

LEONARDO

Sector: Industrials

OUTPERFORM

Price: Eu14.21 - Target: Eu15.00

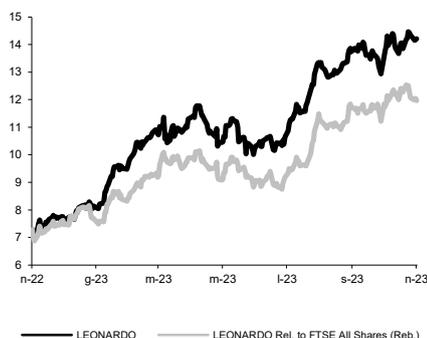
9M23 Results Consistent with FY23 targets

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	1.3%	1.2%	1.1%

LEONARDO - 12M Performance



Stock Data

Reuters code:	LDOF.MI
Bloomberg code:	LDO IM

Performance	1M	3M	12M
Absolute	4.8%	6.6%	95.0%
Relative	1.1%	5.8%	76.2%
12M (H/L)	14.47/7.09		
3M Average Volume (th):	2,183.98		

Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	8,213
Total Mkt Cap (Eu mn):	8,213
Mkt Float - Ord (Eu mn):	5,732
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:	1.1
Net Financial Position (Eu mn):	-2,579
Enterprise Value (Eu mn):	10,792

■ **Solid 3Q/9M23 Results.** Leonardo released 9M23 results in line with expectations (in 3Q: 19% beat vs. consensus on orders, EBITA in line, FOCF c. Eu60mn better) and on track with targets, which were reiterated. 3Q23 orders at Eu4.58bn (consensus Eu3.85bn) were up 4.0% YoY, with sales up 1.0% to Eu3.38bn (consensus Eu3.39bn). EBITA was up 6.4% YoY to Eu214mn (consensus Eu213mn) with the margin improving 30bps YoY to 6.3%. Net profit of Eu93mn (consensus Eu76mn) vs. Eu120mn in 3Q22 includes Eu36mn restructuring costs. FOCF at Eu-87mn was Eu68mn better than consensus (Eu-155mn), with 9M23 FOCF of -Eu604mn improving Eu300mn YoY (Eu-904mn in 9M22). Net debt at Eu3.81bn as at end-September was Eu0.1bn above consensus due to leasing. Key takeaways from the quarter: good quality in orders and FOCF, Helicopters growing, Defence Electronics contributing strong margins, while EBITDA declined slightly vs. 3Q22 in aircraft and aerostructures (breakeven target confirmed by end of 2025, with some potential upside from talks with Boeing to revise contract terms).

■ **FY23 guidance confirmed, some upside risk on orders.** Management reiterated targets provided for FY23 of orders seen flattish at Eu17bn (with no jumbo contract included), revenues expected at Eu15.0/15.6bn, EBITA at Eu1260-1310mn, FOCF at c. Eu600mn, and net debt at Eu2.6bn down, c. Eu400mn YoY. We think the company is on track with targets (our estimates and consensus in line), with some upside risks on orders and good visibility on FOCF to be at least in line with the Eu600mn guidance, which implies c. Eu200mn lower YoY FOCF in 4Q23. Pending the new plan to be presented with FY23 results in March, we note that management trailed that the current medium-term targets (2022-2026 orders at Eu90bn, 2023-27 revenue CAGR at 4/5% with EBITA up high-single digit and Eu3.0bn cumulative cash generation in 2021-2025, implying FOCF improving beyond 2023 to >Eu800mn) will be confirmed or improved.

■ **Conference call feedback:** 1) Leonardo will consolidate Telespazio (Eu655mn revenues and Eu45mn net profit in FY22) and hold constructive talks with Thales about the strategic focus of satellites (management suggested satellite telcos are unattractive based on current pricing and the focus should be on other services); 2) Leonardo is aiming to join the German next-generation Leopard 2 tank programme (a lot of electronics involved); 3) Cingolani also said Leonardo wants to renegotiate the fuselage supply deal for the Boeing 787, with a view to securing higher prices reflecting inflation, with potential positive developments in the next 6-8 weeks; 4) by year-end, Leonardo expects to sign the setting-up of the JV for the GCAP programme undertaken by Italy, Britain and Japan (Italian Minister of Defence recently said Italy will have an equal role in the programme); 5) Leonardo is interested in M&A (space, cyber) but net debt will not be increased; hence, significant acquisitions will require disposal of assets.

■ **Estimates and rating confirmed.** We confirm our estimates, which are in line with company targets and consensus, the Outperform rating, and TP of Eu15.0 (7.0x avg. 2023-24 EBITA ex DRS/Hensoldt).

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	734	804	865
EPS New Adj (Eu)	1.055	1.254	1.275	1.397	1.504
EPS Old Adj (Eu)	1.055	1.254	1.259	1.380	1.487
DPS (Eu)	0.140	0.140	0.200	0.200	0.200
EV/EBITDA Adj	4.3	4.5	5.9	5.3	4.7
EV/EBIT Adj	6.2	6.5	8.4	7.4	6.5
P/E Adj	13.5	11.3	11.1	10.2	9.4
Div. Yield	1.0%	1.0%	1.4%	1.4%	1.4%
Net Debt/EBITDA Adj	1.9	1.7	1.4	1.0	0.6