

PIRELLI & C

Sector: Industrials

OUTPERFORM

Price: Eu5.26 - Target: Eu6.50

Solid Outperformance and Resilience Deserve Better

 Gianluca Bertuzzo +39-02-77115.429
 gianluca.bertuzzo@intermonte.it

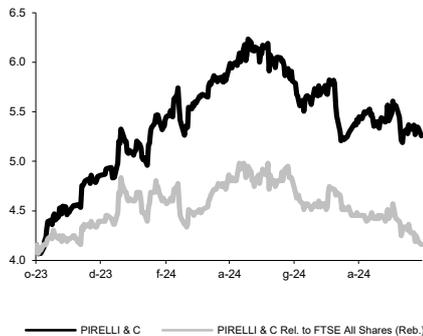
Stock Rating

Rating:	from NEUTRAL to OUTPERFORM		
Target Price (Eu):	from 6.00 to 6.50		
	2024E	2025E	2026E
Chg in Adj EPS	0.1%	0.0%	0.0%

Next Event

 Results Out 7th November

PIRELLI & C - 12M Performance



Stock Data

Reuters code:	PIRC.MI		
Bloomberg code:	PIRC IM		
Performance	1M	3M	12M
Absolute	-2.8%	-7.9%	22.5%
Relative	-6.2%	-9.6%	-4.8%
12M (H/L)	6.23/4.07		
3M Average Volume (th):	1,610.85		

Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	5,258
Total Mkt Cap (Eu mn):	5,258
Mkt Float - Ord (Eu mn):	1,440
Mkt Float (in %):	27.4%
Main Shareholder:	
Marco Polo International Italy Srl	37.0%

Balance Sheet Data

Book Value (Eu mn):	5,639
BVPS (Eu):	5.78
P/BV:	0.9
Net Financial Position (Eu mn):	-1,965
Enterprise Value (Eu mn):	7,223

We upgrade the stock to **OUTPERFORM** from Neutral as we expect PIRC to report solid 3Q earnings, supporting management's view of reaching the high end of the guidance range. In particular, 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, as suggested by market data. The recent stock performance, weighed by BRE's ABB, and confidence expressed by Camfin (i.e. Tronchetti Provera, 25.7% stake vs 14.1% 18 months ago) offers a nice entry point in our view. TP to €6.5 from €6.0 as we align the unlevered beta to peers, resulting in a valuation premium of 20% (in line with history), which we see as justified by PIRC's financial outperformance.

- **3Q24 preview: expecting a solid quarter.** We envisage a solid quarter for PIRC thanks to strong High Value offsetting FX headwinds and weak Standard Value, resulting in a low single digit EBIT increase and stable FCF. In detail: revenues are seen at €1.72bn, +1% YoY on the back of price/mix +3%, volumes +2% (HV: +7%, SV: -6%), and FX -4%. Adj. EBIT at €272mn, +3% YoY for a 15.7% margin (+0.3pp YoY), with efficiencies, price/mix and volumes outgrowing inflation, raw mat price increase and FX. FCF is expected at €170mn (€167mn in 3Q23) with an almost neutral NWC effect.
- **2024 outlook: high end of range to be confirmed.** In light of the expected solid development in the 9M and relatively easier comparison in 4Q, we expect PIRC to back its guidance, with management confirming numbers coming in at the high end of the range (15.5% margin). In particular, our forecasts are in line with consensus, pointing to revenues of €6.7bn, +1% YoY o/w +5% organically, adj. EBIT of €1.045bn, +4% YoY with a 15.6% margin, and FCF of €517mn.
- **Positive tyre market data with inventories at low/normal levels.** Most recent market data shows a positive end to 3Q with global replacement up +3% YoY. Growth was led by Europe, up +7%, with ≥18" outperforming at +13% (September +11/17%), although driven by sell-in of winter and all-season tires. However, this has happened on low to normal inventory thanks to YE23 de-stocking and positive YTD sell-out trends. On the other hand, we note a deterioration in OE sales on the back of lower global auto production, down -5%. Nevertheless, we stress that replacement and ≥18" sales are of much greater importance for PIRC, accounting for ~75/80% and 77% respectively of sales, and more in terms of EBIT.
- **Growth, profitability, FCF generation and ROCE outperformance not priced in.** We note that PIRC is outperforming its most solid peers (ML, CON, BRI) in 2023-24 on key financial metrics: i) organic growth should close at 5%, well above peers on -3% (avg 23-24 @6% vs -1%); ii) EBIT margin of ~15.3% is ~3pp above average; iii) FCF conversion is at a solid and low volatility 35% vs peers at 26%; iv) ROCE ex-goodwill stands at ~17%, a touch above peers; however, PIRC shares even trade at a small discount to peers in terms of EV/EBIT and PE (~-5%), which is even bigger when looking at FCF yield (~3pp).
- **Valuation: TP to €6.5 to reflect beta in line with peers.** We raise our TP to €6.5 (from €6.0) derived from our ROIC/WACC framework thanks to lower unlevered beta at 0.9x vs 1.0x previously (WACC 8.7% vs 9.2% prev.). Our new assumption is in line with average industry beta and is justified by a solid financial outperformance vs peers, supporting a valuation premium of ~20%.

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	1,505	1,570	1,629
Net Profit Adj (Eu mn)	557	579	586	638	681
EPS New Adj (Eu)	0.557	0.579	0.586	0.638	0.681
EPS Old Adj (Eu)	0.557	0.579	0.585	0.638	0.681
DPS (Eu)	0.210	0.198	0.242	0.215	0.232
EV/EBITDA Adj	5.0	4.8	4.8	4.4	4.0
EV/EBIT Adj	7.2	6.9	6.9	6.2	5.6
P/E Adj	9.4	9.1	9.0	8.2	7.7
Div. Yield	4.0%	3.8%	4.6%	4.1%	4.4%
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.

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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As at 30 September 2024 Intermonte's Research Department covered 125 companies. Intermonte's distribution of stock ratings is as follows:

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

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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