Intermonte

Milan, 08 November 2024

Italian Equity Research – 3Q24 Results

PIRELLI & C

OUTPERFORM

Sector: Industrials

Price: Eu4.97 - **Target: Eu6.50**

Results Slightly Better; Guidance Confirmed

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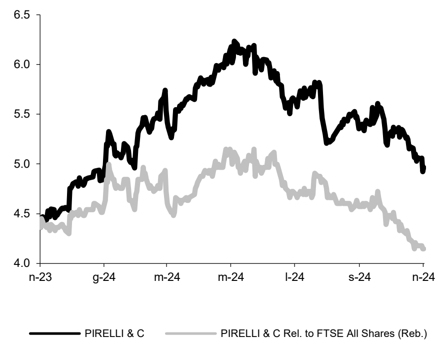
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-2.5%	-1.4%	-1.4%

PIRELLI & C - 12M Performance



Stock Data			
Reuters code:			PIRC.MI
Bloomberg code:			PIRC IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.7%	-5.2%	13.9%
Relative	-7.2%	-11.7%	-5.5%
12M (H/L)			6.23/4.41
3M Average Volume (th):			1,678.30

Shareholder Data	
No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,966
Total Mkt Cap (Eu mn):	4,966
Mkt Float - Ord (Eu mn):	1,360
Mkt Float (in %):	27.4%
Main Shareholder:	
Marco Polo International Italy Srl	37.0%

Balance Sheet Data	
Book Value (Eu mn):	5,605
BVPS (Eu):	5.76
P/BV:	0.9
Net Financial Position (Eu mn):	-1,983
Enterprise Value (Eu mn):	6,949

PIRC reported 3Q24 results that were slightly above expectations. FY24 guidance confirmed, depicting solid trends in 2H as well; as estimates are aligned to company indications, we don't expect any changes. We therefore confirm our 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 today's weak automotive production environment. We think the recent stock performance, burdened by BRE's ABB, and the confidence expressed by Camfin (i.e. Tronchetti Provera, stake at 25.7% vs. 14.1% 18 months ago) offer a nice entry point. The stock is trading at 6.7x 2024 EV/EBIT, a 7% discount vs. closest peers despite better organic growth, profitability, FCF conversion and ROCE.

- **3Q24 results: slightly better (3%) on less adverse ForEx and higher volumes.** In detail:
  - **Revenues €1,737mn vs. our/cons €1,735/1,727mn,** +1% YoY, thanks to volumes +3% (vs. +2% exp., High-Value +7%, Standard -5%), price&mix +2% and ForEx -5%;
  - **EBIT €277mn vs. our/cons €272/270mn,** +4% YoY, 15.9% margin up +0.3pp YoY, amid efficiencies (+€37mn vs. 35 exp.), price/mix (+31, in line), volume (+21 vs. 16 exp.), only partly offset by input cost (-41 vs. -25 exp.), raw mat (-17 vs. -11 exp.), other cost (-12 vs. -10 exp.) and ForEx (-8 vs. -28). **EPS was €0.16 vs. €0.17 exp.**;
  - **FCF €162mn vs. our/cons €170/142mn,** broadly flat vs. 3Q23 at €167mn, with net debt at €2,816mn or 1.9x LTM EBITDA.
- **2024 guidance: narrowed and confirmed.** FY24 guidance was reaffirmed across the board: revenues €6.7bn (Vol +2%, P&M +2.5%, ForEx -3.8%), adj. EBIT margin ~15.5% for EBIT of €1.04bn, FCF ~€510mn and net debt €1.95bn. 4Q is seen lighter QoQ due to the usual seasonality, but with EBIT still up slightly.
- **High Value resilience confirmed.** The HV market is seen up +6% globally in FY24 (+3% in 4Q) with PIRC outperforming. The trend will be supported by positive Replacement demand while OE has deteriorated, but given PIRC's lower exposure to this channel the impact will be manageable (RT/OE revenues ~75/25% with RT also offering higher margins). EU is seen up +12% thanks to re-stocking supported by a good start to the Winter season, NA up +4% and APAC +3%.
- **Pricing and inventories under control.** EU pricing has been stable in the last three quarters, which we view as a positive given lower raw material prices and easing inflation. Inventories in all areas are seen at normal levels.
- **Implication of US election.** The NA market (~25% of sales) is ~50/55% served from Mexico, 20% from EU, 20% from BRL and ~5/10% from the Georgia plant. The plan is to continue to increase local production, while a tax rate cut wouldn't have a big impact.
- **No further information on Golden Power procedure.** No additional details emerged on the procedure opened against CNRC (Sinochem) about the possible breach of Golden Power measures.
- **2025: mix to continue to be a tailwind, tax rate at 28-30%.**

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	6,616	6,650	6,703	6,908	7,124
EBITDA Adj (Eu mn)	1,408	1,446	1,502	1,567	1,627
Net Profit Adj (Eu mn)	557	579	571	629	672
EPS New Adj (Eu)	0.557	0.579	0.571	0.629	0.672
EPS Old Adj (Eu)	0.557	0.579	0.586	0.638	0.681
DPS (Eu)	0.210	0.198	0.231	0.211	0.228
EV/EBITDA Adj	5.0	4.8	4.6	4.2	3.8
EV/EBIT Adj	7.2	6.9	6.7	6.0	5.3
P/E Adj	8.9	8.6	8.7	7.9	7.4
Div. Yield	4.2%	4.0%	4.7%	4.3%	4.6%
Net Debt/EBITDA Adj	1.8	1.6	1.3	1.0	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)

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.
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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.
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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;
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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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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