

# Global Tire Makers

## July: volume growth weak but not worsening

### Another month with PC replacement in positive growth due to China/NA; channel mix negative

Michelin has released July market data (August should follow in a couple of weeks), which shows global Passenger Car (PC) replacement (RT) demand in positive growth for the third month in a row with +1% yoy thanks to China +10% and NA +2% while Europe dropped by -3%. Michelin continues to indicate "high inventories in Europe" and also mentioned "weak winter tire sales". We estimate overall PC is flat ytd, at the high end of Michelin's forecast for the full year of -3/0%. The base will get easier from Sep onwards. OE +4% vs RT +1% in July (compared to OE +7% and RT -1% for FY22) should continue to impair channel mix. In Trucks, global replacement demand (excl. China) decreased by -4% in July (-6% ytd). Overall, we estimate Truck tire (excl. China) growth is flat ytd, compared to Michelin's market forecasts of -4/-1% for FY23.

### Segment view: more resilient pricing with inflation melting

**Short term:** We think there is still upside risk to FY23 guidance/consensus driven by more resilient pricing and more muted inflationary pressures: -65% for gas, -30% for tire input costs and -80% for sea freight. As the dealer destocking process is close to the end, volume growth should turn less negative and could even turn slightly positive towards YE/start of 2024. Finally, we believe the downtrading risk is more limited than feared by some investors. **Mid-to-long term:** Premium tire makers are well positioned to capture the profitable growth from EV-dedicated tires. For more details, please refer to our two recent sector notes: [Global Tire Makers "In the mind of tire buyers - measuring the relevance of price, downtrading risk and EV shift"](#) and [Demystifying Tire Pricing "No sign of pricing pressure"](#)

### Stock implications: Michelin is our only Buy-rated stock in European tires

[Michelin](#) (Buy, €36): only Buy-rated tire maker due to upside risk to FY23 guidance/consensus and most depressed valuation (c8x PE for FCF yield of >10%). [Pirelli](#) (Neutral, €5): Well positioned to benefit from more resilient pricing but higher valuation. [Conti](#) (Neutral, €67): Downside risk in Autos NT and LT with capped financial returns but fair valuation. Prefer pure players. [Nokian](#) (Neutral, €10): Valuation premium gone but financial returns deteriorating MT as the company builds new capacity.

Figure 1: European tires

	Rating	PT	Share price (lcl)	Upside/ downside	Underlying EPS (lcl)		Implied PE (x)	
					2023E	2024E	2023E	2024E
Michelin	Buy	36	29	23%	3.3	3.5	9.0x	8.4x
Continental	Neutral	67	68	-1%	7.4	8.7	9.2x	7.8x
Pirelli	Neutral	5	4.6	8%	0.4	0.4	12.9x	10.5x
Nokian	Neutral	10	8	25%	0.3	0.5	25.5x	17.2x
<b>Average</b>							<b>14.2x</b>	<b>11.0x</b>
<b>Median</b>							<b>11.1x</b>	<b>9.5x</b>

Source: Datastream, UBS estimates, as of 5 September 2023

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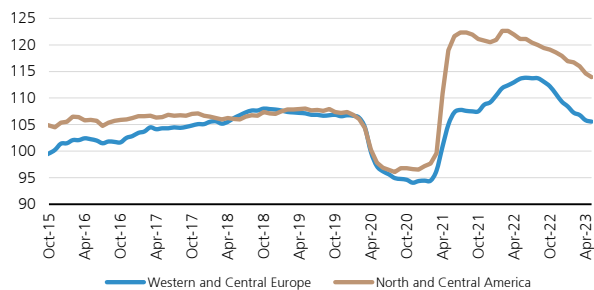
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## Light vehicle tire replacement demand and OE demand

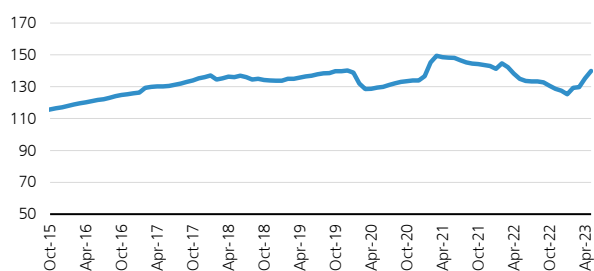
*Methodology: We rely on Michelin's monthly tire market data for our indices. The index is based on a simple average of the published monthly growth rates.*

