

STELLANTIS

Sector: Industrials

NEUTRAL

Price: Eu17.23 - Target: Eu18.60

Price Pressure and Stronger Cost Inflation Fail to Materialize

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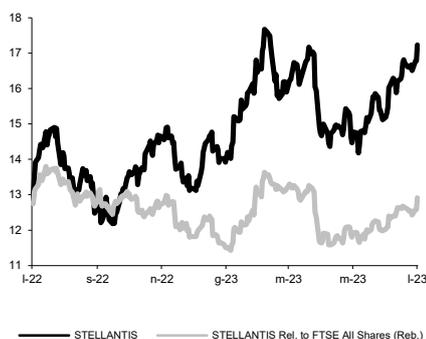
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 16.20 to 18.60		
	2023E	2024E	2025E
Chg in Adj EPS	28.9%	11.6%	9.2%

STELLANTIS - 12M Performance



Stock Data

Reuters code:	STLAM.MI		
Bloomberg code:	STLAM IM		
Performance	1M	3M	12M
Absolute	13.5%	17.5%	35.1%
Relative	7.7%	11.6%	1.8%
12M (H/L)	17.67/12.18		
3M Average Volume (th):	9,899.78		

Shareholder Data

No. of Ord shares (mn):	3,228
Total no. of shares (mn):	3,105
Mkt Cap Ord (Eu mn):	55,611
Total Mkt Cap (Eu mn):	55,611
Mkt Float - Ord (Eu mn):	37,045
Mkt Float (in %):	66.6%
Main Shareholder:	
Exor	14.4%

Balance Sheet Data

Book Value (Eu mn):	86,525
BVPS (Eu):	27.87
P/BV:	0.6
Net Financial Position (Eu mn):	34,478
Enterprise Value (Eu mn):	19,017

■ **1H23 results: above expectations on lower cost inflation/higher cost efficiency.** STLAM reported revenues of €98.4bn, +12% YoY, and in line with forecast in terms of both volumes and ASP. Volumes increased by +9% to 3.2mn as the company clears the excess backlog built up at the height of the supply chain crisis. ASP was up +2%, driven by the carryover effect of price hikes made in 2022 (+5%, in line), but partly offset by negative mix (-1%) and FX (-1%). Adj. EBIT was €14.1bn, (our/cons. €12.9/12.6bn), +11% YoY for a 14.4% margin, -0.1pp YoY. Looking at the bridge, industrial cost was much lower than assumed at €-1.7bn vs exp. €-4.7bn, more than compensating the lower contribution from Vol&Mix at €-0.3bn (exp. €1.0bn) and negative “others” at €-1.3bn (exp. €0.0bn). FCF was €8.7bn vs our/cons. €5.4/5.7bn due to lower CapEx and higher results.

■ **2023 guidance: 4 months backlog and improving supply to protect year.** Guidance for a double-digit margin and positive FCF was reaffirmed, but as usual its value is limited given the wide range and level of 1H23 results (14.4% margin, FCF of €8.7bn). Qualitatively, management expects a 2H with higher volumes thanks to a 4-month backlog (~2mn units or ~3mn), synergies (€2.4bn P&L in 1H23), and operational improvements, while mix and cost inflation should remain negative items.

■ **Pricing: strategy aims to extract value (i.e. flexible for external elements); some pressure in the US.** Management sees pricing as the lever by which to extract value, meaning that it is flexible considering the level of cost inflation and should interplay with volume growth. Some pricing pressure is seen in the US, but less in EU. Overall, it seems the level of competition has not intensified strongly so far, with legacy OEMs seemingly committed to maintain pricing, at least on their ICE cash-cow activities (we look at various statements by companies; RNO upgrade to FY23 guidance thanks to price&mix).

■ **Slight increase in inventories; UAW negotiations started; BEV up +24%, but slower than mkt.** Inventories increased to 1.4mn vehicles vs 1.3/1.1mn in 1Q23/YE22. The company sees it as a more normal level, but higher inventories suggested lower pricing power. As for contract renewal with the UAW, negotiations have started, and the tone sounds more confident than in GM comments (as a reminder, CNHI’s UAW employees gained a 6/8% annual increase over 4 years and other benefits). BEV sales increased by 24% to 169k units (5.3% of total vs 4.5% in 1H22), but slower than the market as STLAM ranked #3 vs 2# last year in the EU.

■ **Change in estimates.** The stronger 1H23 results and indications lead us to raise our forecast by 29% on the back of lower cost inflation/higher cost efficiency (COGS/unit +3% vs +6% prev.) and higher shipments (+8% vs +0%). Pricing assumptions confirmed, merely embedding carryover from 2022. On FY24, we remain cautious, embedding low vol growth, stable pricing, and some cost inflation, which implies a 10.8% margin vs 12.7% in FY23E.

■ **NEUTRAL, TP to €18.6.** STLAM reported better-than-expected 1H23 results and offered reassuring indications on 2H23 that should lead to a tangible upgrade in consensus forecasts (we believe similar to ours). Though pricing and inflationary pressure won’t materialize as expected in FY23, we believe they may do so going forward as OEMs clear existing backlog, and tackle decreasing order intake, higher inventories and used car prices trending lower. We recognize that the stock continues to trade at an undemanding valuation (3.4x PE FY23), even on low short-term expectations, but with these risks in the air and the transition to EVs in the background we see no grounds for re-rating. TP to €18.6 on higher estimates, offset by lower multiples (~10%) and other adjustments.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	152,119	179,592	192,838	195,356	202,448
EBITDA Adj (Eu mn)	23,999	30,095	33,388	32,580	34,212
Net Profit Adj (Eu mn)	13,346	16,779	18,303	17,466	18,162
EPS New Adj (Eu)	4.235	5.324	5.895	5.626	5.850
EPS Old Adj (Eu)	4.235	5.324	4.574	5.040	5.358
DPS (Eu)	1.040	1.340	1.484	1.416	1.472
EV/EBITDA Adj	1.3	0.6	0.6	0.5	0.3
EV/EBIT Adj	1.7	0.8	0.8	0.6	0.4
P/E Adj	4.1	3.2	2.9	3.1	2.9
Div. Yield	6.0%	7.8%	8.6%	8.2%	8.5%
Net Debt/EBITDA Adj	-0.8	-0.9	-1.0	-1.2	-1.3