

**Pirelli & C. (NO RATING):**

**Holding Structure Simplification**

**News:** Yesterday, Pirelli's BoD approved a new organisational structure. The company will regroup all the activities directly supporting the core business (tyres and filters) under a new 'Tyre and Parts' department, to be headed up by Francesco Gori, Pirelli Tyre's CEO. According to management, this rationalisation should generate at least EUR 10M cost savings on an annual basis starting in 2010. In line with the focus on industrial activities, the reorganisation also envisages the closure of the Operations department, headed by Claudio De Conto who will now focus his activity at Pirelli RE as Finance CEO. Together with Pirelli RE's other CEO, Giulio Malfatto, Claudio De Conto will manage the ongoing turnaround process.

**Our view:** We positively view Pirelli's structure simplification as the re-groupment of operating activities was necessary to drive growth at the core business. In fact, the inclusion of tyres (Pirelli Tyre) and filters (Pirelli Eco Technology) under a new division should ensure a single management of corporate processes. Furthermore, we think the group's structure simplification represents a step ahead in Pirelli's progressive transformation from an industrial holding company into a pure automotive group. In terms of valuation, we highlight that the expected savings from the re-organisation were not incorporated in Pirelli's February 2009 business plan. Thanks to this operation, from 2010 we expect the group's holding costs to decrease from the forecasted EUR 15-20M to roughly EUR 10M per year (we estimate that 40% of these holding costs are attributable to Pirelli Zero). If we incorporate the savings on corporate costs together with the tyre sector recent re-rating, our NAV rises from EUR 0.43/sh to EUR 0.47/sh. While we do not exclude that the stock could continue to benefit from the market rally of cyclical stocks and from further positive news on the group's progressive re-focusing into a tyre company, based on our revised NAV we highlight that, following the strong rally started in June, the stock has returned to trade at a discount (21%) to NAV roughly in line with its historical average.

Key data			
Sector	Autos & Components		
NAV (EUR)	0.47		
Rating	NO RATING		
Mkt price (EUR)	0.38		
Mkt cap (EUR M)	1989		
Ratios (x)	2008A	2009E	2010E
P/E	-9.70	39.44	13.40
EV/sales	0.63	0.68	0.61
EV/EBITDA	11.53	7.34	5.39
Performance (%)	1M	3M	12M
Absolute	17.65	38.43	-15.27
Rel. to FTSE It. All	8.85	20.47	-3.14

Source: Intesa Sanpaolo Research estimates and Thomson Reuters  
We do not assign a rating on the company in view of the Intesa Sanpaolo decision to join the Pirelli voting bloc agreement.

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**Sector News**

**Banks Sector:**

**August Data from ABI**

**News:** According to an ABI report, in August 2009 Italian loans increased by 1.97% yoy (from 1.65% in July 2009 and 6.95% in August 2008), and total deposits increased by 10.98% (stable on July 2009, +10.46%, and from +13.89% in August 2008). In August 2009 the customer spread remained almost flat vs. the previous month, being down by 92bps yoy and by 56bps YTD. However, there was bad news on the asset quality side: in July 2009, gross non-performing loans increased by 3.5% in just one month, and 22.4% since the beginning of the year; the non-performing loans ratio increased to 1.67% (+38bps since the beginning of the year) and the ratio between net non-performing loans and book value increased to 10.0% (+190bps since the beginning of the year). According to Il Sole 24 Ore, the bank shareholders of SIA-Ssb, the company that manages the payment systems in Italy, are ready to sell the company to Atos or Bridgepoint, for a total value close to EUR 400M. Of the banks under our coverage, Unicredit has a 24% stake in SIA-Ssb, UBI a 3.6% stake and Banco Popolare a 2.6% stake.

**Our view:** ABI data confirm our scenario of stagnant volumes and deteriorating asset quality. The disposal of SIA-Ssb is coherent with the capital strengthening strategy of Italian banks, but the impact is only expected to be moderate.

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