

PIRELLI & C

Sector: Industrials

NEUTRAL

Price: Eu4.47 - Target: Eu4.90

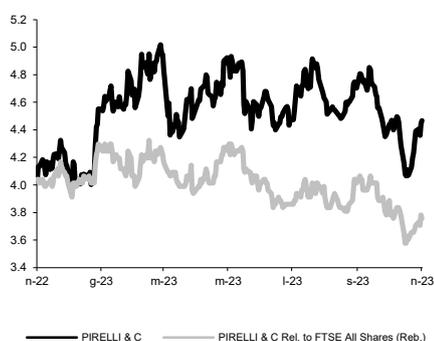
3Q Marginally Beats Estimates, Guidance Upgrade (1%), Outlook Uncertain

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-0.2%	0.2%	0.2%

PIRELLI & C - 12M Performance



Stock Data

Reuters code:	PIRC.MI		
Bloomberg code:	PIRC IM		
Performance	1M	3M	12M
Absolute	0.7%	-3.3%	10.6%
Relative	-3.0%	-4.2%	-8.2%
12M (H/L)	5.02/3.99		
3M Average Volume (th):	1,731.65		

Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,469
Total Mkt Cap (Eu mn):	4,469
Mkt Float - Ord (Eu mn):	1,707
Mkt Float (in %):	38.2%
Main Shareholder:	
Marco Polo International Italy Srl	45.5%

Balance Sheet Data

Book Value (Eu mn):	5,556
BVPS (Eu):	5.70
P/BV:	0.8
Net Financial Position (Eu mn):	-2,309
Enterprise Value (Eu mn):	7,165

■ **3Q23 results: a touch better.** PIRC reported 3Q23 results that were a touch above expectations on a marginally higher price&mix contribution and a raw material tailwind that more than offset lower volumes (~2% on the quarter, ~0.5% on FY). Revenues were down -6% YoY to €1.72bn (in line with exp.). Volumes (-5%, vs. -4% exp.) suffered from greater selectivity in Original Equipment as PIRC exited less favourable High Value contracts and made a faster reduction of its presence in Standard Value (~26% of sales, -4pp vs. 3Q22) amid tougher competition and downtrading in South America. Price&mix (+7%, in line) benefitted from the tail-end impact of price hikes (no price effect in 4Q), while ForEx was burdened by the USD, CNY and EM currencies. Adj. EBIT fell 3% YoY to €265mn, a 15.4% margin, vs. our est. /cons. at €260/259mn. Net income of €169mn vs. cons. at €134mn was helped by a patent box benefit to the tune of ~€40mn.

■ **2023 guidance marginally improved, but our forecast/consensus essentially in line (~1% difference).** FY23 guidance was adjusted, with sales seen at the mid-point of the previous range (~€6.6bn, flat YoY) and the EBIT margin at the high end (~15%). Despite an improved outlook for the global tyre market, the upgrade reflects volumes at the low end of the range (-2% vs. -1/-2% prev.) offset by price&mix at the high end (+8% vs. +7/8%). In terms of FCF, the company slightly raised the low-end of the range (from €440-470mn to €450-470mn). All in all, we would expect estimates to move just slightly after the release, by ~1%, as both our estimates and consensus were already essentially in line with this outlook.

■ **From the call.** i) Downtrading to cheaper brands noted on Standard Value market, while Tier 1 brands are holding market share on 19" and above; ii) Price discipline by PIRC confirmed, but uncertain market environment doesn't allow for price hikes; iii) Greater selectivity in High Value (mainly 18") comes on a lifecycle assessment of profitability (OE+RT); iv) Share of revenues from EV-related tyres at slightly less than 10%; v) not many details about the agreement with PIF besides what was already communicated (set-up of a 75/25 PIF/PIRC JV expected to produce 3.5mn tyres in Saudi Arabia for a \$550mn investment by 2030 to exploit growth of Gulf countries); vi) industrial plan postponed to presentation of FY23 results, as opposed to the previous indication of during 4Q23, due to uncertainty in the international environment.

■ **Change in estimates.** As our forecasts were essentially already in line with the updated guidance, we are leaving them almost unchanged for FY23. On FY24-25 we still envisage low single-digit EBIT growth, but remain below consensus by ~4%.

■ **NEUTRAL and TP confirmed.** PIRC's 3Q results were a touch ahead of forecasts, combined with a marginal uptick in guidance that did not differ greatly from our estimates and consensus expectations (upgrade to the tune of ~1%). We recently downgraded the stock due to signs of softer demand that may trigger the return of a more competitive environment. In that sense, we note that PIRC exited some OE contracts, dubbing lifecycle profitability unappealing, and that the better volume outlook was not reflected in lower volumes at PIRC, which prioritised pricing. In our view, this suggests that pressure on demand is increasing and we therefore take a more cautious stance than consensus on earnings development. TP confirmed.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	5,331	6,616	6,621	6,650	6,900
EBITDA Adj (Eu mn)	1,211	1,408	1,425	1,448	1,494
Net Profit Adj (Eu mn)	469	570	508	525	572
EPS New Adj (Eu)	0.469	0.570	0.508	0.525	0.572
EPS Old Adj (Eu)	0.469	0.570	0.509	0.524	0.571
DPS (Eu)	0.161	0.218	0.180	0.176	0.203
EV/EBITDA Adj	6.9	5.3	5.0	4.6	4.1
EV/EBIT Adj	10.3	7.6	7.3	6.6	5.8
P/E Adj	9.5	7.8	8.8	8.5	7.8
Div. Yield	3.6%	4.9%	4.0%	3.9%	4.5%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.4	1.1