

AVIO

Sector: Industrials

OUTPERFORM

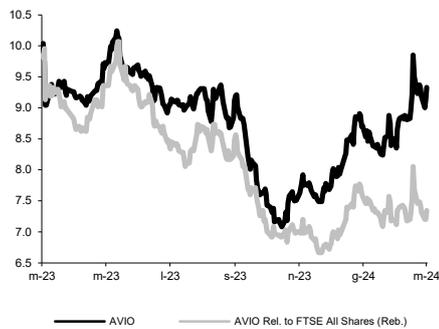
Price: Eu9.33 - Target: Eu13.00

2024 Preparing the Ground for Future Growth

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 11.70 to 13.00		
	2024E	2025E	2026E
Chg in Adj EPS	-7.0%	-7.0%	

AVIO - 12M Performance



Stock Data			
Reuters code:	AVI.MI		
Bloomberg code:	AVIO IM		
Performance	1M	3M	12M
Absolute	11.7%	20.5%	-5.2%
Relative	3.4%	8.9%	-32.4%
12M (H/L)	10.24/7.08		
3M Average Volume (th):	77.17		

Shareholder Data	
No. of Ord shares (mn):	27
Total no. of shares (mn):	27
Mkt Cap Ord (Eu mn):	253
Total Mkt Cap (Eu mn):	253
Mkt Float - Ord (Eu mn):	105
Mkt Float (in %):	41.5%
Main Shareholder:	
Leonardo	29.6%

Balance Sheet Data	
Book Value (Eu mn):	304
BVPS (Eu):	11.18
P/BV:	0.8
Net Financial Position (Eu mn):	72
Enterprise Value (Eu mn):	154

■ **Sound order intake and cash generation prompt an increase in shareholder remuneration.** The company reported 4Q results that despite lower-than-expected net revenues and adj. EBITDA (Eu115.8mn/Eu13.9mn vs our Eu127.6mn/Eu15.8mn) showed a positive surprise on the other P&L metrics, with adjusted EBIT and net income surpassing our estimates, primarily due to significantly lower D&A expenses (due to the revised useful lives of certain production assets). The other bright spot in the report was the strength of the order book, which reached Eu1,359mn and exceeded the upper end of guidance by Eu100mn, implying another Eu150mn of order intake in 4Q, taking the total for the year to Eu684mn (a sound 2x book-to-bill). Finally, the robust financial position prompted the BoD to propose a higher dividend payout to shareholders at the upcoming meeting. The proposed total dividend per share of Eu0.24, comprising an ordinary dividend of Eu0.15 and an extraordinary dividend of Eu0.09, contrasts with our earlier expectation of Eu0.09 per share. Moreover, the company will propose the launch of a share buyback for up to Eu4.9mn.

■ **2024 preparing the ground for future growth.** Looking ahead to 2024, the company's guidance indicates a transitional year in which the focus will be on preparing the ground for the increase in activity expected following the Ariane 6 maiden flight and the Vega C return to flight. The order backlog is projected to increase again, reaching Eu1,500mn-Eu1,600mn, suggesting continued demand for the company's products and services, with particularly interesting opportunities in Tactical Propulsion. As for the P&L, despite revenues and adj. EBITDA falling short of our estimates due to lower production activity (by 5% and 18% at mid-point respectively), EBIT and net income once adjusted for the Eu7mn non-recurring costs expected next year (return to flight of Vega C, start-up cost of the US subsidiary) are not far off our previous expectations.

■ **Estimates.** We are remodulating our estimates to reflect the main messages that emerged from the presentation, amongst others more pronounced growth of tactical propulsion (expected to go from ~5% of revenues in recent years to ~15% starting from 2024) and the ramp-up of Vega C and Ariane 6 starting from 2025 (vs 2024 previously). Our estimates at this time do not yet include several growth opportunities that could materialize, especially in Tactical Propulsion, and the potential contribution from the exploration of opportunities in the US market.

■ **OUTPERFORM confirmed; target Eu13.0.** In the next months, market focus will likely remain on Vega C's return to flight and the maiden flight of the Ariane 6 rather than on financial results, with flawless execution needed to regain investors' confidence. Looking ahead, we believe the record-high order book on which the company sits right now provides a good indication of the company's medium-long term prospects, with everything in place to unleash its true potential. We confirm our positive view on the stock and increase our DCF-based target price from Eu11.7 to Eu13.0 as a consequence of the rollover of the valuation and the lower risk-free rate adopted (4.0% from 4.5%, as per Intermonte assumptions). 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	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	357	339	379	417	460
EBITDA Adj (Eu mn)	28	28	31	36	44
Net Profit Adj (Eu mn)	6	12	12	16	23
EPS New Adj (Eu)	0.218	0.443	0.452	0.594	0.848
EPS Old Adj (Eu)	0.218	0.369	0.486	0.639	
DPS (Eu)	0.000	0.240	0.157	0.299	0.460
EV/EBITDA Adj	7.1	5.1	5.0	4.3	3.6
EV/EBIT Adj	22.9	11.1	10.9	9.1	6.6
P/E Adj	42.8	21.1	20.7	15.7	11.0
Div. Yield	0.0%	2.6%	1.7%	3.2%	4.9%
Net Debt/EBITDA Adj	-2.7	-2.7	-2.3	-1.9	-1.6

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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