

AVIO

Sector: Industrials

OUTPERFORM

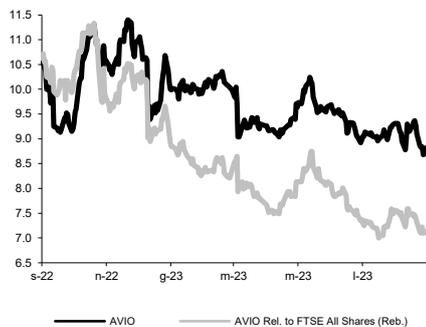
Price: Eu8.84 - Target: Eu11.70

With Order Book at Record High, Focus Now is Execution

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	n.m.	12.8%	-2.4%

AVIO - 12M Performance



Stock Data			
Reuters code:	AVI.MI		
Bloomberg code:	AVIO IM		
Performance	1M	3M	12M
Absolute	-5.0%	-8.4%	-29.4%
Relative	-5.7%	-12.5%	-56.1%
12M (H/L)	11.40/8.68		
3M Average Volume (th):	32.31		

Shareholder Data	
No. of Ord shares (mn):	27
Total no. of shares (mn):	27
Mkt Cap Ord (Eu mn):	240
Total Mkt Cap (Eu mn):	240
Mkt Float - Ord (Eu mn):	100
Mkt Float (in %):	41.5%
Main Shareholder:	
Leonardo	29.6%

Balance Sheet Data	
Book Value (Eu mn):	295
BVPS (Eu):	10.88
P/BV:	0.8
Net Financial Position (Eu mn):	62
Enterprise Value (Eu mn):	157

■ **2Q marks a clear improvement YoY and QoQ.** As expected, 2Q results were a sharp improvement on last year and the previous quarters, showing a significant expansion of the order book to Eu1,372mn vs. Eu1,260mn as at the end of March, a new company record which provides visibility on 3-4 years of revenues. Turnover was Eu97.9mn (vs. Eu90.3mn expected), up ~44% YoY, thanks mainly to growth in R&D linked to NRRP orders awarded and to the growth in production activity linked to the tactical propulsion business, leading to adj. EBITDA of Eu7.8mn (vs. Eu4.4mn last year), above our Eu6.8mn estimate. Profitability benefited from lower energy costs YoY and the contribution of R&D activities. Adj. EBIT was Eu3.5mn vs. Eu0.4mn in 2Q22. Down the line, in the semester the net loss more than halved YoY to Eu3.7mn vs. Eu9.5mn in 1H22 thanks to better financial management, lower taxes, and lower minorities. Finally, the NFP was positive at Eu102.2mn, a further QoQ improvement thanks to downpayments on new contracts signed in the quarter, slightly higher than our Eu100mn estimate.

■ **Update on next launches.** The next Vega launch is scheduled for 4 October 2023 and the subsequent one in spring 2024, while return to flight planning for Vega C is currently under evaluation pending the findings of the Independent Evaluation Board analysing the cause of the anomaly in the static firing test of the Zefiro 40 motor. As for Ariane 6, as recently communicated by the ESA, the maiden flight is expected in 2024.

■ **2023 estimates aligned to high end of company guidance.** While our top-line estimates for the next 4 years remain basically unchanged, we are revising the revenue mix to incorporate lower revenues from production activities related to the Vega and Ariane programs, but higher ones for the tactical propulsion business and R&D. This prompts us to revise our profitability forecast downward, as we assume lower absorption of production-related fixed costs. In any case, at the bottom line the revision is very limited (positive for 2023) as we have lowered D&A due to a longer amortization period on some investments and higher financial income thanks to remuneration of the significant cash position. Our 2023 estimates are substantially aligned to the top end of guidance provided by the company, which targets an order book of Eu1,150mn-Eu1,250mn, revenues of Eu330mn-Eu350mn, reported EBITDA of Eu19mn-Eu25mn, and net profit of Eu2mn-Eu6mn.

■ **OUTPERFORM confirmed; target Eu11.7.** In the short term, market focus will likely remain on the timing of Vega C's return to flight and the maiden flight of the Ariane 6 rather than on quarterly results, although we appreciate the first signs of improvement after a run of difficult quarters. We believe the robust order intake since the beginning of the year and a record order book provide a good indication of the company's medium-long term prospects, with the focus now necessarily shifting to execution of the numerous contracts awarded in order to unleash the company's true potential. We confirm our positive view on the stock and our DCF-based target price, where the bulk of the value is represented by the terminal value (>80%), in line with the belief that this sector should be looked at from a long-term perspective.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	312	357	351	399	441
EBITDA Adj (Eu mn)	38	28	30	37	43
Net Profit Adj (Eu mn)	16	6	10	13	17
EPS New Adj (Eu)	0.596	0.218	0.369	0.486	0.639
EPS Old Adj (Eu)	0.596	0.102	0.133	0.431	
DPS (Eu)	0.178	0.000	0.089	0.236	0.328
EV/EBITDA Adj	6.5	7.3	5.2	4.4	3.9
EV/EBIT Adj	14.8	23.7	15.8	12.0	9.3
P/E Adj	14.8	40.5	23.9	18.2	13.8
Div. Yield	2.0%	0.0%	1.0%	2.7%	3.7%
Net Debt/EBITDA Adj	-1.5	-2.7	-2.1	-1.5	-1.2