

# PIRELLI & C

Sector: Industrials

## Good Start To The Year

# OUTPERFORM

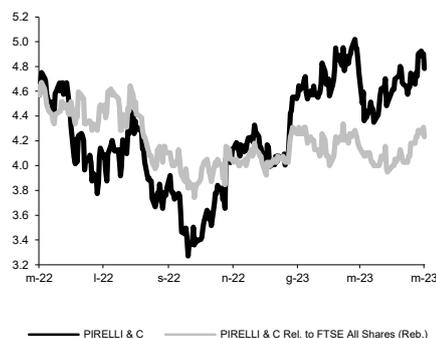
Price: Eu4.78 - Target: Eu6.00

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 5.90 to 6.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	0.8%	1.8%	1.7%

### PIRELLI & C - 12M Performance



### Stock Data

Reuters code:	PIRC.MI
Bloomberg code:	PIRC IM

Performance	1M	3M	12M
Absolute	3.6%	4.8%	4.7%
Relative	5.2%	5.7%	-8.3%
12M (H/L)	5.02/3.27		
3M Average Volume (th):	2,306.89		

### Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,783
Total Mkt Cap (Eu mn):	4,783
Mkt Float - Ord (Eu mn):	1,827
Mkt Float (in %):	38.2%
Main Shareholder:	
Marco Polo International Italy Srl	45.5%

### Balance Sheet Data

Book Value (Eu mn):	5,516
BVPS (Eu):	5.66
P/BV:	0.8
Net Financial Position (Eu mn):	-2,300
Enterprise Value (Eu mn):	7,251

■ **1Q23 results better than expected on stronger price/mix.** PIRC reported better-than-expected 1Q23 results due to a higher price/mix effect, more than offsetting more negative ForEx trends, while cost inflation was broadly in line. FCF was consistent with our assumptions and slightly better than consensus. In brief, revenues were €1.7bn (+12% vs. +8% exp.) thanks to price/mix of +15% (vs. +15% exp.), while volumes fell -3% (in line, HV: +5%, SV: -11%) due to weak car demand. Adj. EBIT was €248mn (our est. /cons. €240mn/ €236mn), up +9% YoY for a 14.6% margin. Price/mix contributed more than expected, only partly offset by a higher ForEx headwind due to the MXN revaluation against USD (which affected exports). FCF was €-691mn (our est. /cons €-688/-709mn) due to the usual 1Q NWC build-up.

■ **2023 guidance: too early to raise it, but trajectory makes high end more achievable.** Management fully confirmed guidance, applying a degree of conservatism in light of the volatile environment. In that sense, we believe the strong start to the year makes the high end increasingly achievable, and expect consensus to move in that direction from the current mid-point (2% upside for adj. EBIT). Pricing discipline continues in PIRC's main market, with tailwinds from last year's hikes carrying over through 2Q (and we assume partly also into 2H), while OEM price-to-raw-material indexing appears relatively limited (~17% of total sales as ~75% of OEM contracts are indexed, and OEMs account for ~25% of sales). Volume trends should improve in 2H, in direct contrast to last year. The negative impact from cost inflation has been lowered slightly following a fall in raw material prices, but management expects this to be offset by ForEx volatility, as was the case in 1Q. The raw material headwind is expected to ease significantly in 2Q from the €-78mn in 1Q (5% of sales), becoming a tailwind in 2H, which bodes well for 2024.

■ **Newsflow on Golden Power soon; CMD by year-end.** There was no comment on the possible outcome of the Golden Power Procedure, but newsflow should arrive soon (early June). The time required for the Government to complete the Procedure led the company to extend the current Board's mandate, presumably until the end of July, while the AGM to approve FY22 results and dividend distribution was confirmed for 29 June. A Capital Market Day is now envisaged by the end of 2023. De-leverage targets are fully confirmed at ~1.0x net debt/EBITDA by 2025 (in line with current estimates).

■ **Change in estimates.** We are making some tweaks to our model here and there, resulting in a marginal upgrade to our estimates (~1-2%).

■ **OUTPERFORM; target from €5.9 to €6.0.** PIRC reported a positive, better-than-expected start to the year, fully leveraging on its high-value strategy. FY23 guidance was confirmed in full, but as said, the trajectory makes the high end increasingly achievable in our view. Given the resilient business model, last year's underperformance, and the attractive valuation, we confirm our OUTPERFORM rating on the stock. The company's solid operating performance should lead to strong FCF generation which, given PIRC's capital structure, should provide tangible value creation once successful de-leveraging is achieved. PIRC is trading at 7.4/6.3x EV/EBIT and an FCF yield of 10/11% for 2023/24 (below the historical average and more attractive than peers, which are trading at 9.0/7.9x and 8%/6% respectively), while also offering higher FCF conversion. TP raised from €5.9 to €6.0 on the back of higher estimates.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	5,331	6,616	6,789	7,036	7,295
EBITDA Adj (Eu mn)	1,211	1,408	1,414	1,500	1,566
Net Profit Adj (Eu mn)	469	570	516	584	632
EPS New Adj (Eu)	0.469	0.570	0.516	0.584	0.632
EPS Old Adj (Eu)	0.469	0.570	0.512	0.574	0.621
DPS (Eu)	0.161	0.218	0.164	0.199	0.226
EV/EBITDA Adj	6.9	5.3	5.1	4.5	4.0
EV/EBIT Adj	10.3	7.6	7.4	6.3	5.5
P/E Adj	10.2	8.4	9.3	8.2	7.6
Div. Yield	3.4%	4.6%	3.4%	4.2%	4.7%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.3	1.0