

## Investment Research

## Buy

Recommendation unchanged

Share price: EUR 6.68

closing price as of 28/10/2011

Target price: EUR 7.50

Target Price unchanged

Reuters/Bloomberg

PECLM/PC IM

Daily avg. no. trad. sh. 12 mth 3,991,526

Daily avg. trad. vol. 12 mth (m) 24.87

Price high 12 mth (EUR) 7.68

Price low 12 mth (EUR) 4.91

Abs. perf. 1 mth 22.3%

Abs. perf. 3 mth -8.7%

Abs. perf. 12 mth 8.4%

Market capitalisation (EURm) 3,255

Current N° of shares (m) 487

Free float 49%

Key financials (EUR)

Sales (m) 12/10 4,848 12/11e 5,989 12/12e 6,234

EBITDA (m) 630 789 848

EBITDA margin 13.0% 13.2% 13.6%

EBIT (m) 408 553 581

EBIT margin 8.4% 9.2% 9.3%

Net Profit (adj.)(m) 262 312 323

ROCE 14.7% 17.0% 16.3%

Net debt/(cash) (m) 456 638 588

Net Debt Equity 0.2 0.3 0.2

Net Debt/EBITDA 0.7 0.8 0.7

Int. cover(EBITDA/Fin.int) 9.6 9.3 10.6

EV/Sales 0.9 0.7 0.7

EV/EBITDA 6.9 5.2 4.8

EV/EBITDA (adj.) 6.6 5.1 4.8

EV/EBIT 10.7 7.4 7.0

P/E (adj.) 11.3 10.4 10.1

P/BV 1.5 1.5 1.3

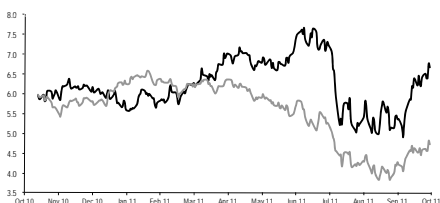
OpFCF yield -2.9% -4.1% 4.0%

Dividend yield 2.5% 3.7% 0.0%

EPS (adj.) 0.54 0.64 0.66

BVPS 4.09 4.54 4.95

DPS 0.17 0.25 0.00



Source: Factset

Shareholders: Shareholders Agreement 46%; Camfin out of Shareholders Agreement 5%;

For company description please see summary table footnote

## Pirelli expected to post very good Q3 results

**The facts:** Pirelli is going to release Q3 2011 results on 8 November, after market closing; the company is set to comment Q3 results and update the strategic plan for the years 2012-14 on 9 November.

**Our analysis:** The following table shows our P&L estimates; we stripped out the contribution of Pirelli BBS (sold last year) to offer an adjusted comparison base.

EUR m	Q3 11 e	Q3 10	Δ% Y/Y	9M 11 e	9M 10	Δ% Y/Y
Revenues	1,458	1,250	16.7%	4,248	3,703	14.7%
EBIT	150.3	116.2	29.4%	440.4	309.6	42.3%
EBIT margin	10.3%	9.3%		10.4%	8.4%	
Other income/(charges)	0.0	22.0	n.m.	0.9	18.0	n.m.
EBIT + IEP	150.3	138.2	8.8%	441.3	327.6	34.7%
Net financial charges	(22.0)	(14.0)	57.1%	(66.7)	(53.6)	24.4%
Pre-tax profit	128.3	124.2	3.3%	374.6	274.0	36.7%
Taxes	(48.0)	(40.1)	19.7%	(135.5)	(109.9)	23.3%
Net profit bef. Min.	80.3	84.1	-4.5%	239.1	164.1	45.7%
Result from disc. Op.	0.0	(9.2)	n.m.	0.0	(265.6)	n.m.
Minorities	0.0	3.6	n.m.	0.3	14.5	n.m.
Net profit	80.3	78.5	2.3%	239.4	(87.0)	n.m.

