

PIRELLI & C

Sector: Industrials

NEUTRAL

Price: Eu4.29 - Target: Eu4.90

Downgrade to Neutral amid Signs of Softening Demand

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Stock Rating

Rating: from OUTPERFORM to NEUTRAL

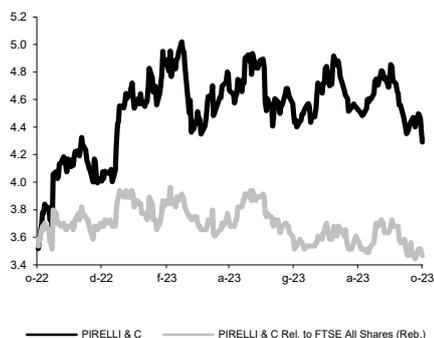
Target Price (Eu): from 6.00 to 4.90

	2023E	2024E	2025E
Chg in Adj EPS	-1.6%	-10.9%	-10.3%

Next Event

 Results Out November 9th

PIRELLI & C - 12M Performance



Stock Data

Reuters code: PIRC.MI

Bloomberg code: PIRC IM

Performance	1M	3M	12M
Absolute	-11.6%	-11.0%	19.7%
Relative	-5.1%	-5.5%	-3.9%
12M (H/L)			5.02/3.52
3M Average Volume (th):			1,800.65

Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,292
Total Mkt Cap (Eu mn):	4,292
Mkt Float - Ord (Eu mn):	1,639
Mkt Float (in %):	38.2%
Main Shareholder:	
Marco Polo International Italy Srl	45.5%

Balance Sheet Data

Book Value (Eu mn):	5,518
BVPS (Eu):	5.66
P/BV:	0.8
Net Financial Position (Eu mn):	-2,311
Enterprise Value (Eu mn):	6,989

- 3Q23 preview: fading price/mix, lower volumes & FX to weigh on earnings.** We expect PIRC to report a 3Q23 featuring: a drop in revenues and adj. EBIT amid a sequentially fading price/mix effect; lower volumes due to OE destocking and more competitive RT markets; and a negative impact from FX. We project revenues of €1.72bn, -6% YoY, with price/mix at +7% vs +15%/+10% in 1Q/2Q; volumes at -4%; and FX at -9%. Price/mix should be equally split between the two as PIRC should have maintained pricing discipline and selectivity, albeit with negative repercussions on volumes, where we see a -4% drop (HV/SV: +3/-11%), worse than the market. On FX, all currencies were negative for PIRC (USD/CNY/BRL/TRY/ARS -7%/-12%/-0.4%/-38%/-60%). Adj. EBIT is expected at €260mn, -4% YoY for a 15.1% margin (+0.3pp YoY) with price/mix, a tailwind from efficiencies and raw materials not enough to offset FX, cost inflation and negative volumes.
- 2023 guidance: mid-point still visible thanks to strong 1H, but weaker 2H23.** PIRC should still achieve 2023 guidance thanks to the strong 1H23. However, the expected improvement in volumes envisaged for 2H23, which should have led to the high-end of the range, is failing to materialize. Although we believe PIRC will offset the volume shortfall through pricing discipline, we slightly trim our forecast to go closer to the mid-point than the high-end as previously. We expect revenues of €6.6bn (prev. €6.7bn, guidance €6.5-6.7bn), adj. EBIT of €980mn for a 14.8% margin (prev. €985mn, cons. €982mn, guidance €943-970-988mn, ~14.5-<15.0% margin), and net cash flow of €460mn (prev. €472mn, guidance €440-455-470mn).
- High winter tyre inventories, stiffer competition in Europe and a complex situation in China call for caution looking at 2024.** In our view, the weaker 2H23 is a sign of softening demand, with some elements calling for caution looking at 2024. We note that sell-in demand in Europe (~40% of revenues) has been penalized by weak winter tyre sales amid high inventories: the launch of promotional campaigns in response dents pricing power and suggests a return to fiercer competition. In China as well (APAC, ~16% of revenues), although the market has recovered, the rebound seems less than expected and macro data seems weak. The positive trend in North America (~25% of revenues) could come under pressure in the high interest rate environment. Our adj. EBIT is below recently revised consensus by -4% (-6% vs our prev. estimates).
- Change in estimates.** We are trimming our 2023 forecast by -2% amid lower volumes (-3% vs -1% prev.) only partly offset by price&mix. However, the cut for 2024/25 is larger at -11/10% owing to a fading mix and no pricing (+2% vs +3% prev.), negative FX (-3% vs 0% prev.) and slightly higher interest expenses, while on volumes we still assume a minimal uptick (+1%) although on a lower 2023 base.
- Downgrade to NEUTRAL; TP to €4.90.** We downgrade the stock to NEUTRAL from Outperform as we note increasing signs of softer demand such as high inventories for winter tyres in Europe (and the return of promotional campaigns), volatile macro in China, and a high interest rate in North America. In a weakening macro and high pricing environment, we think these elements are triggering the return of a more competitive landscape, impairing earnings momentum that we note has just turned negative (we and consensus have cut estimates). On the speculative side, we do not expect a significant risk of share placement by CNRC despite the recent dissolution of the shareholders' agreement, while a closer tie-up with Brembo is still an unlikely option in the short term. We therefore do not include any premium/discount in our target price calculation. TP to €4.90 from €6.0 in light of estimate cut, lower multiples as we raise our risk-free assumptions, higher weight to 2024 and dividend payment.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	5,331	6,616	6,618	6,642	6,888
EBITDA Adj (Eu mn)	1,211	1,408	1,420	1,447	1,492
Net Profit Adj (Eu mn)	469	570	509	524	571
EPS New Adj (Eu)	0.469	0.570	0.509	0.524	0.571
EPS Old Adj (Eu)	0.469	0.570	0.517	0.588	0.636
DPS (Eu)	0.161	0.218	0.165	0.175	0.202
EV/EBITDA Adj	6.9	5.3	4.9	4.5	4.0
EV/EBIT Adj	10.3	7.6	7.1	6.5	5.7
P/E Adj	9.2	7.5	8.4	8.2	7.5
Div. Yield	3.8%	5.1%	3.8%	4.1%	4.7%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.4	1.1