**Figure 2: Europe and North America – replacement**



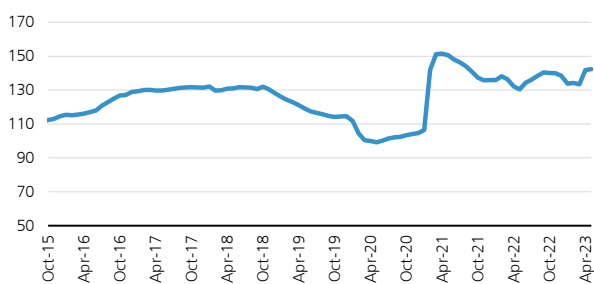
Source: Michelin data, UBS estimates. Rebased to 100.

**Figure 3: China – replacement**



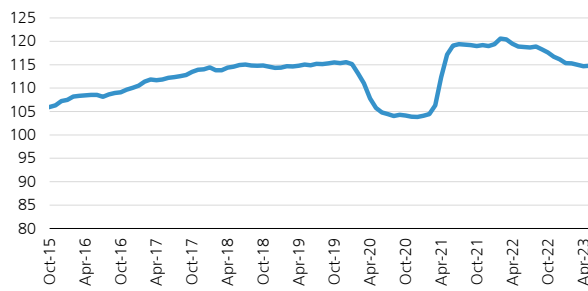
Source: Michelin data, UBS estimates. Rebased to 100.

**Figure 4: China – OE (original equipment)**



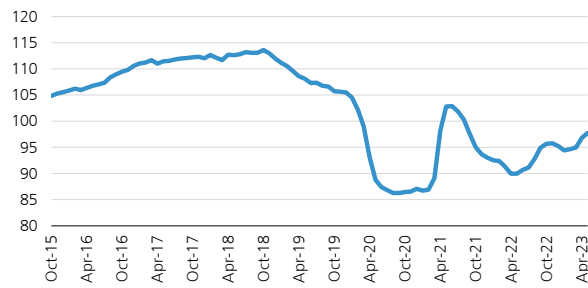
Source: Michelin data, UBS estimates. Rebased to 100.

**Figure 5: Worldwide – replacement**



Source: Michelin data, UBS estimates. Rebased to 100.

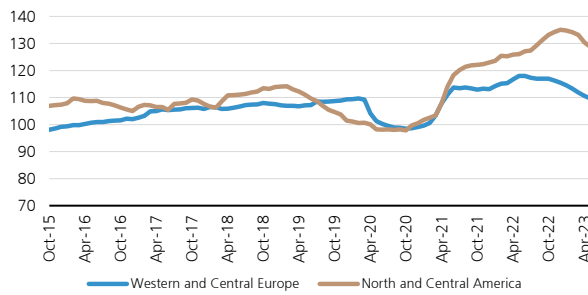
**Figure 6: Worldwide – OE (original equipment)**



Source: Michelin data, UBS estimates. Rebased to 100.

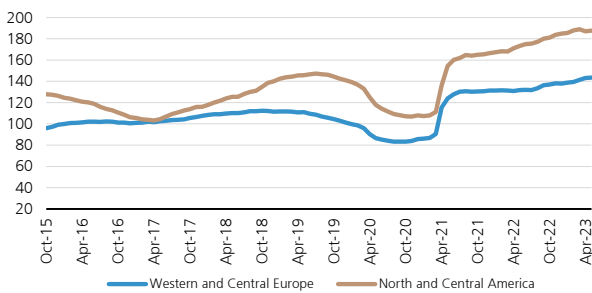
## Truck tire replacement demand and OE demand

**Figure 7: Europe and North America RT**



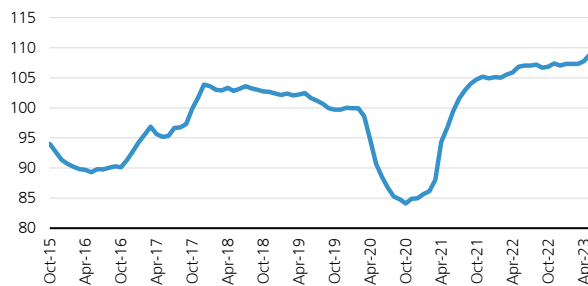
Source: Michelin data, UBS estimates. Rebased to 100.

