PIRELLI & C

OUTPERFORM

Sector: Industrials

Price: Eu4.80 - **Target: Eu5.90**

Resilient Business Model Allows for Strong FCF Performance

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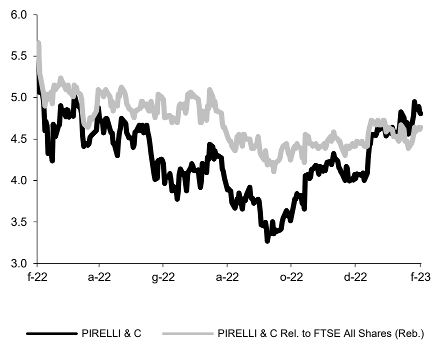
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 5.50 to 5.90
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	2.6%	

PIRELLI & C - 12M Performance



Stock Data			
Reuters code:			PIRC.MI
Bloomberg code:			PIRC IM
Performance	**1M**	**3M**	**12M**
Absolute	5.9%	15.4%	-15.1%
Relative	1.0%	5.2%	-18.5%
12M (H/L)			5.65/3.27
3M Average Volume (th):			1,913.32

Shareholder Data	
No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,805
Total Mkt Cap (Eu mn):	4,805
Mkt Float - Ord (Eu mn):	1,835
Mkt Float (in %):	38.2%
Main Shareholder:	
Marco Polo International Italy Srl	45.5%

Balance Sheet Data	
Book Value (Eu mn):	5,366
BVPS (Eu):	5.53
P/BV:	0.9
Net Financial Position (Eu mn):	-2,307
Enterprise Value (Eu mn):	7,326

- **4Q22 results beat forecasts.** PIRC reported better-than-expected 4Q22 results, with higher price/mix growth and strong NWC management. In brief, revenues were €1.58bn, growing +17% YoY thanks to price/mix of +19% (+15% exp.) and a +2% ForEx effect (in line), while volumes fell -4% (in line) due to lockdowns in China and a weak winter in EU. Adj. EBIT was €224mn (our estimate /consensus €220/213mn), +3% YoY, with price/mix and efficiencies more than covering cost inflation. FY22 FCF closed at €516mn (37% conversion), well above our estimate /consensus of €491/464mn, allowing net debt to come down to €2.55bn or 1.8x EBITDA (vs 2.4x in FY21).
- **2023 guidance: P&L consistent with consensus at mid-point, FCF still strong.** PIRC foresees a flat overall tyre market in 2023, with the company's volumes up between +0%/+1%. This should come thanks to tailwinds from the higher exposure to the High-Value segment, a rich EV homologation portfolio, and regional support from reopening in China and product launches in North America, while the reduction in SV demand is confirmed. Pricing discipline has been reiterated, with downtrading to cheaper brands hitting SV and Tier 2&3 brands. Price/mix of ~+5% only embeds the carryover effect of price hikes from 2022/early 2023 (~3% price, ~2% mix). Cost inflation of ~€0.3bn is already covered by these price increases and planned efficiencies (~€0.1bn). All in all, at mid-point PIRC is expecting revenues of ~€6.7bn (including a -4% ForEx effect) and adj. EBIT of €0.96bn, essentially flat YoY and +1% higher than consensus. More importantly, strong FCF generation is expected to continue in 2023 with FCF of €440-470mn (>32% conversion), well above our forecast /consensus of €442/423mn, allowing de-leverage to continue further towards 1.6-1.7x.
- **Industry-leading FCF generation.** As the reporting season for the tyre sector draws to a close (only Conti is still to report), we note that over the last couple of years PIRC has consistently achieved cash flow generation well above peers' levels. Indeed, PIRC generated average FCF of almost €0.5bn, which implies the conversion of ~35% of EBITDA and an FCF/revenue margin of ~8%. This compares very favourably to peers, who reported average conversion of ~9% and a ~2% margin.
- **Change in estimates.** We confirm our P&L estimates, more aligned with the top-end of the guidance range, while raising our FCF assumptions on slightly lower CapEx.
- **OUTPERFORM, TP €5.90 from €5.50.** PIRC has reported positive 4Q22 results that are consistent with the consensus for 2023 guidance on the P&L, while FCF guidance is well above expectations, enabling both a generous dividend (50% payout expected) or value creation through deleverage. Given the resilient business model, last year's underperformance and the attractive valuation we confirm our OUTPERFORM rating on the stock. Our TP goes to €5.9 from €5.5 as we are raising our valuation multiples by 5% (still some 20% below the historical average) to reflect the strong FCF profile. No additional comments were made on recent market rumours about Sinochem selling its 37% stake (Sinochem officially denied such plans following the initial *Bloomberg* report).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	5,331	6,616	6,784	7,030	7,288
EBITDA Adj (Eu mn)	1,211	1,408	1,404	1,490	1,556
Net Profit Adj (Eu mn)	469	570	512	574	621
EPS New Adj (Eu)	0.469	0.570	0.512	0.574	0.621
EPS Old Adj (Eu)	0.469	0.536	0.512	0.559	
DPS (Eu)	0.161	0.210	0.162	0.195	0.222
EV/EBITDA Adj	6.9	5.3	5.2	4.6	4.1
EV/EBIT Adj	10.3	7.6	7.5	6.4	5.6
P/E Adj	10.2	8.4	9.4	8.4	7.7
Div. Yield	3.4%	4.4%	3.4%	4.1%	4.6%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.3	1.0