Milan, 01 March 2024

Italian Equity Research – 4Q23 Preview

PIRELLI & C

NEUTRAL

Sector: Industrials

Price: Eu5.45 - **Target: Eu5.80**

Scope for Small Surprise Possible, but Not Enough to Change View

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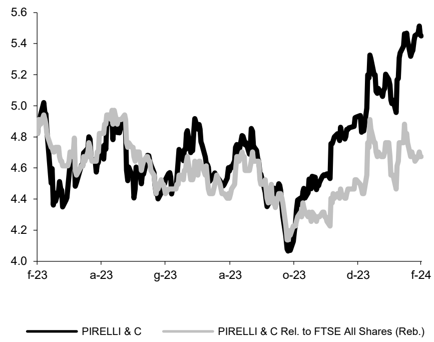
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.90 to 5.80
	2023E	**2024E**	**2025E**
Chg in Adj EPS	6.7%	13.3%	10.6%

Next Event
Results Out 6th of March

PIRELLI & C - 12M Performance



Stock Data			
Reuters code:			PIRC.MI
Bloomberg code:			PIRC IM
Performance	**1M**	**3M**	**12M**
Absolute	8.2%	19.6%	13.0%
Relative	2.8%	10.1%	-3.7%
12M (H/L)			5.51/4.07
3M Average Volume (th):			2,306.48

Shareholder Data	
No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	5,450
Total Mkt Cap (Eu mn):	5,450
Mkt Float - Ord (Eu mn):	1,492
Mkt Float (in %):	27.4%
Main Shareholder:	
Marco Polo International Italy Srl	37.0%

Balance Sheet Data	
Book Value (Eu mn):	5,723
BVPS (Eu):	5.88
P/BV:	0.9
Net Financial Position (Eu mn):	-1,987
Enterprise Value (Eu mn):	7,437

- **4Q23 results preview: top end of guidance range and slightly above consensus.** We foresee PIRC reporting 4Q23 results towards the high end of the guidance range and slightly above consensus. We expect a -6% YoY drop in revenues to €1.48bn, driven by ForEx (-9.5%) only partly offset by better volumes than previously expected (+1%, on easy comp) and a fading price/mix (+3%, mostly mix). Adj. EBIT is projected at €214mn, -5% YoY for a 14.4% margin, up 0.2pp YoY, with cost inflation and ForEx headwinds outpacing the tailwind from raw materials, efficiencies, price/mix and volume. This translates into FY23 revenues of €6.64bn, flat YoY, and adj. EBIT of €997mn, +2% YoY and a 15.0% margin, up 0.2pp YoY. FCF is seen at €470mn and net debt at €2.3bn.
- **2024 outlook: our expectations in line with consensus.** In 2024, we forecast PIRC to provide guidance consistent with our estimates and consensus expectations pointing to: slight revenue growth to €6.76bn (+2% YoY), adj. EBIT of €1.04bn, +4% YoY for a 15.4% margin, and FCF of €516mn. In brief, we assume marginal volume growth (+0%, High Value up mid-single-digit, offset by a high single-digit decline in Standard Value), price/mix up +3% (only mix with RT>OE and HV>SV) and efficiencies (1% of sales) to be partly offset by negative ForEx (-1/2%, weak EM currencies) and cost inflation (1.4% of sales), while raw materials are seen neutral. As our estimates are in line with consensus and assumptions are consistent with Michelin guidance, we don't see any scope for significant surprises.
- **Industrial plan update: 2025 targets widely expected to be revised due to inflationary environment.** Along with FY23 results and the FY24 outlook, PIRC will also provide an update to its 2025 industrial plan targets. Neither our estimates nor consensus support achievement of the 19-20% adj. EBIT margin target, mainly a reflection on the inflationary environment and lower volume growth (20-25E CAGR HV +7/8% vs. +9/10% guided, SV -4% vs. +0% guided). Our forecast and consensus assume a substantial continuation of trends in 2024 without the ForEx drag: marginal volume growth (+1%, HV/SV +4/-4%), slight price/mix growth (+2%) and efficiencies (0.7% of sales) more than offsetting inflation and raw materials. We estimate revenues of €6.95bn, +3% YoY, adj. EBIT of €1.09bn, +5% YoY and a 15.7% margin, and FCF of €569mn.
- **Change in estimates.** We are making small adjustments to our operating and FCF forecast, reflecting lower volume growth, but a slightly higher price/mix, driving a +2% upgrade. Our adj. EPS increases by 10% on average due to lower net financial charges.
- **NEUTRAL confirmed; target to €5.8.** While we see scope for a small surprise from the upcoming FY23 results presentation, we confirm our NEUTRAL rating on the stock. Our view is motivated by signs of softer demand, such as the slightly negative volume outlook issued by Michelin, inventories slightly above normal, and greater selectivity by PIRC on OE contracts based on lifecycle profitability. All of this may trigger the return of a more competitive environment, ratcheting up the pressure on estimates. Our TP goes to €5.8 from €4.9 in light of the updated estimates and as we transition our valuation model to an EV/ROIC based framework based on 2024-25E figures vs. the previous multiple-based approach. In terms of the valuation, the stock is trading at multiples that are consistent with the pre-Covid industry average of ~7.5x EV/EBIT.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	5,331	6,616	6,645	6,746	6,951
EBITDA Adj (Eu mn)	1,211	1,408	1,442	1,487	1,543
Net Profit Adj (Eu mn)	450	557	541	594	632
EPS New Adj (Eu)	0.450	0.557	0.541	0.594	0.632
EPS Old Adj (Eu)	0.469	0.570	0.508	0.525	0.572
DPS (Eu)	0.160	0.210	0.189	0.198	0.213
EV/EBITDA Adj	6.6	5.0	4.8	5.0	4.6
EV/EBIT Adj	9.8	7.2	6.9	7.2	6.5
P/E Adj	12.1	9.8	10.1	9.2	8.6
Div. Yield	2.9%	3.9%	3.5%	3.6%	3.9%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.3	1.0

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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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As at 30 September 2023 Intermonte's Research Department covered 114 companies. Intermonte's distribution of stock ratings is as follows:

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 (48 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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Further information is available