ind. cash target of €1.2-1.4bn by 2024 having already been (comfortably) surpassed.
- **Initiating shareholder remuneration.** IVG announced a share buyback plan for up to 10mn shares/€130mn over 18 months. Dividend policy will begin in the following years. IVG's plan to 2026 earmarked c.€450mn for shareholder remuneration for 2022-2026.
- **Change in estimates.** We materially raise our FY23 sales (+6%) and Ind. EBIT (+23%) forecasts to the top-end of guidance but make little change to our EPS estimates (14% above pre-results consensus) amid higher financial expenses.
- **OUTPERFORM rating confirmed, TP €10.7 (from €8.2).** The stock reacted positively (+16%) to an outstanding set of 4Q results. The path to FY24 targets looks increasingly plausible, although there is still work to do to deliver on margin enhancement targets, a challenging task given the potential change in pricing environment and low visibility from 2H23. The change in our SOTP-based TP reflects the higher net cash (+€1.7 per share) and our change in estimates (+€0.8). The value opportunity in IVG Industrial business' low relative valuation remains: IVG's Ind. EV/adj. EBIT multiple for '23/'24 is 1.4x/1.2x, a c.75% discount to peers that we deem excessive (our TP reflects a 60% discount).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	12,651	14,357	14,784	15,399	16,117
EBITDA Adj (Eu mn)	1,094	1,203	1,365	1,493	1,621
Net Profit Adj (Eu mn)	116	213	223	316	407
EPS New Adj (Eu)	0.428	0.783	0.821	1.163	1.497
EPS Old Adj (Eu)	0.428	0.630	0.832	1.125	
DPS (Eu)	0.000	0.000	0.246	0.349	0.449
EV/EBITDA Adj		0.5	0.8	0.5	0.3
EV/EBIT Adj		1.4	2.2	1.4	0.7
P/E Adj	20.8	11.4	10.9	7.7	6.0
Div. Yield	0.0%	0.0%	2.8%	3.9%	5.0%
Net Debt/EBITDA Adj	1.2	1.7	1.3	1.0	0.7