**Figure 8: Europe and North America OE (original equipment)**



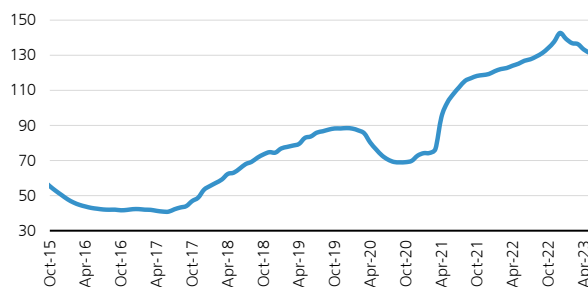
Source: Michelin data, UBS estimates. Rebased to 100.

**Figure 9: South America RT**



Source: Michelin data, UBS estimates. Rebased to 100.

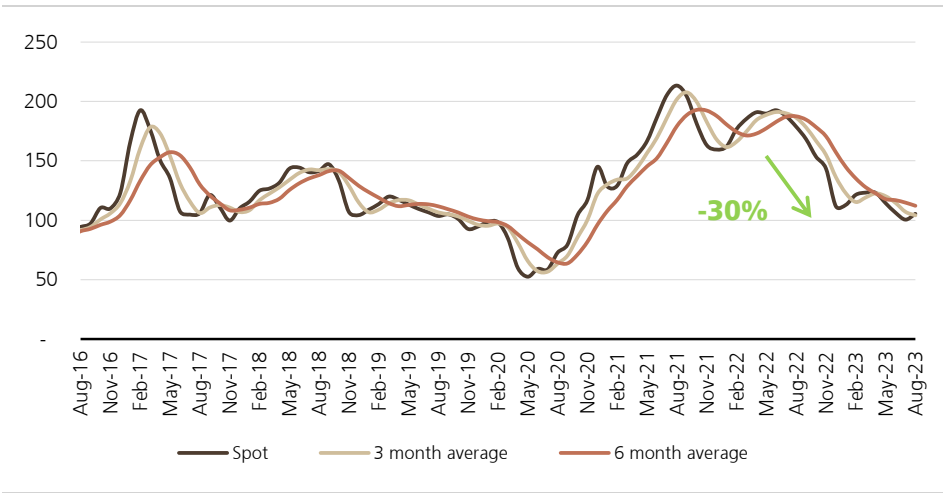
**Figure 10: South America OE (original equipment)**



Source: Michelin data, UBS estimates. Rebased to 100.

