

# FINCANTIERI

Sector: Industrials

## OUTPERFORM

Price: Eu7.26 – Target: Eu8.80

## Revealing the Value of Underwater Activities

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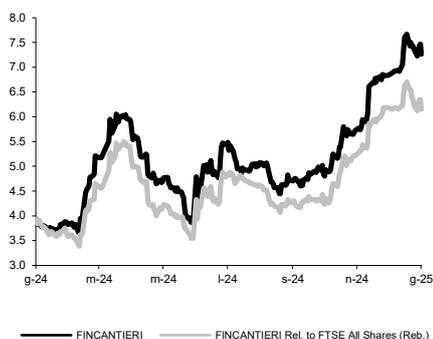
### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 7.20 to 8.80		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	-0.1%	-0.2%

### Next Event

 Results Out March 24<sup>th</sup>

### FINCANTIERI - 12M Performance



### Stock Data

Reuters code:	FCT.MI
Bloomberg code:	FCT IM

Performance	1M	3M	12M
Absolute	6.2%	51.2%	84.3%
Relative	-0.7%	46.9%	66.1%
12M (H/L)	7.66/3.67		
3M Average Volume (th):	1,022.16		

### Shareholder Data

No. of Ord shares (mn):	323
Total no. of shares (mn):	323
Mkt Cap Ord (Eu mn):	2,344
Total Mkt Cap (Eu mn):	2,344
Mkt Float - Ord (Eu mn):	665
Mkt Float (in %):	28.4%
Main Shareholder:	
CDP	71.6%

### Balance Sheet Data

Book Value (Eu mn):	859
BVPS (Eu):	2.66
P/BV:	2.7
Net Financial Position (Eu mn):	-2,552
Enterprise Value (Eu mn):	4,481

We believe improving profitability and cash generation remain the top priorities for management. The revenue mix, with cruise stable and defence accelerating, is the key driver for margin improvement, while current Strategic Plan targets do not yet reflect the contribution of recent high-margin acquisitions in the *underwater* business. In our opinion, this opens the possibility of achieving 2027 targets one year ahead of schedule and, at the same time, paves the way for potential shareholder remuneration on results as early as FY25. We believe that Fincantieri's current market prices do not yet fully reflect the opportunities that could arise from increases in NATO countries' defence budgets, collaboration with Saudi Arabia, and the significant undiscovered value of the underwater business, which, in this report, we include for the first time in our sum-of-parts at a valuation of €1.2bn.

- **4Q/FY24 expected results: surfing positive market waves.** Fincantieri's results are expected in line overall with company guidance updated at 9M24 results. EBITDA margin projected at 6.2% vs ~6.0% guidance and revenues seen at €8.1bn vs >€8bn guidance. Order intake expected to benefit from particularly positive order newsflow in the last part of the year, at €6.1bn in 4Q24 (2.4x book-to bill). NFP seen at €2,279mn with NFP/EBITDA at 4.6x, in line with company guidance (4.5x – 5.0x).
- **Accelerating strategic plan trajectory... towards shareholder remuneration?** In this report we try to exploit still unexpressed value in Fincantieri's market valuation. We believe this primarily stems from the underwater business, which in our view is the main catalyst in the medium-long term Fincantieri equity story. This business has strong growth potential in both civil and military applications, and acquisitions of Remazel and UAS are expected to boost group margins. We believe this positive effect, combined with strong commercial performance and management focus on working capital and profitability, could potentially enable Fincantieri to achieve its FY27 plan targets a year ahead of schedule, paving the way for shareholder remuneration on results as early as FY25. As further support towards this goal, two "one-off" cash-ins are expected to materialize in 2025: €600mn for finalization of the €1.2bn Indonesian contract for 2 PPA; and maturity (December 2025) of a loan granted to a shipowner during Covid-19 amounting to €588mn.
- **OUTPERFORM; target from €7.2 to €8.8.** We substantially confirm our 2025-2027 estimates, only revising our revenue mix for FY24 considering the postponement to 1Q25 of the final closing of the €1.2bn Indonesian contract for 2 PPA and the acceleration at the cruise business in the final part of the year. No impact on the bottom line, where we confirm our expectations for positive FY25 reported net profit. We confirm our positive view on the stock and update our valuation based on a sum-of-the parts and a historical EV/EBITDA multiple. This yields a fair valuation of €8.8ps, mainly reflecting the re-rating in the defence industry in recent months and the "hidden" value of the underwater business, which we include in our SoP for the first time. This "division" includes UAS (deal closed two weeks ago), the Remazel contribution (acquired in 2024) and the submarine activities already developed by Fincantieri before acquisitions.

Key Figures & Ratios	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	7,651	8,079	9,009	9,530	10,143
EBITDA Adj (Eu mn)	397	500	672	752	846
Net Profit Adj (Eu mn)	-7	20	99	149	193
EPS New Adj (Eu)	-0.004	0.061	0.306	0.462	0.597
EPS Old Adj (Eu)	-0.004	0.061	0.307	0.463	0.598
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	23.5	8.5	6.7	6.3	5.3
EV/EBIT Adj	nm	18.6	12.1	10.7	8.6
P/E Adj	nm	nm	23.7	15.7	12.2
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.

Reports on all companies listed on the S&PMB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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.

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BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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