



Whippersnapper Capital

Stellantis N.V.

4 October 2023

Symbol: STLAM

Exchange: Mil

Recent Price: €18.23

Target Price: €40.22

52 Week Range: €11.87 - 18.88

EV/EBITDA: 1.2

The Company

Stellantis NV designs, manufactures, distributes, and sells automobiles. The company formed in 2021 after a merger between FCA and PSA. It currently offers 100 models across 14 brands including Jeep, Chrysler, Maserati, Fiat, and Peugeot. In H1 2023 it shipped 3.3mm vehicles and generated €98.4bn in revenues, with 45% coming from NA, 35% from Europe, and 20% from RoW. Stellantis reported an operating margin of 14.4% in H1 2023, one of the industry's highest, above Toyota (7.3%), Tesla (10.5%), and Mercedes (13.5%).

The Investment Story

Stellantis is not the first name investors think of when analyzing a car company. The poor pre-merger data (2021) complicates a proper financial analysis, and it is considered late to the EV race. This is far from true considering the company sold 300,000 EVs last year, 3x more than Ford and GM combined, and opened a Gigafactory in Europe before other legacy OEMs, with 5 more planned by 2027. With a 3.2x NTM earnings multiple, the market fears a margin reversal story as the car market returns to its competitive state after years of inflated car prices, BEV sales command lower gross margins, and Chinese competitors start to flood the market. However, with used car prices flattening in 2022/23 thanks to normalized chip supply, Stellantis experienced a lower average selling price (ASP) from 30k to 29k, but in turn achieved higher gross margins from 19.7% to 21.8%. Stellantis is the only legacy car maker with a positive net cash position, adjusted for pensions +€19.8bn versus roughly -€100bn for Ford, GM, and VW, and has a very low break-even point of capacity at 33%, reassuring that they are best positioned to weather recessions, Chinese competition, and EV transition. The excellent management execution is greatly thanks to Stellantis's CEO Carlos Taveres, seen as a "French Champion" who is credited for returning Peugeot and Opel to profitability in the 2010s.

Financials

Stellantis's current stock price is €18.23, resulting in a market cap of €56.3 billion, and an EV of €36.5bn. A DCF reveals that for their current valuation to make sense, gross margins must drop from 22% to 16.5%, operating margin from 14% to 7%, and FCF to 15% of EBITDA down from 40% normalized, all with an exaggerated 12% discount rate. This seems highly unlikely, but even then, the PE multiple would be 5.1x in 2028. In a base case, operating margins will drop to ~10%, but

revenue growth and share buybacks will ultimately increase EPS. The target price is € 40.22. On capital allocation, management announced a share buyback of 1.5bn in Feb 2023, and mentioned that there is "no mental lock" on more buybacks as long as there is good cash generation. Considering Stellantis reported FCF of €8.7bn in H1 2023, expect more buybacks.

Concerns

The main overarching threat to the business is the transition to EVs which requires a lot of capex and raw materials. The threat of newly founded Chinese EV competitors with lower cost bases (likely subsidized by local gvt.) is a concern for analysts although with likely EU intervention and slower adoption, this should not materialize soon. Lastly, inventory accounting methods might skew earnings as the company is selling its backlog. Nonetheless, current UAW strikes will likely aid in lowering the elevated inventories.

Conclusion

Stellantis is arguably the best performing auto company, yet its cheap ratios indicate they are being valued as the worst. For a company with timeless brands, proven EV capabilities, and effective management, the chance of Stellantis's profitability fading away is incorrectly assessed by the market.

Stellantis	E 2023
Shares outstanding	3,085
Current share price	18.23
Market value	56.3
Sales	190,392
Gross profit	38,078
Total assets	198,573
Total liabilities	121,509
Total debt	29,467
Shareholder's equity	77,064
Cash	52,918
Accounts receivable	8,594
Goodwill	15,340
Net income*	18,897
Enterprise value (adj. for pensions)	36,492
EBITDA **	30,145
Price/sales	0.29
EV/Sales	0.17
Gross profit %	20%
EPS	5.5
P/E NTM	3.2
Net cash (adj. pensions)/market value	35%
EV/EBITDA	1.2
P/FCF NTM	5.9
Dividend yield	7.5%

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Whippersnapper Capital, LLC 222 South Lower Wacker Service Drive Chicago, IL 60606 Phone. 312.560.2446