# UBS Tire raw material

Figure 11: UBS Tire raw material index



Source: Datastream, Bloomberg, UBS estimates

Figure 12: Summary table

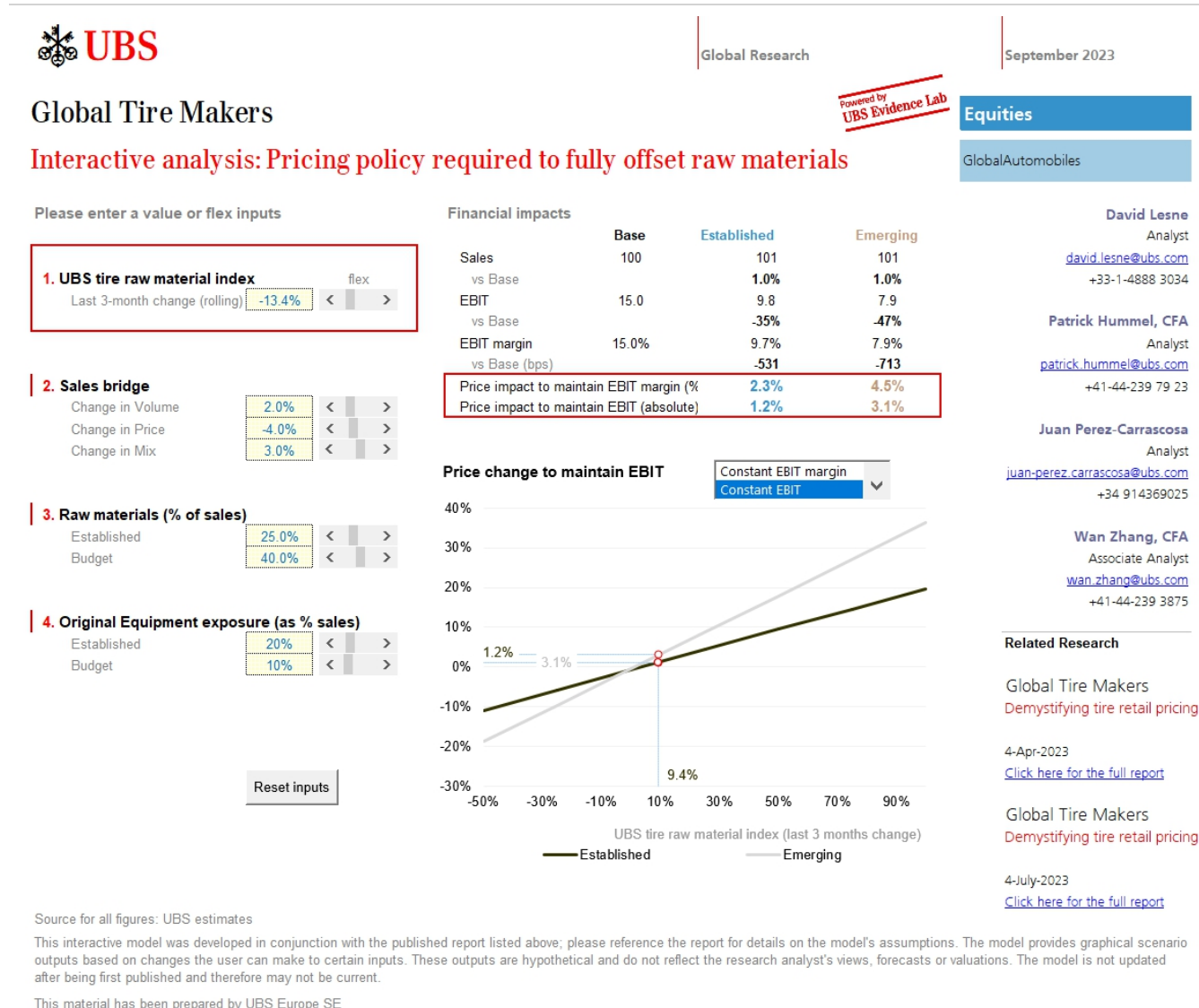
Raw material index performance	
August y/y	-41%
August m/m	5%
3m rolling avg	-13%
6m rolling avg	-17%
YTD y/y	-38%
Index	
2022	170
2023 YTD	113
% change	
YTD vs 2022	-33%

Peak	371
Trough	52
% change	-86%

Source: Datastream, Bloomberg, UBS estimates

Figure 13: Global Tire Makers – UBS proprietary interactive model (available [here](#))



Source: UBS estimates

## Valuation Method and Risk Statement

Risks for Michelin, Continental, Nokian and Pirelli: The automobile sector has in the past exhibited high levels of volatility in terms of profitability and valuation. Sector earnings and performance are highly sensitive to variations in volume, pricing, raw material costs and currency, all of which have been volatile recently. Long-term structural trends continue to improve as a result of higher demand in EM, early signs of sector concentration improving and structurally lower currency exposure but near-term cyclical drivers have become more challenging after several years of strong earnings and share price performance. We are also concerned that in a macro recovery rising interest rates would become a material headwind for the industry.

Our price targets are based as follows: Michelin's PT is DCF-based (WACC: 10%, g: 2%). Conti's PT is DCF-based (WACC: 11%, g: 1%). Pirelli's PT is DCF-based (WACC: 11%, g: 3%) and Nokian's PT is DCF-based (WACC: 13%, g: 4%).

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	54%	41%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	37%	43%
<b>Sell</b>	FSR is > 6% below the MRA.	9%	36%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2023.

