Milan, 16 January 2024

Italian Equity Research – Company Update

IVECO Group

OUTPERFORM

Sector: Industrials

Price: Eu9.44 - **Target: Eu12.50**

Positive YE results, CMD and Magirus the Three Key Catalysts

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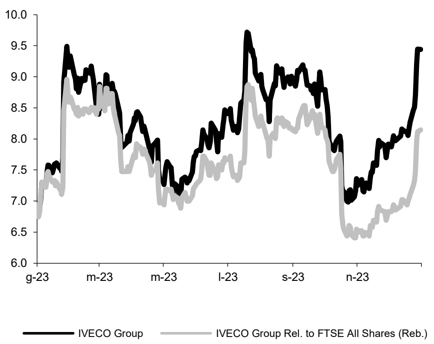
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 10.10 to 12.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-0.4%	5.5%	10.5%

Next Event

Results Out 9th of February

IVECO Group - 12M Performance



Stock Data			
Reuters code:			IVG.MI
Bloomberg code:			IVG IM
Performance	**1M**	**3M**	**12M**
Absolute	19.2%	7.4%	34.2%
Relative	19.3%	-0.5%	18.0%
12M (H/L)			9.72/6.79
3M Average Volume (th):			2,260.48

Shareholder Data	
No. of Ord shares (mn):	272
Total no. of shares (mn):	270
Mkt Cap Ord (Eu mn):	2,568
Total Mkt Cap (Eu mn):	2,568
Mkt Float - Ord (Eu mn):	1,875
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data	
Book Value (Eu mn):	2,819
BVPS (Eu):	10.44
P/BV:	0.9
Net Financial Position (Eu mn):	2,192
Enterprise Value (Eu mn):	357

- **4Q23: a positive quarter despite ForEx headwinds.** We expect 4Q to be another positive quarter thanks to strong pricing, despite adverse ForEx and a tough comparison. We forecast revenues of €4.42bn (+3% YoY) and adj. EBIT of €245mn (+19% YoY, 5.5% margin), bringing FY23E adj. EBIT to €921mn, above consensus of €875mn and guidance of €870-900mn. FCF is seen at €1.2/0.4bn in 4Q/FY23, with 4Q similar to last year thanks to the seasonal inventory swing and easing bottlenecks at body builders. Net cash is seen at €1.91bn including the strong devaluation of the Argentine peso (~€50mn impact).
- **A softer M&HD market in 2024, offset by mix and a more balanced exposure than peers.** After the strong 2023, the EU M&HD market should soften in 2024 to the tune of -10%/-20%, but we highlight industry leaders are firmly backing commercial (i.e. pricing) discipline. We view the potential volume drop as cyclical, but more importantly we believe IVG is well placed to offset it through product mix, enabled by its newly-launched line-up with better TCO, and a more balanced exposure between M&HD, LCVs, Buses and Specialty Vehicles vs. peers (~30%, 30%, 15% and 10% of sales, Powertrain and Fin. Serv. at 13 and 2%). We expect revenues of €15.7bn (-1% YoY, o/w -2% ForEx) and adj. EBIT of €866mn (-6% YoY, a 5.5% margin vs 5.8% in FY23E), well above cons. at €794mn.
- **Magirus: seeking an equity partnership; any transaction valuing Magirus >€0mn would be beneficial.** IVG said it is working to find an equity partner for Magirus, its firefighting business (revenues of ~€300mn, but EBIT of -€30-40mn) in order to bring margins into the black by increasing the scale of the business. Management expects a deal by mid-2024, which we believe view could involve the creation of a 50/50 JV in which the partners share synergies. A transaction would be positive for IVG as Magirus's competitive profile would be reinforced, and any deal valuing Magirus above zero would be accretive to our SOP (by ~€0.8 per share if Magirus were valued at ~€70mn, or half the EV/SALES multiple of Rosenbauer, its closest peer by business and size).
- **CMD: margin guidance upgrade in sight.** At the CMD scheduled for 14 March, we believe IVG will raise its short and medium-term margin guidance, indicating the previous top ends as the new floor and base case respectively. We expect the upgrades to come in light of the fact that compared to the old plan IVG can still exploit the mix and services levers, both of which we anticipate being liberated by the new product line-up. In FY24 we forecast guidance for a >5% margin, as IVG has reached the old 4-5% target one year ahead of schedule thanks to solid execution in a favourable pricing environment, partly offset by higher cost inflation. In that sense, we highlight that our 4.9% estimates, imbued with some caution on the macro side, is well above consensus at 4.4%.
- **OUTPERFORM confirmed; target to €12.5.** We confirm our rating on the stock, lifting our TP to €12.5 from €10.1 in light of higher estimates and a refreshed SOP. IVG is well placed to deliver outstanding earnings growth and margin expansion in FY23, capitalising on a favourable pricing environment that is outstripping 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. Positive YE results, the potential transaction involving Magirus and the upgrade to short and medium-term margin guidance are the catalysts we expect to see in the coming months. At ~6.9/5.7x NTMA/STMA P/E, the stock is trading at discounts of 40-45% to the historical sector average and 35-40% to peers: we consider the valuation to be relatively attractive.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	12,651	14,357	15,760	15,673	16,352
EBITDA Adj (Eu mn)	1,094	1,203	1,625	1,568	1,618
Net Profit Adj (Eu mn)	116	213	393	374	458
EPS New Adj (Eu)	0.428	0.783	1.439	1.386	1.697
EPS Old Adj (Eu)	0.428	0.783	1.444	1.314	1.536
DPS (Eu)	0.000	0.000	0.311	0.333	0.411
EV/EBITDA Adj		nm	0.2	0.2	nm
EV/EBIT Adj		nm	0.3	0.4	nm
P/E Adj	22.1	12.1	6.6	6.8	5.6
Div. Yield	0.0%	0.0%	3.3%	3.5%	4.4%
Net Debt/EBITDA Adj	-1.0	-1.4	-1.2	-1.4	-1.6

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