We expect Pirelli Tyre **revenues** to have grown by ~17% Y/Y, thanks to higher prices (+10% Y/Y) and better mix (+7% Y/Y) and despite a negative foreign exchange impact offsetting a moderate volume growth (+3% Y/Y); the Consumer business should have performed better than the Industrial business thanks to a stronger mix improvement. Pirelli Tyre's **EBIT after restructuring** is expected to have come in at EUR 160m (at 11.1% of revenues), again thanks to higher prices, better mix, higher volumes and better efficiency more than offsetting higher raw material prices (~+10% Y/Y), labour and energy costs, D&A and adverse forex impact. We expect **net profit** to have reached EUR 80m (+2.3% Y/Y); on an adjusted basis (Pirelli booked a EUR 18.4m capital gain in Q3 2010), net profit should mark a 34% Y/Y increase.

We expect **NFP** to have reached EUR -940m (EUR -779m as at the end of June), after capex for EUR 160m and a seasonal inventory build up in the quarter.

**Conclusion & Action.** We believe that Q3 results will be strong indeed; we point out that our current estimates are cautious and below consensus in terms of both operating and bottom line performance (our 2011e EPS is 5% below Pirelli consensus). For the time being, we keep our estimates and Buy recommendation unchanged.

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## Pirelli &amp; C.: Summary tables