1:Percentage of companies under coverage globally within the 12-month rating category.

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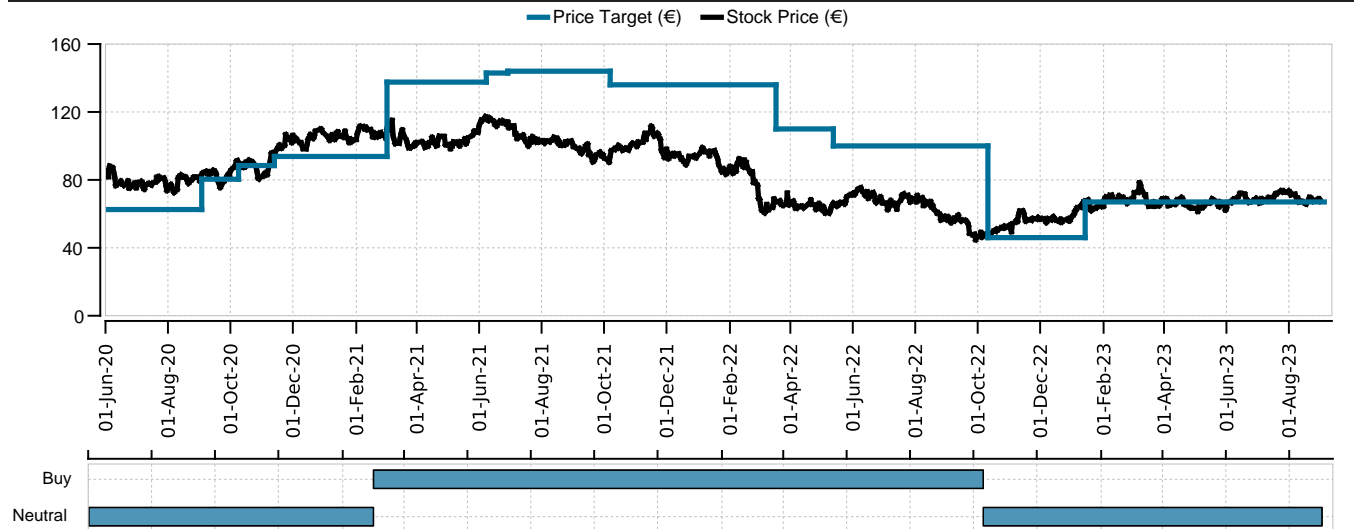
Company Name	Reuters	12-month rating	Price	Price date
Continental <sup>7</sup>	CONG.DE	Neutral	€68.68	05 Sep 2023
Michelin <sup>7</sup>	MICP.PA	Buy	€29.78	05 Sep 2023
Nokian <sup>20</sup>	TYRES.HE	Neutral (CBE)	€7.92	05 Sep 2023
Pirelli <sup>5</sup>	PIRC.MI	Neutral	€4.73	05 Sep 2023

Source: UBS Global Research; Refinitiv. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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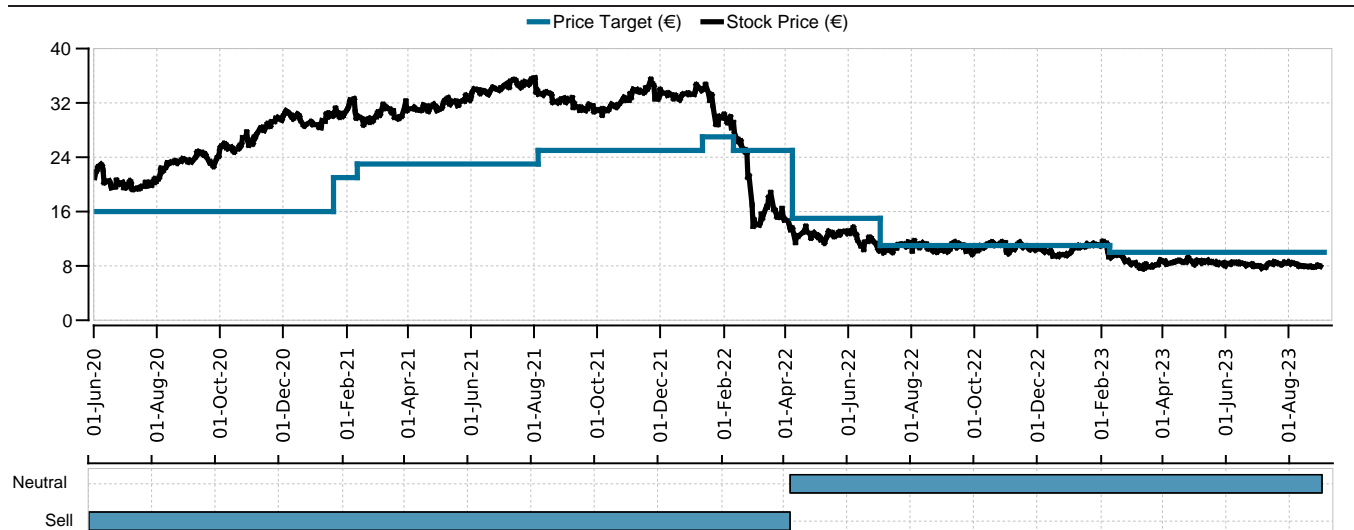
## Continental (€)



