

# PIRELLI & C

Sector: Industrials

## OUTPERFORM

Price: Eu4.64 - Target: Eu5.90

### Solid Quarter and Guidance Confirmation Expected

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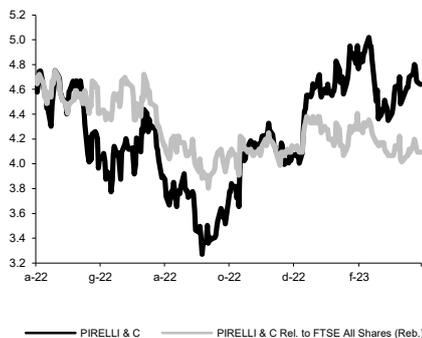
#### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

#### Next Event

Results Out 11 of May

#### PIRELLI & C - 12M Performance



#### Stock Data

Reuters code:	PIRC.MI		
Bloomberg code:	PIRC IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	6.7%	1.3%	-2.2%
Relative	0.7%	-4.5%	-14.1%
12M (H/L)	5.02/3.27		
3M Average Volume (th):	2,348.68		

#### Shareholder Data

No. of Ord shares (mn):	1,000
Total no. of shares (mn):	1,000
Mkt Cap Ord (Eu mn):	4,639
Total Mkt Cap (Eu mn):	4,639
Mkt Float - Ord (Eu mn):	1,772
Mkt Float (in %):	38.2%
Main Shareholder:	
Marco Polo International Italy Srl	45.5%

#### Balance Sheet Data

Book Value (Eu mn):	5,358
BVPS (Eu):	5.52
P/BV:	0.8
Net Financial Position (Eu mn):	-2,315
Enterprise Value (Eu mn):	7,160

■ **1Q23 preview: price/mix to more than offset cost inflation.** We forecast that PIRC will report a solid quarter overall, driven once again by strong, double-digit price/mix growth, more than offsetting cost inflation and slightly negative volumes. In detail: we see group revenues of €1.65bn, up +8% YoY, with price/mix at +12%, FX neutral, and volumes down -3%. The price/mix effect should have mostly come from price hikes, while mix should only be slightly positive following the healthy product mix offset by channel (OE>RT) and geo mix. Market volumes were negative in the quarter, with PIRC benefitting from positive growth of High Value, from which we expect +1%, (75% of total) but impacted by challenging Standard Value trends (-9%). Adj. EBIT is projected at €240mn (+5% YoY) thanks to price/mix and efficiencies, more than offsetting the impact of cost inflation (headwind of €-140mn in total, -9% of revenues) and lower volumes. The margin is therefore seen at 14.5%, slightly lower YoY, (-0.5pp), but a touch higher QoQ (+0.2pp). Net debt is expected at €3.24bn after seasonal FCF absorption (~€0.7bn), essentially stable YoY.

■ **2023 guidance expected to be confirmed.** In light of a solid quarter with turnover growth ahead and profitability in line with the high end of FY indications, we expect PIRC to confirm guidance. In particular, we forecast 1Q23 turnover growth of +8% vs FY guidance of 0%/+3%, while the EBIT margin is seen at 14.5% vs guidance of >14.0-14.5%. Looking more closely at specific trends, we think the company is well placed to achieve the price/mix guidance (of +4/5% vs 1Q23 seen at +12%), as pricing appears to be holding up for the time being also on the back of the carryover from 2022. Volumes remain subject to market trends, but we expect PIRC to enjoy more favourable trends thanks to High Value exposure. On margins, we see scope for slightly lower cost inflation going forward due to raw materials, but we do not incorporate tangible benefits for the time being pending more visibility.

■ **OUTPERFORM and TP at €5.90 confirmed.** We expect PIRC to report a solid quarter, putting the company well on track to hit FY targets. 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 trades at 7.3/6.3x EV/EBIT and an FCF yield of 10/11% for 2023/24 (below the historical average and more attractive than peers trading at 8.9/7.6x and 8%/7% respectively), while also offering higher FCF conversion.

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	0.570	0.512	0.574	0.621
DPS (Eu)	0.161	0.218	0.162	0.195	0.222
EV/EBITDA Adj	6.9	5.3	5.1	4.5	3.9
EV/EBIT Adj	10.3	7.6	7.3	6.3	5.4
P/E Adj	9.9	8.1	9.1	8.1	7.5
Div. Yield	3.5%	4.7%	3.5%	4.2%	4.8%
Net Debt/EBITDA Adj	2.4	1.8	1.6	1.3	1.0