

FINCANTIERI

Sector: Industrials

OUTPERFORM

Price: Eu5.61 - Target: Eu7.20

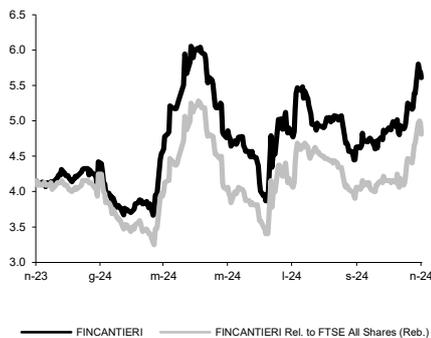
Accelerating Down the Road...To European Defragmentation?

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 6.00 to 7.20		
	2024E	2025E	2026E
Chg in Adj EPS	n.m.	25.0%	15.2%

FINCANTIERI - 12M Performance



Stock Data

Reuters code:	FCT.MI		
Bloomberg code:	FCT IM		
Performance	1M	3M	12M
Absolute	14.5%	14.1%	35.0%
Relative	15.4%	8.1%	18.4%
12M (H/L)	6.06/3.67		
3M Average Volume (th):	737.76		

Shareholder Data

No. of Ord shares (mn):	322
Total no. of shares (mn):	322
Mkt Cap Ord (Eu mn):	1,809
Total Mkt Cap (Eu mn):	1,809
Mkt Float - Ord (Eu mn):	513
Mkt Float (in %):	28.4%
Main Shareholder:	
CDP	71.6%

Balance Sheet Data

Book Value (Eu mn):	797
BVPS (Eu):	2.47
P/BV:	2.3
Net Financial Position (Eu mn):	-2,279
Enterprise Value (Eu mn):	4,469

- 3Q/9M24 results paved the way for FY24 guidance raise.** Fincantieri's results were in line with our expectations overall. 3Q24 revenues were up +11% YoY and EBITDA +26% YoY with a positive margin trend (+69bp YoY). Despite particularly positive order newsflow during the quarter, intake was €884mn in 3Q24 (0.5x book-to bill) vs. €1.9bn in 3Q23. We believe this reflects the likelihood of a sharp acceleration in 4Q24; the main 3Q orders (Carnival Cruise for 3 LNG-powered ships and 2 FREMM EVO frigates for the Italian Navy), are currently considered as soft backlog, as they are subject to standard conditions that should be met in the final part of the year.
- Guidance lifted: accelerating down the road...** Fincantieri confirmed its 2024 EBITDA margin target (6%), while a positive commercial performance and working capital optimisation initiatives pave the way for FY24 guidance to be raised, pointing to revenues "in excess of €8bn" vs. ~€8bn previously and NFP/EBITDA at 4.5x-5.0x (3.7x-4.2x including temporary impact of rights issue cash-in) from 4.5x-5.5x.
- ...towards European defragmentation?** In the current geopolitical context, the topic of defence consolidation in Europe is back in the spotlight. The declared goal is to spend more and better. As CEO Folgiero reiterated during the conference call, this is only possible through defragmentation. With ThyssenKrupp's Marine Systems division in the process of being spun-off from the parent company, and Fincantieri's oft-expressed interest in an expanded collaboration instrumental to the enhancement of defence assets in Europe's common interest, in this report we explore the potential value creation from a Fincantieri acquisition of a significant stake in the Marine Systems division. We believe that, from a strategic and financial perspective, such a deal would make sense. We therefore propose Fincantieri as investor/industrial partner by running a simulation of value creation from a combination based on several assumptions. In our view, political implications are undoubtedly the main obstacle, with the German government seemingly intent on keeping the Marine Systems assets entirely in domestic hands. This materially reduces the chances of a deal that looks attractive in terms of value creation for shareholders. *See later in this report for full analysis of the potential deal.*
- OUTPERFORM; target from €6.0 to €7.2.** We believe the indications emerging from 3Q/9M24 results not only confirm the good progress on the business rationalisation envisaged in the Strategic Plan, but also a further acceleration from initial expectations. In light of the raised guidance, we are revising our estimates to factor in a faster reduction of net debt. This is reflected in lower financial charges for FY24/25/26, leading to an upward revision in adj. net profit, now estimated to be positive one year sooner, in FY24. We confirm our positive view on the stock; while factoring in lower expected net debt, our updated valuation yields a fair value of €7.2ps. In the short term, we still expect positive newsflow for the stock, mainly in terms of new orders, while we envisage that an update on Strategic Plan targets, mainly NFP/EBITDA, may be announced along with FY24 results. Our valuation does not currently reflect any impact from a potential transaction involving ThyssenKrupp's Marine Systems division.

Key Figures & Ratios	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	7,651	8,169	9,022	9,545	10,160
EBITDA Adj (Eu mn)	397	497	673	752	847
Net Profit Adj (Eu mn)	-7	20	99	149	193
EPS New Adj (Eu)	-0.004	0.061	0.307	0.463	0.598
EPS Old Adj (Eu)	-0.004	-0.024	0.246	0.402	0.571
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	23.5	9.0	5.9	5.6	4.6
EV/EBIT Adj	nm	20.1	10.6	9.5	7.6
P/E Adj	nm	91.4	18.3	12.1	9.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	5.7	4.6	3.8	3.2	2.5

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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:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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