Date	Stock Price (€)	Price Target (€)	Rating
2020-06-01	NaN	62.536	Neutral
2020-09-02	82.01	80.403	Neutral
2020-10-08	91.35	88.443	Neutral
2020-11-12	95.90	93.803	Neutral
2021-03-02	104.52	137.578	Buy
2021-06-07	117.25	142.939	Buy
2021-06-28	112.42	144.00	Buy
2021-10-06	90.50	136.00	Buy
2022-03-17	66.77	110.00	Buy
2022-05-12	65.22	100.00	Buy
2022-10-10	48.00	46.00	Neutral
2023-01-13	67.40	67.00	Neutral

Source: UBS Global Research; Refinitiv as of 01-Sep-2023. All prices as of local market close. Ratings as of date shown.

## Nokian (€)

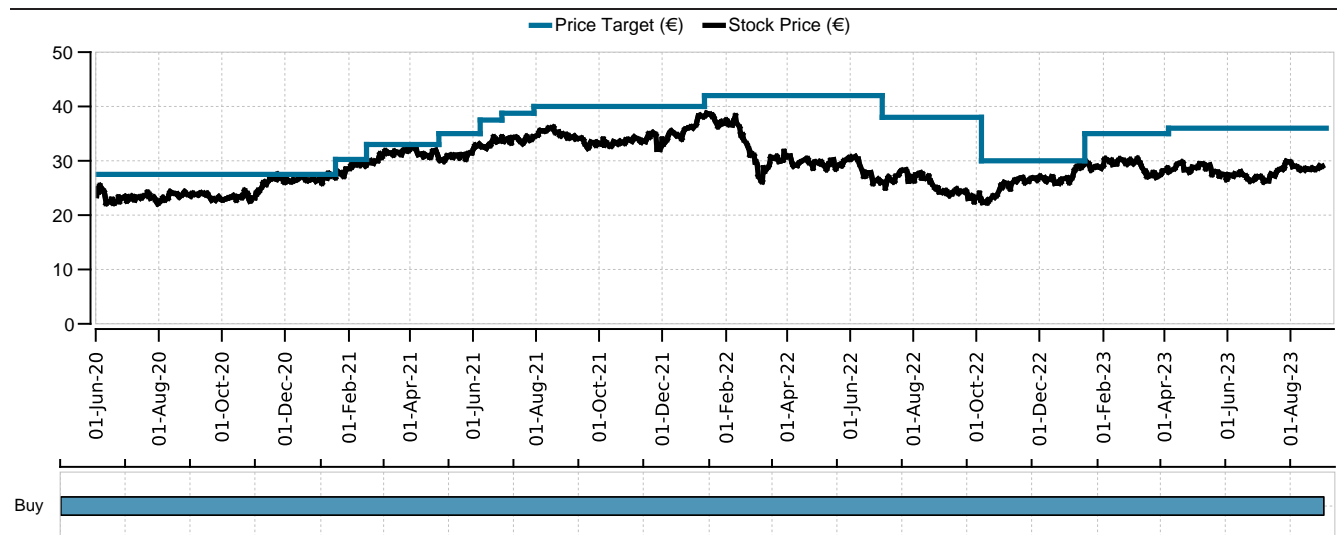


Date	Stock Price (€)	Price Target (€)	Rating
2020-06-01	21.03	16.00	Sell
2021-01-18	30.41	21.00	Sell
2021-02-10	29.78	23.00	Sell
2021-08-04	33.88	25.00	Sell

