PIRELLI & C

OUTPERFORM

Sector: Industrials

Price: Eu5.42 - **Target: Eu6.80**

Solid Start to the Year; US Tariff Risk Manageable

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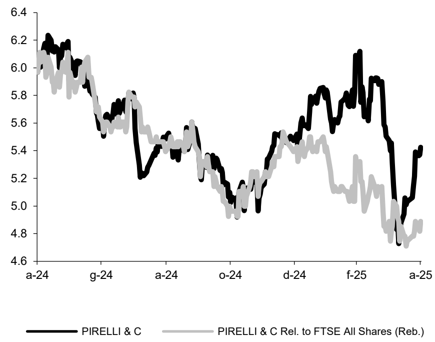
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.20 to 6.80
	2025E	**2026E**	**2027E**
Chg in Adj EPS	-5.9%	-5.6%	-5.2%

Next Event
Results Out 14 May

PIRELLI & C - 12M Performance



Stock Data			
Reuters code:			PIRC.MI
Bloomberg code:			PIRC IM
Performance	**1M**	**3M**	**12M**
Absolute	0.4%	-6.9%	-9.1%
Relative	2.6%	-9.9%	-20.2%
12M (H/L)			6.23/4.73
3M Average Volume (th):			2,592.59

Shareholder Data	
No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	5,424
Total Mkt Cap (Eu mn):	5,424
Mkt Float - Ord (Eu mn):	1,485
Mkt Float (in %):	27.4%
Main Shareholder:	
Marco Polo International Italy Srl	37.0%

Balance Sheet Data	
Book Value (Eu mn):	5,812
BVPS (Eu):	6.00
P/BV:	0.9
Net Financial Position (Eu mn):	-1,638
Enterprise Value (Eu mn):	7,062

PIRC should have started the year on a positive note, supported by healthy figures in the High Value replacement market and solid execution. Compared to initial expectations, the impact from US tariffs seems tougher given the extension to imports from outside North America (EU & BRL). However, we "only" see the risk of a low single-digit estimate revision. We therefore reaffirm our positive view on the stock, as we appreciate the company's exposure to what should be more resilient demand from the replacement channel and High Value tyres in a weak automotive environment. The corporate governance situation with the latent overhang risk on Sinochem's 37% stake continues to hamper the valuation, as the stock is trading at 6.4x and 9.0x the NTMA EV/EBIT and P/E respectively, a 10% discount vs. peers despite stronger fundamentals. TP to €6.8 from €7.2 due to higher ERP (€-0.4), lower estimates (€-0.3) only partly offset by slightly lower beta and other fine-tuning (€+0.3).

- **1Q25 results preview: solid start to the year.** We expect a solid start to the year for PIRC on the back of encouraging tyre market data. We forecast revenues of €1.74bn, +3% YoY, thanks to price&mix +2.5%, volume +1% (HV up mid-single-digit) and ForEx -1%; adj. EBIT of €270mn, +3% YoY for a 15.5% margin (stable YoY) driven by price&mix, efficiencies and volume growth, which should have more than offset cost inflation, raw material headwinds and ForEx; net debt of €2.64bn after a seasonal net cash outflow of €-711mn.
- **2025 guidance: expecting a small revision due to tariffs.** Due to US tariffs, we expect management to guide towards, or slightly below, the lower end of the pre-tariff guidance range. With our current estimates already positioned at the low end (adj. EBIT of ~€1.08bn), we see risk of a low single-digit revision to ~€1.05bn. We remind that PIRC has ~20% exposure to the US market with ~55% satisfied through products from Mexico, ~40% from Brazil and Europe, and~5% from a local plant in Georgia. At the FY24 results presentation, management indicated that a 25% tariff on Mexican production could push adj. EBIT to the low end of the guidance range, with an estimated impact of ~€30mn (after mitigation and cost actions). While USMCA compliance could reduce tariffs on Mexican imports, products from Brazil and Europe should be affected as they weren't considered at that time. For the time being, we note a disciplined reaction by players, allowing for the pass-through of tariff costs in the US market (Goodyear announced a 4% price increase despite having a strong local presence; Sumitomo announced a 25% price increase). Last but not least, it remains to be seen whether replacement tyres will be subject to the 25% "auto sector" tariff or just the baseline tariff.
- **Corporate governance issues continue to burden stock.** The recent BoD voted by 9 to 6 to stipulate that Sinochem does not control the group, whilst Marco Polo International, the Sinochem vehicle that holds 37% of the PIRC capital, opposed the decision. The decision is in line with press reports, and while not resolving the matter, it is a first step to adjusting governance to comply with US regulations that otherwise may impair development of the Cyber Tire from 2027 onwards (current exposure zero). We think Sinochem is moving towards the exit, especially given application of the Golden Power, although the manner and timescale remain to be clarified. We nevertheless trust in a positive solution in light of the confidence expressed by Camfin through the significant hike in its stake over the last 24 months. The overhang risk looks largely priced-in, as the stock is trading at a ~10% discount vs. peers despite having stronger fundamentals.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	6,650	6,773	6,875	7,086	7,306
EBITDA Adj (Eu mn)	1,446	1,520	1,530	1,589	1,625
Net Profit Adj (Eu mn)	579	591	593	635	690
EPS New Adj (Eu)	0.579	0.591	0.593	0.635	0.690
EPS Old Adj (Eu)	0.579	0.591	0.629	0.673	0.728
DPS (Eu)	0.198	0.250	0.209	0.227	0.259
EV/EBITDA Adj	4.8	4.9	4.6	4.2	3.8
EV/EBIT Adj	6.9	7.0	6.6	5.9	5.3
P/E Adj	9.4	9.2	9.2	8.5	7.9
Div. Yield	3.7%	4.6%	3.8%	4.2%	4.8%
Net Debt/EBITDA Adj	1.6	1.3	1.1	0.8	0.5

Intermonte

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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 31 March 2025 Intermonte's Research Department covered 131 companies.

As of today Intermonte's distribution of stock ratings is as follows:

BUY:	32.59 %
OUTPERFORM:	37.78 %
NEUTRAL:	29.63 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

As at 31 March 2025 the distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (74 in total) is as follows:

BUY:	52.70 %
OUTPERFORM:	29.73 %
NEUTRAL:	17.57 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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