IVECO Group

OUTPERFORM

Sector: Industrials

Price: Eu10.06 - **Target: Eu15.20**

Some Issues to Solve, but Still a Lot of Value

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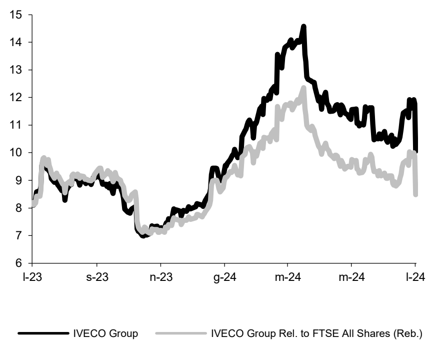
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 17.30 to 15.20
	2024E	**2025E**	**2026E**
Chg in Adj EPS	4.7%	1.5%	1.6%

IVECO Group - 12M Performance



Stock Data			
Reuters code:			IVG.MI
Bloomberg code:			IVG IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.6%	-15.8%	22.6%
Relative	-8.4%	-16.6%	3.9%
12M (H/L)			14.58/6.98
3M Average Volume (th):			2,115.95

Shareholder Data	
No. of Ord shares (mn):	273
Total no. of shares (mn):	273
Mkt Cap Ord (Eu mn):	2,746
Total Mkt Cap (Eu mn):	2,746
Mkt Float - Ord (Eu mn):	2,005
Mkt Float (in %):	73.0%
Main Shareholder:	
EXOR NV	27.0%

Balance Sheet Data	
Book Value (Eu mn):	2,370
BVPS (Eu):	8.68
P/BV:	1.2
Net Financial Position (Eu mn):	1,988
Enterprise Value (Eu mn):	758

- **2Q24 results: P&L better than feared, FCF weak on issues with MY24 production.** In a quarter featuring a tough comparison base, as supply bottlenecks eased in 2Q23, IVG's results were slightly better than feared thanks to stronger pricing, and Bus and Defence volumes, with lower figures for Trucks. On the other hand, FCF was negative at €-98mn (our est./cons. €43/38mn) as issues with the production of MY24 vehicles were more serious than expected. In detail, revenues came in at €3.9bn, -5% YoY, price +4%, ForEx -4%, vol&mix -6%; Adj. EBIT was €295mn (our est./cons. €282/283mn), -5% YoY, a 7.5% margin, supported by pricing, less adverse ForEx and SG&A, the contribution from production costs and vol&mix was weaker; adj. EPS was €0.63 (our est./cons. €0.44/0.46), +3% YoY, benefitting from lower net fin. exp. and tax rate.
- **2024 guidance confirmed.** In light of a relatively solid 1H with revenues/EBIT at -3%/+9 YoY, IVG confirmed 2024 guidance for revenues/EBIT at -4%/-2.5% at the mid-point (±2.5pp). Guidance clearly continues to embed a prudent view on 2H (mostly 4Q) pertaining to pricing and volume trends in the M&H Truck segment (35% of total). Momentum in the Bus and Defence divisions (14%/6% of total) seems positive, while refreshed MY24 LCVs will mitigate the slowdown in M&H in Europe. On FCF, the issues around the production of MY24 vehicles are "unlocked", leading management to expect a resumption of cash generation in 2H.
- **Order intake still weak.** The order backlogs for LCVs and M&H trucks shortened during the quarter to 2.9/2.2 months vs. 4.0/3.3 at the end of 1Q, reflecting a weak order intake with a book-to-bill that didn't improve, at 0.64/0.69x vs. 0.68/0.76x. Nevertheless, management continues to expect orders to gain momentum in 2H on the back of: i) excellent feedback from clients; ii) high levels of marketing activity; iii) improved vehicle TCOs and functionality compared to MY22. We highlight that in our model mix improvements are key to achieving FY24 guidance and FY25/26 growth estimates.
- **What is included in our estimates?** Our FY estimates for revenues of €15.2bn and EBIT of €945mn, now in line with the guidance mid-point, now imply for 2H: i) vol&mix down -5% (1H: -4%), as volumes are seen down by -6% (1H: -8%) on a slower drop in M&H and a mix supported by the Bus and Defence divisions as well as new MY24 vehicles; ii) prices -1% (1H: +3.5%) to reflect some pressure; iii) a -2% ForEx headwind; iv) a -1% drop in COGS/Unit (-3% in 1H); v) slight headwinds from R&D and SG&A. Our EPS forecast changes to reflect adjustments to net financial charges while we are trimming adj. EBIT.
- **OUTPERFORM; target €15.2.** We attribute yesterday's weak stock performance to a combination of factors: i) negative read-across from peer PCAR, which pointed to "some pricing pressure in Europe"; ii) weak order intake, with Trucks book-to-bill at 0.66x vs. 0.70x in 1Q; iii) negative FCF due to NWC build-up on production issues with new MY24 models. While these elements are clearly not positive, we highlight that negative pricing was already assumed in IVG's guidance, industry leader VOLV is applying commercial discipline (as is PCAR) and issues with the production of MY24 have been "unlocked". We expect progress on these elements, which we believe will be key for the stock to perform in 2H. In light of the upside, we confirm our rating on the stock as we appreciate the enhanced profitability profile amid management's work to streamline costs and improve the product line-up, offering sustainable mix&price opportunities. Our TP goes to €15.2 from €17.7, mainly after updating our use of factoring assumption and making some changes to the divisional breakdown. The stock is trading at 5.8/5.0x P/E NTMA/STMA, a -35%/-50% discount vs. peers and the historical industry average.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	14,124	15,978	15,251	15,934	16,643
EBITDA Adj (Eu mn)	1,232	1,679	1,728	1,848	1,958
Net Profit Adj (Eu mn)	-20	367	425	524	582
EPS New Adj (Eu)	-0.074	1.342	1.557	1.919	2.132
EPS Old Adj (Eu)	-0.074	1.342	1.487	1.891	2.099
DPS (Eu)	0.000	0.220	0.190	0.462	0.520
EV/EBITDA Adj	nm	0.2	0.4	0.2	nm
EV/EBIT Adj	nm	0.4	0.8	0.3	nm
P/E Adj	nm	7.5	6.5	5.2	4.7
Div. Yield	0.0%	2.2%	1.9%	4.6%	5.2%
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.

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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 June 2024 Intermonte’s Research Department covered 116 companies. Intermonte’s distribution of stock ratings is as follows:

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

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 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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