



Buy

Recommendation unchanged

Share price: EUR 0.43

closing price as of 10/03/2010

Target price: EUR 0.49

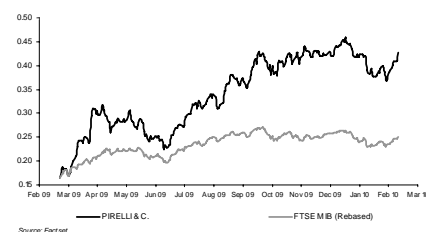
Target Price unchanged

Reuters/Bloomberg

PECMWPC IM

Market capitalisation (EURm)	2,353
Current N° of shares (m)	5,494
Free float	49%
Daily avg. no. trad. sh. 12 mth	47,130,574
Daily avg. trad. vol. 12 mth (m)	16
Price high 12 mth (EUR)	0.46
Price low 12 mth (EUR)	0.15
Abs. perf. 1 mth	8.24%
Abs. perf. 3 mth	1.91%
Abs. perf. 12 mth	189.30%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	4,462	4,804	5,006
EBITDA (m)	429	543	620
EBITDA margin	9.6%	11.3%	12.4%
EBIT (m)	217	332	390
EBIT margin	4.9%	6.9%	7.8%
Net Profit (adj.)(m)	74	222	263
ROCE	10.1%	11.2%	12.9%
Net debt/(cash) (m)	529	712	474
Net Debt/Equity	0.2	0.3	0.2
Debt/EBITDA	1.2	1.3	0.8
Int. cover(EBITDA/Fin. int)	5.0	7.2	8.9
EV/Sales	0.6	0.6	0.5
EV/EBITDA	6.0	5.3	4.2
EV/EBITDA (adj.)	5.0	5.0	4.0
EV/EBIT	11.8	8.7	6.6
P/E (adj.)	30.2	10.3	8.7
P/BV	1.0	1.0	0.9
OpFCF yield	6.7%	-7.1%	12.3%
Dividend yield	3.5%	3.5%	3.7%
EPS (adj.)	0.01	0.04	0.05
BVPS	0.40	0.43	0.46
DPS	0.02	0.01	0.02



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Good Q4 09 results – The Pirelli Re spin off comes closer

The facts: Yesterday during trading hours, Pirelli&C released better-than-expected Q4 09 results and gave a 2010 outlook which is broadly in line with our estimates. Pirelli&C BoD proposed a EUR 0.0145 dividend per Ord. share (EUR 0.0406 per Sav. Share), basically in line with our estimates.

Our analysis: The following table shows the results for Q409 and the FY09.

	Q4 09	Q4 08	Δ% Y/Y	Q4 09 e	2009	2008	Δ% Y/Y	2009e
Revenues	1,155	989	16.8%	1,005	4,462	4,660	-4.2%	4,312
- Pirelli Tyres	155.2	62.9	146.7%	133.6	538.0	441.2	21.9%	516.4
- BBS	1.7	1.0	70.0%	1.1	5.3	4.8	10.4%	4.7
- Pirelli RE	(5.0)	(45.0)	-88.9%	(7.8)	(5.0)	(17.6)	-71.6%	(7.8)
- Pirelli Ambiente	(1.9)	(7.2)	-73.6%	(2.8)	(9.1)	(17.4)	-47.7%	(10.0)
- Others	(3.1)	(6.8)	-54.4%	(7.0)	(21.1)	(14.9)	41.6%	(25.0)
EBITDA bef. rest	146.9	4.9	n.m.	117.1	508.1	396.1	28.3%	478.3
EBIT	53.6 (139.7)	-138%	31.5	217.4	43.2	403%	195.3	
As a % of rev.	4.6%	-14.1%	3.1%	4.9%	0.9%	4.5%		
EBIT+ IEP	34.8 (420.9)	-108%	23.3	160.7 (323.3)	-150%	149.2		
Pre-tax profit	2.4 (461.9)	-101%	(13.7)	75.3 (403.3)	-119%	59.2		
Net profit	4.5 (253.5)	-102%	(2.1)	22.7 (347.5)	-107%	14.5		

Q409 results beat our estimates; **Pirelli Tyres** benefited from a strong performance in Brazil, an increase in selling prices and a very good NWC management; its NFP came in at to EUR 1.0bn from EUR 1.3bn as @ the end of Sept. 09.

For 2010, Pirelli&C is targeting revenues of EUR 4.7/4.8bn (+5.3/+7.6% Y/Y), an EBIT margin of 6.5/7.0% (EUR 306/336m, +40/55% Y/Y); this guidance is in line with our estimate of EUR 330m. Here follow the highlights of the c. call:

- Pirelli&C is more committed than ever at separating Pirelli Re from the core business of tyres; the spin off is expected to take place within year end and the management does not envisage any particular problem; Pirelli Re's has the full support of its financial partners in this venture.
- Pirelli Tyre is the main growth driver; its top line is expected to grow by 6/8% Y/Y with a flat EBIT margin; we argue that the management had a particular cautious approach when setting these targets.
- Pirelli&C is willing to sell the Broadband S. subsidiary or combine it with another player in an effort to focus on the tyre/parts core business.

The following table shows how we improved our estimates for the years to come.

	2010 e			2011 e		
	New	Old	Δ%	New	Old	Δ%
Revenues	4,804	4,445	8.1%	5,006	4,634	8.0%
EBITDA	543	548	-0.9%	620	615	0.9%
EBIT	332	330	0.5%	390	377	3.4%
Net Profit	199	187	6.8%	244	224	8.9%

Conclusion & Action: FY09 results were good, while the outlook is broadly in line with our estimates; **we keep our BUY recommendation** reminding investors that it would grow to EUR 0.58 once the Pirelli Re spin off is executed.