Intermonte

Milan, 08 November 2024

Italian Equity Research – 3Q24 Results

LEONARDO

OUTPERFORM

Sector: Industrials

Price: Eu24.35 - **Target: Eu27.50**

Seeking structural fix for Aerostructures. TP raised to Eu27.5

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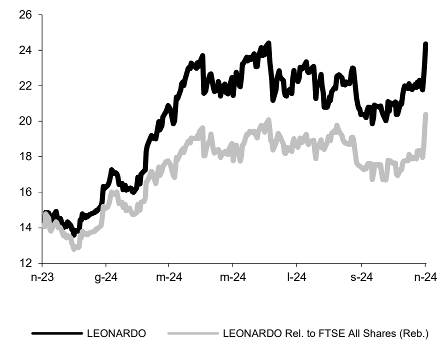
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 25.40 to 27.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

LEONARDO - 12M Performance



Stock Data			
Reuters code:			LDOF.MI
Bloomberg code:			LDO IM
Performance	**1M**	**3M**	**12M**
Absolute	16.2%	14.0%	72.1%
Relative	15.7%	7.5%	52.7%
12M (H/L)			24.40/13.58
3M Average Volume (th):			2,413.79

Shareholder Data	
No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	14,078
Total Mkt Cap (Eu mn):	14,078
Mkt Float - Ord (Eu mn):	9,826
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data	
Book Value (Eu mn):	8,254
BVPS (Eu):	14.28
P/BV:	1.7
Net Financial Position (Eu mn):	-1,613
Enterprise Value (Eu mn):	15,691

- **3Q24 above consensus on all KPIs, net debt in line.** Leonardo released better-than-expected 3Q24 results, with orders at Eu4.43bn vs. consensus of Eu4.18bn, revenues of Eu4.01bn vs. consensus of Eu3.75bn, EBITA of Eu263mn vs. consensus of Eu230mn (margin practically stable YoY at 6.4%), net profit of Eu153mn vs. consensus at Eu90mn, and FOCF of -Eu48mn vs. consensus at -Eu90mn with 9M24 net debt in line at Eu3.12bn. The quarterly beat was 6% on orders, 9% on revenues, and 14% on EBITA. Key takeaways of 3Q24: results were driven by strong EU Electronics and DRS, Helicopters were up double-digit with Aircraft down YoY due to project phasing. Space contributed Eu616mn revenues with EBITA at breakeven (Eu1mn) in 9M24 due to negative TAS. Cyber contributed Eu417mn revenues and Eu22mn EBITA. Commercial momentum is strong although contracts might shift. The quality of FOCF is good, and we note the Eu2.0bn net debt guidance for FY24 includes ca. Eu400mn in strategic investments and other minor transactions.
- **FY24 guidance maintained as 4Q24 will be impacted by Aerostructures and TAS.** Despite strong 9M24 earnings, management reiterated the guidance for FY24 of orders at Eu19.5bn, sales at Eu16.8bn, EBITA at Eu1.44bn, FOCF at Eu770mn, and net debt at Eu2.0bn (includes strategic investments/external growth in the Cyber and Space areas). Management said they would have increased guidance in the absence of lower production rates anticipated by Boeing for the B787 program in Aerostructures and the weakness expected in the telco satellite business of TAS (impacting EBITA and FOCF).
- **Conference call feedback**. During the call, management showed examples of potential M&A of small companies in cyber/space (<Eu65mn revenues). Some details were also provided on the cost efficiency plan expected to contribute Eu190mn accretion to EBITA this year (the current plan assumes Eu150mn). However, the focus of the call was on the "transformation" strategy announced for the aerostructure business, which reported improving figures in 3Q24 (growing revenues with stable EBITA loss at -Eu53mn) but which is expected to suffer in 4Q24 from a further reduction of production rates on the B787 program (49 shipments vs. previous 55 in 2024, 81 from previous 97 in 2025). The CEO said a likely option was the carve-out of the business (4 plants in Italy) and the establishment of a strategic partnership with a large company operating in the civil aviation supply chain. Our understanding is that Boeing's latest reduction of rates has spurred management to prefer to fix the Aerostructure problems (small scale in procurement, high labour costs in Italy) in a structural way and we see this as a positive. Updated plan in March 2025.
- **OUTPERFORM, target price raised from Eu25.4 to Eu27.5. (SOP-based).** Our unchanged estimates are aligned to targets. We think the risk/return profile of Leonardo remains attractive due to low risk to estimates, undemanding multiples (FY25E P/E 12x, FCF yield 8%), and spending on global security (defence electronics, cyber, space, protection of critical infrastructures). We raise our SOP-based TP from Eu25.4 to Eu27.5, keeping our OUTPERFORM rating; this mainly reflects updated market prices for DRS and Hensoldt and other minor adjustments.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	14,713	15,982	16,894	17,758	18,771
EBITDA Adj (Eu mn)	1,763	1,878	2,045	2,256	2,473
Net Profit Adj (Eu mn)	721	737	780	968	1,129
EPS New Adj (Eu)	1.254	1.281	1.355	1.683	1.962
EPS Old Adj (Eu)	1.254	1.281	1.355	1.683	
DPS (Eu)	0.140	0.280	0.300	0.330	0.360
EV/EBITDA Adj	4.5	4.8	7.7	6.6	5.7
EV/EBIT Adj	6.5	6.8	10.8	9.0	7.6
P/E Adj	19.4	19.0	18.0	14.5	12.4
Div. Yield	0.6%	1.1%	1.2%	1.4%	1.5%
Net Debt/EBITDA Adj	1.7	1.2	0.8	0.4	0.1

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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&PMIB40 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.
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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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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