<b>PROFIT &amp; LOSS (EURm)</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
<b>Sales</b>	<b>4,660</b>	<b>4,199</b>	<b>4,848</b>	<b>5,989</b>	<b>6,234</b>	<b>6,724</b>
Cost of Sales & Operating Costs	-4,264	-3,647	-4,194	-5,180	-5,386	-5,718
Non Recurrent Expenses/Income	-144	-77.5	-24.7	-20.0	0.0	0.0
<b>EBITDA</b>	<b>252</b>	<b>474</b>	<b>630</b>	<b>789</b>	<b>848</b>	<b>1,006</b>
<b>EBITDA (adj.)*</b>	<b>396</b>	<b>552</b>	<b>655</b>	<b>809</b>	<b>848</b>	<b>1,006</b>
Depreciation	-182	-209	-222	-236	-267	-281
<b>EBITA</b>	<b>70.2</b>	<b>265</b>	<b>408</b>	<b>553</b>	<b>581</b>	<b>726</b>
<b>EBITA (adj)*</b>	<b>214</b>	<b>342</b>	<b>432</b>	<b>573</b>	<b>581</b>	<b>726</b>
Amortisations and Write Downs	-26.9	-11.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>43.3</b>	<b>254</b>	<b>408</b>	<b>553</b>	<b>581</b>	<b>726</b>
<b>EBIT (adj.)*</b>	<b>187</b>	<b>331</b>	<b>432</b>	<b>573</b>	<b>581</b>	<b>726</b>
Net Financial Interest	-80.1	-64.7	-65.8	-85.0	-80.0	-80.0
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	-366	-11.7	23.5	2.7	4.2	5.7
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings Before Tax (EBT)</b>	<b>-403</b>	<b>178</b>	<b>365</b>	<b>470</b>	<b>505</b>	<b>651</b>
Tax	-72.6	-90.0	-137	-172	-182	-231
<i>Tax rate</i>	<i>nm</i>	<i>50.7%</i>	<i>37.6%</i>	<i>36.5%</i>	<i>36.0%</i>	<i>35.5%</i>
Discontinued Operations	63.4	0.0	-224	0.0	0.0	0.0
Minorities	65.0	-1.1	17.5	0.0	0.0	0.0
<b>Net Profit (reported)</b>	<b>-348</b>	<b>87</b>	<b>22</b>	<b>299</b>	<b>323</b>	<b>420</b>
<b>Net Profit (adj.)</b>	<b>-295</b>	<b>137</b>	<b>262</b>	<b>312</b>	<b>323</b>	<b>420</b>
<b>CASH FLOW (EURm)</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
Cash Flow from Operations before change in NWC	-204	308	226	535	590	701
Change in Net Working Capital	-121	201	104	-94.7	-44.1	-65.2
<b>Cash Flow from Operations</b>	<b>-325</b>	<b>509</b>	<b>331</b>	<b>440</b>	<b>546</b>	<b>636</b>
Capex	-942	-289	-439	-600	-500	-371
Net Financial Investments	165	317	31.7	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>-1,102</b>	<b>537</b>	<b>-76.1</b>	<b>-160</b>	<b>46.2</b>	<b>265</b>
Dividends	-919	0.0	-81.1	-81.3	-119	-129
Other (incl. Capital Increase & share buy backs)	691	-33.6	230	59.6	123	-570
<b>Change in Net Debt</b>	<b>-1331</b>	<b>503</b>	<b>73</b>	<b>-182</b>	<b>49</b>	<b>-434</b>
NOPLAT	187	331	432	573	581	726
<b>BALANCE SHEET &amp; OTHER ITEMS (EURm)</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
Net Tangible Assets	1,598	1,727	1,977	2,313	2,461	2,549
Net Intangible Assets (incl. Goodwill)	1,046	1,047	849	850	851	852
Net Financial Assets & Other	1,021	821	338	338	338	338
<b>Total Fixed Assets</b>	<b>3,665</b>	<b>3,596</b>	<b>3,164</b>	<b>3,501</b>	<b>3,650</b>	<b>3,740</b>
Net Working Capital	423	222	117	212	256	321
<b>Net Capital Invested</b>	<b>4,088</b>	<b>3,818</b>	<b>3,281</b>	<b>3,712</b>	<b>3,906</b>	<b>4,061</b>
<b>Group Shareholders Equity</b>	<b>2,374</b>	<b>2,495</b>	<b>2,028</b>	<b>2,248</b>	<b>2,451</b>	<b>2,742</b>
<i>o/w own Shareholders Equity</i>	<i>2,172</i>	<i>2,175</i>	<i>1,991</i>	<i>2,210</i>	<i>2,414</i>	<i>2,705</i>
<b>Net Debt</b>	<b>1,032</b>	<b>529</b>	<b>456</b>	<b>638</b>	<b>588</b>	<b>434</b>
Provisions	682	794	797	827	866	885
Other Net Liabilities or Assets	0	0	0	0	0	0
<b>Net Capital Employed</b>	<b>4,088</b>	<b>3,818</b>	<b>3,281</b>	<b>3,712</b>	<b>3,906</b>	<b>4,061</b>
<b>GROWTH &amp; MARGINS</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
<i>Sales growth</i>	<i>-10.5%</i>	<i>-9.9%</i>	<i>15.5%</i>	<i>23.5%</i>	<i>4.1%</i>	<i>7.9%</i>
<b>EBITDA (adj.)* growth</b>	<b>-31.8%</b>	<b>39.3%</b>	<b>18.6%</b>	<b>23.5%</b>	<b>4.8%</b>	<b>18.7%</b>
<i>EBITA (adj.)* growth</i>	<i>-42.4%</i>	<i>59.7%</i>	<i>26.3%</i>	<i>32.4%</i>	<i>1.4%</i>	<i>25.0%</i>
<i>EBIT (adj.)* growth</i>	<i>-48.9%</i>	<i>76.8%</i>	<i>30.5%</i>	<i>32.4%</i>	<i>1.4%</i>	<i>25.0%</i>
<i>Net Profit growth</i>	<i>-chg</i>	<i>+chg</i>	<i>91.1%</i>	<i>19.1%</i>	<i>3.7%</i>	<i>30.0%</i>
<b>EPS adj. growth</b>	<b>-chg</b>	<b>+chg</b>	<b>88.2%</b>	<b>19.1%</b>	<b>3.7%</b>	<b>30.0%</b>
<i>DPS adj. growth</i>	<i>-chg</i>	<i>+chg</i>	<i>-1.3%</i>	<i>47.0%</i>	<i>-chg</i>	
<b>EBITDA margin</b>	<b>5.4%</b>	<b>11.3%</b>	<b>13.0%</b>	<b>13.2%</b>	<b>13.6%</b>	<b>15.0%</b>
<i>EBITDA (adj.)* margin</i>	<i>8.5%</i>	<i>13.1%</i>	<i>13.5%</i>	<i>13.5%</i>	<i>13.6%</i>	<i>15.0%</i>
<i>EBITA margin</i>	<i>1.5%</i>	<i>6.3%</i>	<i>8.4%</i>	<i>9.2%</i>	<i>9.3%</i>	<i>10.8%</i>
<i>EBITA (adj.)* margin</i>	<i>4.6%</i>	<i>8.2%</i>	<i>8.9%</i>	<i>9.6%</i>	<i>9.3%</i>	<i>10.8%</i>
<i>EBIT margin</i>	<i>0.9%</i>	<i>6.0%</i>	<i>8.4%</i>	<i>9.2%</i>	<i>9.3%</i>	<i>10.8%</i>
<i>EBIT (adj.)* margin</i>	<i>4.0%</i>	<i>7.9%</i>	<i>8.9%</i>	<i>9.6%</i>	<i>9.3%</i>	<i>10.8%</i>

