Milan, 15 July 2024

Italian Equity Research – 2Q24 Preview

IVECO Group

OUTPERFORM

Sector: Industrials

Price: Eu11.45 - **Target: Eu17.30**

Reasons to Remain Positive Intact

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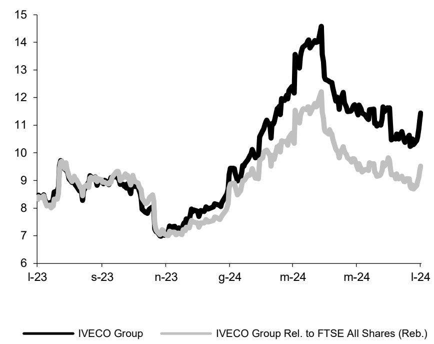
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 17.70 to 17.30
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-3.6%	-4.4%	-5.3%

Next Event

2Q24 Results Out 25th of July

IVECO Group - 12M Performance



Stock Data			
Reuters code:			IVG.MI
Bloomberg code:			IVG IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.6%	-9.6%	37.5%
Relative	-2.4%	-12.2%	17.1%
12M (H/L)			14.58/6.98
3M Average Volume (th):			1,768.54

Shareholder Data	
No. of Ord shares (mn):	270
Total no. of shares (mn):	270
Mkt Cap Ord (Eu mn):	3,090
Total Mkt Cap (Eu mn):	3,090
Mkt Float - Ord (Eu mn):	2,256
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data	
Book Value (Eu mn):	2,382
BVPS (Eu):	8.82
P/BV:	1.3
Net Financial Position (Eu mn):	2,042
Enterprise Value (Eu mn):	1,048

- **2Q24 preview: quarter affected by tough comparison and model changeover.** After a strong 1Q24, we expect a 2Q24 featuring continuing solid profitability, albeit with a softer evolution due to an exceptionally strong 2Q23, and uninspiring FCF generation due to some delays with production of new MY24 models. In particular, in 2Q23 IVG implemented a round of price increases, and volumes benefitted from the easing of supply bottlenecks, enabling the recovery of volumes delayed from 1Q. In brief: we forecast revenues of €3.95bn, -4% YoY, with pricing up +2%, vol&mix -4%, and FX -3%. Adj. EBIT is expected at €282mn, -9% YoY, with a margin of 7.1% (7.5% in 2Q23/6.9% in 1Q24), as cost deflation and positive pricing are expected to be outweighed by negative vol&mix, SG&A, R&D, and FX headwinds. FCF is envisaged at €43mn (vs €84mn in 2Q23) on some inventory build-up due to the aforementioned issues with production of new models.
- **2024 guidance not at risk.** Despite some delays in the production of new models (relatively normal between model changeover and in the process of being resolved), we do not expect guidance to be at risk. Indeed, we believe the caution surrounding pricing evolution in 2H embedded by management in the guidance offers a large enough buffer to mitigate these delays in a context of pricing appearing to hold up and peers continuing to guide for discipline. We note that our FY24 estimate assumes a -3% YoY revenue reduction driven by -17% and -4% decreases respectively at M&H trucks and powertrains (37%/11% of revenues), partly offset by +8% at LCVs (33% of total), +11% at Defence (6% of total) and +1% at Bus (14% of total). Our adj. EBIT now stands at €967mn vs guidance of €920/970mn and consensus on €971mn, with cost deflation and marginally positive pricing offsetting negative vol&mix, FX, R&D, and SG&A headwinds.
- **Change in estimates.** The aforementioned delays to production of new MY24 models drive our lower forecast down -4% at EPS level while net cash is slightly more impacted by higher NWC.
- **OUTPERFORM, TP €17.3.** Despite some delays in the production of new models, we continue to support the IVG equity story built around an improving profitability profile thanks to product mix (to be fully unlocked from next year), and management's work on streamlining costs. Besides the confirmation of guidance and a relatively solid set of 1H24 results, we expect improved comments around order intake and a solid presentation by the new CEO (the two reasons, in our view, for the recent weak performance, on top of some profit-taking after the strong January-April performance). We note that Olof Persson (60) was CEO of industry-leader Volvo Group between 2011 and 2015 and has been a non-executive director of IVG since 2022. We slightly trim our TP due to lower estimates but confirm our OUTPERFORM rating. The stock trades at 6.8/5.7x PE NTMA/STMA vs peers on 9.0/8.2x (-27% discount) and a 10Y industry average of 11.5/10.3x (43% discount).

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	14,124	15,978	15,437	16,043	16,697
EBITDA Adj (Eu mn)	1,203	1,648	1,757	1,873	1,972
Net Profit Adj (Eu mn)	-20	367	402	511	567
EPS New Adj (Eu)	-0.074	1.342	1.487	1.891	2.099
EPS Old Adj (Eu)	0.783	1.229	1.543	1.979	2.218
DPS (Eu)	0.000	0.220	0.170	0.454	0.512
EV/EBITDA Adj	nm	0.2	0.6	0.3	0.1
EV/EBIT Adj	nm	0.4	1.1	0.6	0.2
P/E Adj	nm	8.5	7.7	6.1	5.5
Div. Yield	0.0%	1.9%	1.5%	4.0%	4.5%
Net Debt/EBITDA Adj	-1.4	-1.1	-1.2	-1.3	-1.4

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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.

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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.

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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:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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

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Emittente	%	Long/Short

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