Milan, 15 March 2024

Italian Equity Research – Company Update

IVECO Group

OUTPERFORM

Sector: Industrials

Price: Eu13.56 - **Target: Eu17.70**

Pedal To The Metal

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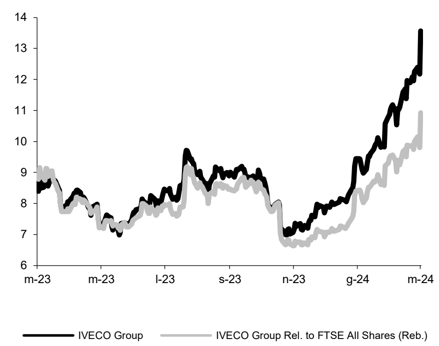
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 14.70 to 17.70
	2024E	**2025E**	**2026E**
Chg in Adj EPS	4.1%	11.0%	15.5%

Next Event
1Q24 Results Out 10th of May

IVECO Group - 12M Performance



Stock Data			
Reuters code:			IVG.MI
Bloomberg code:			IVG IM
Performance	**1M**	**3M**	**12M**
Absolute	23.0%	73.9%	53.9%
Relative	15.7%	63.0%	29.9%
12M (H/L)			13.56/6.98
3M Average Volume (th):			2,111.61

Shareholder Data	
No. of Ord shares (mn):	270
Total no. of shares (mn):	270
Mkt Cap Ord (Eu mn):	3,661
Total Mkt Cap (Eu mn):	3,661
Mkt Float - Ord (Eu mn):	2,673
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data	
Book Value (Eu mn):	2,672
BVPS (Eu):	9.90
P/BV:	1.4
Net Financial Position (Eu mn):	2,213
Enterprise Value (Eu mn):	1,449

- **Financial targets: updated FY26 better than forecast, new FY28 figures.** IVG presented its industrial plan, not only updating FY26 targets, but also introducing FY28 figures. In brief in FY26/28, IVG targets industrial revenue of ~€17/19bn (CAGR of +2/4%), group adj. EBIT of ~€1.2/1.6bn (±€0.1bn, CAGR +8/19%, ind. margins of 6.5/7.5%, ±0.5pp), adj. EPS of ~€2.4/>3.0 (CAGR of +25/35%) and cumulative 2024-28 industrial FCF of ~€3bn (average of ~€0.6bn per year). These targets represent a material upgrade to those disclosed in FY21 and sit well ahead of our estimates/ consensus, by 19/10% for 2026.
- **What surprised us? Powertrain and scope for efficiency improvements.** For the first time, IVG provided granular disclosure and targets on its five business units, namely Trucks (~64% of total, incl. LCVs and M&HD trucks), Bus (~14%), Defence (~6%), Powertrain (FPT, ~14% net of elim.) and Financial Services (~2%). Looking at the breakdown by business unit, two elements surprised us:
  - **Powertrain.** FPT is targeting net revenues of €2.6bn in 2026 for a ~6% CAGR (vs. our €2.0bn, -2%) and adj. EBIT of €0.2bn (vs. our €0bn) capturing shifts in make-vs-buy by OEMs, growth in alternative fuel engines, expanding parts & serv. and efficiencies;
  - **ii) Efficiency improvements in CSV.** The overall growth in the Commercial and Special Vehicle units is essentially in line with forecast (+2% ex-Magirus vs. our +1.5%) with growth in Bus (+8%), Defence (+4%) and Trucks (+1%). However, we are impressed by the leeway for efficiency improvements in procurement, manufacturing and quality, leading to margins of 6.5% in 2026 vs. 5.5% in 2023.
- **Magirus: transfer of ownership to Mutares.** By Jan-25, IVG agreed to transfer ownership of Magirus, its firefighting business with revenues of €0.3bn and adj. EBIT loss of €-35mn (2%/4% of group), to Mutares (MUX-DE), a listed PE company. The press release is short of details besides the €-115mn one-off impact, but to the best of our knowledge full ownership was transferred and IVG will have a cash-out, but not a material one. Overall, we appreciate the deal, as it will improve earnings and margin profile (0.3pp).
- **Other items: upside to the plan; no change to capital allocation; working to smooth FCF seasonality.** Despite the growth embedded in the plan, management stressed that it has upside stemming from stronger market growth, less adverse ForEx, conservative cost inflation assumptions and stable interest rates vs. 2023. No disruptive information was added on capital allocation (dividend policy, buyback to serve LTI and selective M&A confirmed). Last but not least, management is working to smooth FCF generation throughout the year, but this won't come in 2024.
- **Change in estimates.** We are raising our forecast by +10% on average, reflecting the deconsolidation of Magirus and stronger growth and margins for FPT.
- **OUTPERFORM confirmed; target to €17.7.** IVG presented a solid industrial plan showing targets that support a double-digit estimate increase and improved margin profile. While our three catalysts essentially played out (positive 2023 results, CMD targets and Magirus disposal) powering +66% performance YTD, we confirm our positive view on the stock. We continue to appreciate the enhanced profitability profile amid management's work to streamline costs and improve the product line-up, offering sustainable mix & price opportunities. This comes at an attractive valuation of 8.4/6.7x NTMA/STMA P/E, or a 25% to 32% discount to current and historical sector averages. TP to €17.7 from €14.7 on the back of higher multiples that reflect better profitability for CSV and a sector re-rating for Defence.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	14,357	16,213	15,587	16,279	16,940
EBITDA Adj (Eu mn)	1,203	1,648	1,758	1,874	1,973
Net Profit Adj (Eu mn)	213	336	417	534	599
EPS New Adj (Eu)	0.783	1.229	1.543	1.979	2.218
EPS Old Adj (Eu)	0.783	1.229	1.482	1.783	1.920
DPS (Eu)	0.000	0.220	0.309	0.482	0.541
EV/EBITDA Adj	nm	0.2	0.8	0.6	0.3
EV/EBIT Adj	nm	0.4	1.5	1.0	nm
P/E Adj	17.3	11.0	8.8	6.9	6.1
Div. Yield	0.0%	1.6%	2.3%	3.6%	4.0%
Net Debt/EBITDA Adj	-1.4	-1.1	-1.3	-1.4	-1.5

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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