## Pirelli &amp; C.: Summary tables

<b>RATIOS</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
Net Debt/Equity	0.4	0.2	0.2	0.3	0.2	0.2
Net Debt/EBITDA	4.1	1.1	0.7	0.8	0.7	0.4
Interest cover (EBITDA/Fin.interest)	3.1	7.3	9.6	9.3	10.6	12.6
Capex/D&A	451.5%	131.4%	197.5%	254.2%	187.1%	132.0%
Capex/Sales	20.2%	6.9%	9.0%	10.0%	8.0%	5.5%
NWC/Sales	9.1%	5.3%	2.4%	3.5%	4.1%	4.8%
ROE (average)	-11.5%	6.3%	12.6%	14.8%	14.0%	16.4%
ROCE (adj.)	6.1%	11.1%	14.7%	17.0%	16.3%	19.5%
WACC	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
ROCE (adj.)/WACC	0.9	1.5	2.1	2.4	2.3	2.7
<b>PER SHARE DATA (EUR)***</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
Average diluted number of shares	479.6	479.6	487.2	487.2	487.2	487.2
EPS (reported)	-0.72	0.18	0.04	0.61	0.66	0.86
EPS (adj.)	-0.62	0.29	0.54	0.64	0.66	0.86
BVPS	4.53	4.53	4.09	4.54	4.95	5.55
DPS	0.00	0.17	0.17	0.25	0.00	0.00
<b>VALUATION</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
EV/Sales	0.5	0.8	0.9	0.7	0.7	0.6
EV/EBITDA	9.5	6.9	6.9	5.2	4.8	3.9
<b>EV/EBITDA (adj.)*</b>	<b>6.0</b>	<b>5.9</b>	<b>6.6</b>	<b>5.1</b>	<b>4.8</b>	<b>3.9</b>
EV/EBITA	33.9	12.4	10.7	7.4	7.0	5.4
<b>EV/EBITA (adj.)*</b>	<b>11.1</b>	<b>9.6</b>	<b>10.1</b>	<b>7.1</b>	<b>7.0</b>	<b>5.4</b>
EV/EBIT	55.1	12.9	10.7	7.4	7.0	5.4
<b>EV/EBIT (adj.)*</b>	<b>12.7</b>	<b>9.9</b>	<b>10.1</b>	<b>7.1</b>	<b>7.0</b>	<b>5.4</b>
<b>P/E (adj.)</b>	<b>nm</b>	<b>16.2</b>	<b>11.3</b>	<b>10.4</b>	<b>10.1</b>	<b>7.7</b>
P/BV	0.6	1.0	1.5	1.5	1.3	1.2
Total Yield Ratio	0.0%	2.8%	2.1%	3.7%	4.0%	
EV/CE	0.8	1.1	1.5	1.2	1.1	1.1
OpFCF yield	-37.0%	9.2%	-2.9%	-4.1%	4.0%	8.1%
OpFCF/EV	-27.8%	8.1%	-2.5%	-3.2%	3.2%	6.8%
Payout ratio	0.0%	93.7%	nm	40.0%	0.0%	0.0%
Dividend yield (gross)	0.0%	3.7%	2.5%	3.7%	0.0%	0.0%
<b>EV AND MKT CAP (EURm)</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010</b>	<b>12/2011e</b>	<b>12/2012e</b>	<b>12/2013e</b>
Price** (EUR)	2.9	4.6	6.1	6.7	6.7	6.7
Outstanding number of shares for main stock	480	480	487	487	487	487
<b>Total Market Cap</b>	<b>1,786</b>	<b>2,883</b>	<b>3,704</b>	<b>3,255</b>	<b>3,255</b>	<b>3,255</b>
<b>Net Debt</b>	<b>1,032</b>	<b>529</b>	<b>456</b>	<b>638</b>	<b>588</b>	<b>434</b>
<i>o/w Cash &amp; Marketable Securities (-)</i>	<i>-496</i>	<i>-809</i>	<i>-455</i>	<i>-273</i>	<i>-323</i>	<i>-477</i>
<i>o/w Gross Debt (+)</i>	<i>1,528</i>	<i>1,338</i>	<i>911</i>	<i>911</i>	<i>911</i>	<i>911</i>
<b>Other EV components</b>	<b>-435</b>	<b>-136</b>	<b>189</b>	<b>194</b>	<b>209</b>	<b>224</b>
<b>Enterprise Value (EV adj.)</b>	<b>2,383</b>	<b>3,275</b>	<b>4,349</b>	<b>4,087</b>	<b>4,052</b>	<b>3,913</b>

Source: Company, Banca Akros estimates.