Date	Stock Price (€)	Price Target (€)	Rating
2022-01-10	33.85	27.00	Sell
2022-02-09	28.36	25.00	Sell
2022-04-07	13.41	15.00	Neutral
2022-07-01	10.26	11.00	Neutral
2023-02-08	9.37	10.00	Neutral

Source: UBS Global Research; Refinitiv as of 01-Sep-2023. All prices as of local market close. Ratings as of date shown.

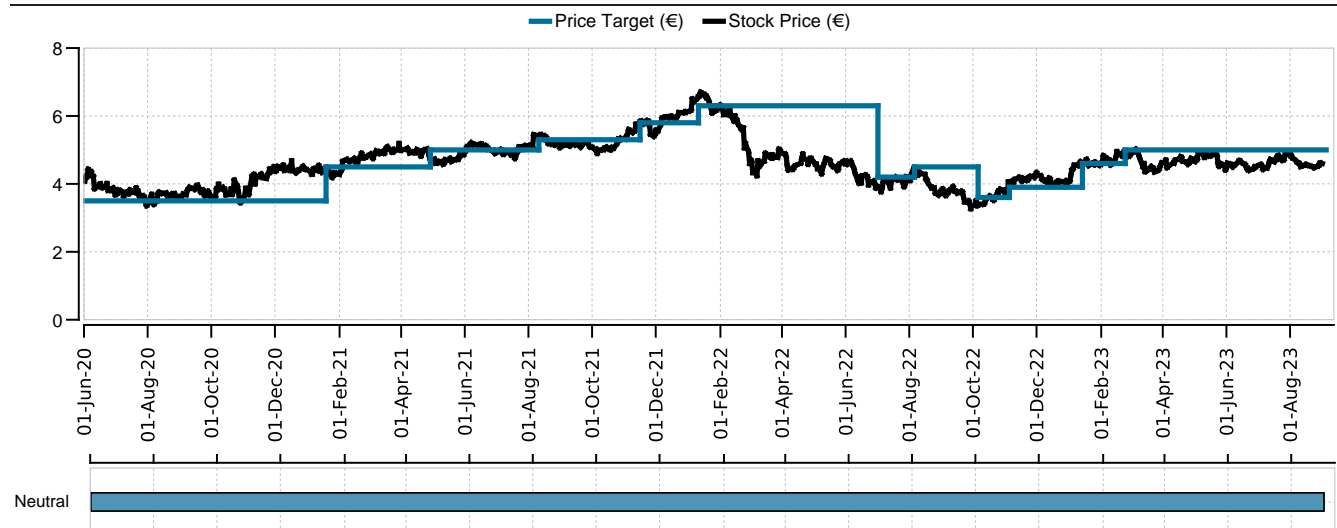
### Michelin (€)



Date	Stock Price (€)	Price Target (€)	Rating
2020-06-01	23.25	27.50	Buy
2021-01-18	27.24	30.25	Buy
2021-02-17	29.06	33.00	Buy
2021-04-28	30.96	35.00	Buy
2021-06-07	33.08	37.50	Buy
2021-06-28	33.71	38.75	Buy
2021-07-29	34.43	40.00	Buy
2022-01-10	38.13	42.00	Buy
2022-07-01	26.17	38.00	Buy
2022-10-05	22.81	30.00	Buy
2023-01-13	29.31	35.00	Buy
2023-04-04	28.67	36.00	Buy

Source: UBS Global Research; Refinitiv as of 01-Sep-2023. All prices as of local market close. Ratings as of date shown.

## Pirelli (€)



Source: UBS Global Research; Refinitiv as of 01-Sep-2023. All prices as of local market close. Ratings as of date shown.

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