

# PIRELLI & C

Sector: Industrials

**NEUTRAL**

Price: Eu5.54 – Target: Eu5.80

## 2024/25 Guidance Fails to Impress

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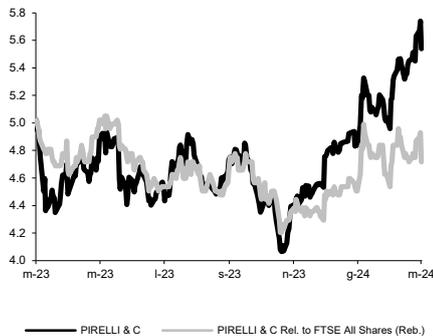
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	Unchanged		
	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>Chg in Adj EPS</b>	1.1%	1.6%	1.5%

### Next Event

 1Q24 Results Out 9<sup>th</sup> of May

### PIRELLI & C - 12M Performance



### Stock Data

Reuters code:	PIRC.MI		
Bloomberg code:	PIRC IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	7.2%	16.5%	10.4%
Relative	0.5%	6.6%	-7.1%
12M (H/L)	5.74/4.07		
3M Average Volume (th):	2,339.26		

### Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	5,540
Total Mkt Cap (Eu mn):	5,540
Mkt Float - Ord (Eu mn):	1,517
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):	5.89
P/BV:	0.9
Net Financial Position (Eu mn):	-1,948
Enterprise Value (Eu mn):	7,488

- **4Q23 results better than expected.** PIRC reported better-than-expected 4Q23 results, benefitting from slightly better price&mix and volume contributions that more than offset harsher ForEx headwinds. Revenues were €1.49bn (our estimate /consensus €1.48/1.47bn), -6% YoY, with organic growth of +5% and ForEx -11%. Adj. EBIT was €219mn (our/cons. €214/209mn), -2% YoY for a 14.7% margin. Adj. net profit was €144mn (our estimate €106mn) partly thanks to lower net financial charges and a patent box-driven low tax rate. FY23 FCF was €509mn (our/cons. €466/465mn) thanks to higher payables, bringing net debt to €2.26bn (1.6x EBITDA).
- **2024 and 2025 targets in line with expectations.** PIRC presented a comprehensive update to its business plan with credible 2024-25 targets that are consistent with our estimates and consensus forecasts (figures are between the middle and the high end of the guidance range). From a strategic perspective, PIRC aims to: i) exploit growth for BEVs tyres (7% of 2023 volumes) where margins are currently in line with ICE-equivalent tyres, but expectations are for higher levels; ii) expand presence in regions where it is underpenetrated, such as North America and Asia, through dedicated products with all-terrain and all-season tyres respectively; iii) increase efficiency through industrial and organisational actions; iv) invest in sustainability and future projects such as Cyber-tyre (the focus of the next industrial plan in 2026). In terms of figures, at the mid-point, the 2024/25 guidance points to:
  - **Revenues** of €6.7-6.9bn (±€0.1bn) up +1%/+3% YoY, driven by low single-digit volume and price&mix growth (only mix in '24, some price in '25) partly offset by ForEx. On ForEx, management has opted for caution in light of expectations for weakness in the USD and volatility in EM currencies (TRY, RUB and LatAm);
  - **Adj. EBIT** of €1.02-1.10bn (€±32-16mn), with margins of ~15.5% and ~16% driven by volume & mix and efficiencies (~2% of sales) covering inflation and ForEx;
  - **FCF** of €510mn and €560mn (±€10mn) after CapEx/Sales at 6% dedicated to sustainability, technology innovation and capacity transformation from SV to HV (~74mn units, flat vs. '23, but with HV going from 54.8mn to 57.7mn);
  - **Net debt** of ~€1.6bn or 1x net debt/EBITDA including a higher dividend payout on '24 results (50% vs. 40% prev.), while on M&A opportunities are seen in vertical integration in materials, but nothing transformational (no interest in combining with hardware of car component manufacturers).
- **Change in estimates.** We are making minimal changes to our estimates, stemming from a lower cost of debt as seen in 2023, which results in 1/2% '24/'25 upgrades.
- **NEUTRAL and TP confirmed.** PIRC reported better-than-expected 4Q23 results, but offered 2024/25 guidance that matches sell-side expectations. We therefore believe the lack of a positive surprise disappointed the market after the recent strong share price performance (1m: +16% vs. mkt/peers +7/1%). While we appreciate the company's strategy and recent execution, especially in terms of cash generation, we confirm our NEUTRAL rating due to a lack of upside vs. our valuation model. 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	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	6,616	6,650	6,750	6,954	7,167
EBITDA Adj (Eu mn)	1,408	1,446	1,489	1,554	1,612
Net Profit Adj (Eu mn)	557	579	601	643	682
EPS New Adj (Eu)	0.557	0.579	0.601	0.643	0.682
EPS Old Adj (Eu)	0.557	0.541	0.594	0.632	0.672
DPS (Eu)	0.210	0.198	0.250	0.217	0.233
EV/EBITDA Adj	5.0	4.8	5.0	4.6	4.2
EV/EBIT Adj	7.2	6.9	7.2	6.5	5.8
P/E Adj	9.9	9.6	9.2	8.6	8.1
Div. Yield	3.8%	3.6%	4.5%	3.9%	4.2%
Net Debt/EBITDA Adj	1.8	1.6	1.3	1.1	0.7

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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)

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Frequency of research: quarterly.

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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;

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
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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