## Notes

\* Where EBITDA (adj.) or EBITA (adj) or EBIT (adj.)= EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income

\*\*Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

\*\*\*EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Automobiles & Parts/Tyres Manufacturers

Company Description: Pirelli is an Italian industrial holding company. Pirelli's most important business is Pirelli Tyre, a high-performance car tyre maker which value represents 67% of the entire holding company asset value. Pirelli holds a 55.7% stake in Pirelli RE, a listed company providing real estate management and related services (Pirelli RE weights for 5.8% of Pirelli asset value). Pirelli has small presence in the telecom business through Pirelli BBS (4.2% of the asset value) and in the field of environment (Pirelli & C Ambiente, Pirelli & C Ecotechnology, 0.5% of the NA). Pirelli owns 3 sizeable stakes in Telecom Italia (5.8% of NA), Mediobanca (5.4% of NA) and RCS Mediagroup (1.9% of NA). Recently, Pirelli has showed the intention to focus on its industrial assets, but the management does not want dispose of the financial stakes in the current market conditions.

## ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

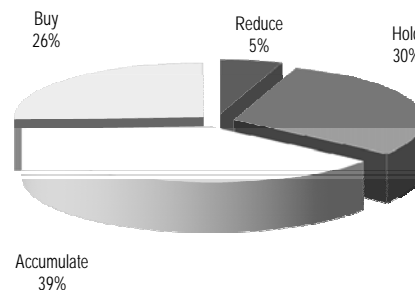
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

### Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold:** the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce:** the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended:** the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

### Banca Akros Ratings Breakdown

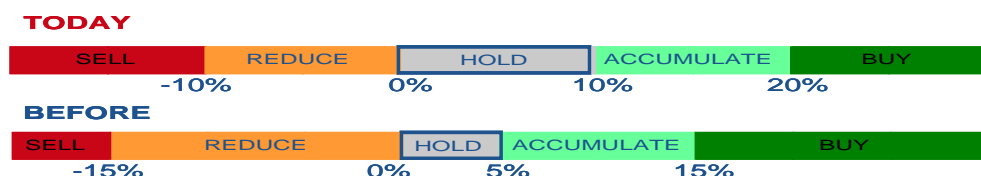


### History of ESN Recommendation System

**Since 18 October 2004**, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

**Since 4 August 2008**, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



Il presente documento è stato redatto da Gabriele Gambarova (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso.

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#### Recommendation history for PIRELLI & C.

Date	Recommendation	Target price	Price at change date
14-Oct-11	Buy	7.50	6.40
05-May-11	Accumulate	8.00	6.88
09-Mar-11	Accumulate	7.00	6.23
25-Oct-10	Accumulate	6.30	6.26
15-Oct-10	Accumulate	6.70	6.39
30-Jul-10	Buy	6.00	5.37
26-Jul-10	Buy	5.70	5.48
04-Dec-09	Buy	5.39	4.75
17-Sep-09	Buy	4.62	4.19
30-Jul-09	Buy	4.40	3.23

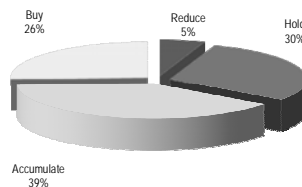
Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Gabriele Gambarova (since 11/12/2006)

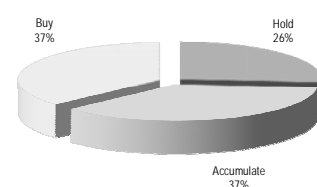


#### Percentuale delle raccomandazioni al 30 settembre 2011

##### Tutte le raccomandazioni



##### Raccomandazioni su titoli in conflitto di interessi (\*)



(\*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 20% del totale degli emittenti oggetto di copertura

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