LEONARDO

Sector: Industrials

OUTPERFORM

Price: Eu10.95 - **Target: Eu14.00**
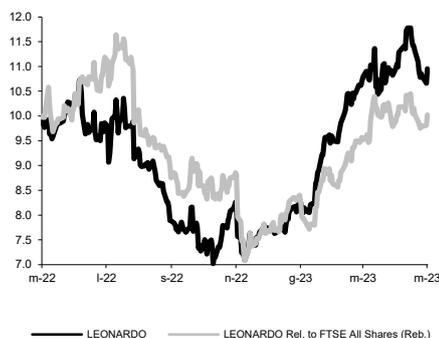
Progressing in line with expectations

1,2

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Stock Rating

Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	

LEONARDO - 12M Performance

—— LEONARDO	—— LEONARDO Rel. to FTSE All Shares (Reb.)

Stock Data

Reuters code:			LDOF.MI
Bloomberg code:			LDO IM
Performance	**1M**	**3M**	**12M**
Absolute	0.0%	15.3%	9.8%
Relative	1.3%	16.1%	0.4%
12M (H/L)			11.78/7.02
3M Average Volume (th):			3,218.58

Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	6,331
Total Mkt Cap (Eu mn):	6,331
Mkt Float - Ord (Eu mn):	4,419
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data

Book Value (Eu mn):	7,323
BVPS (Eu):	12.67
P/BV:	0.9
Net Financial Position (Eu mn):	-2,589
Enterprise Value (Eu mn):	8,920

■ **1Q23 results: better orders and FOCF, weaker EBITA.** Leonardo's 1Q23 results were 15% above consensus on orders (Eu4.9bn +29% YoY, strong helicopters), in line on revenues (Eu3.0bn, +3% YoY excluding GES from 1Q22), 13% below on EBITA (down 13% YoY ex GES to Eu105mn due to lower contributions from JVs and Hensoldt), and 24% better on FOCF (Eu688mn outflow, Eu0.4bn better than 1Q22). Overall, we think underlying trends in 1Q were supportive, in particular for orders and FCF. The slow start to the year for the JVs (MBDA, ATR, TAS) and Hensoldt entirely explains the EBITA decline (Leonardo's divisions and DRS +4%) in a quarter contributing ca. 10% to the yearly figure.

■ **Guidance reiterated, positive mid-term outlook. Moody's upgrade.** Guidance for FY23 of orders at Eu17bn, revenues at Eu15.0/15.6bn, EBITA at 1.26-1.31bn, and FOCF at Eu600mn was reiterated. Last March, management updated medium-term targets of cumulative 2022-2026 orders at Eu90bn (vs. Eu80bn in the previous plan), a 2023-27 revenue CAGR confirmed at 4/5%, a high-single digit EBITA CAGR, and Eu3.0bn cumulative cash generation in 2021-2025 (including Aerostructures), implying FOCF improving beyond 2023 to >Eu800mn. Yesterday Moody's raised Leonardo to investment grade (Baa3).

■ **Main feedback from the call.** 1) Commercial momentum is strong and order intake is above trend, driven by helicopters. The quality of intake is good as no big orders are included; 2) the FOCF beat is also good quality: no exceptional down-payments, factoring ca. zero, with the improvement on 1Q22 (Eu0.4bn) driven by a concentration in 1Q of cash-ins due to reaching milestones on existing contracts. During the call no additional comments were made about the improvement in working capital included in the FOCF guidance, while the gradual improvement at aerostructures (improving production rates) was confirmed, although cash breakeven is expected only in 2026 (chipset 1407 for B787).

■ **CEO comments on European defence consolidation**. The CEO said consolidation needed to happen in Europe in order to avoid duplication of platforms and systems as spending ramps up. However, what is important is the alignment of the product requirements of various countries, at which point consolidation may happen at company level or at program level as in the case of MBDA in the missile domain. According to the CEO, a combination of Leonardo EU Electronics (ca. Eu550 EBITA, 45% of the group) and Hensoldt would make sense as Hensoldt is strong in sensors and Leonardo in system integration. A combination would not imply an acquisition. In any case, it should be agreed at political level and Leonardo would consolidate the asset.

■ **Estimates confirmed.** We confirm our estimates (FY23 revenues Eu15.6bn, EBITA Eu1.29bn, FOCF Eu607mn), which are in line with company targets and consensus.

■ **OUTPERFORM; target Eu14.0.** We confirm the Outperform rating with a TP of Eu14.0, implying a 9.5% 2024-25E avg. FCF yield target vs. 12.5% at the current share price. We think the positive stance on the stock is supported by rising defence spending globally, and the growth in FCF expected beyond 2023 (>Eu800mn a year on average in FY24-25). The stock is trading in line with the historical 5-year figure (P/E 2023E of 8.7x vs. the 5-year average P/E of 8.3x), and 60% below peers (P/E 2023E above 20x).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	14,135	14,713	15,607	16,335	17,121
EBITDA Adj (Eu mn)	1,626	1,763	1,832	1,932	2,015
Net Profit Adj (Eu mn)	607	721	724	794	855
EPS New Adj (Eu)	1.055	1.254	1.259	1.380	1.487
EPS Old Adj (Eu)	1.055	1.254	1.259	1.380	
DPS (Eu)	0.140	0.140	0.200	0.200	0.200
EV/EBITDA Adj	4.3	4.5	4.9	4.3	3.8
EV/EBIT Adj	6.2	6.5	6.9	6.0	5.2
P/E Adj	10.4	8.7	8.7	7.9	7.4
Div. Yield	1.3%	1.3%	1.8%	1.8%	1.8%
Net Debt/EBITDA Adj	1.9	1.7	1.4	1.0	0.6