LEONARDO

OUTPERFORM

Sector: Industrials

Price: Eu43.00 - **Target: Eu49.00**

Accelerating Growth and FCF Beyond 2026, with Some Buffer

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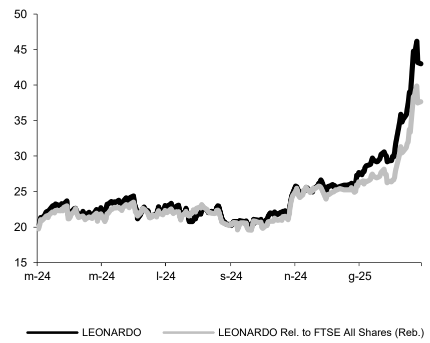
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 37.00 to 49.00
	2025E	**2026E**	**2027E**
Chg in Adj EPS	3.5%	2.1%	10.6%

LEONARDO - 12M Performance



Stock Data			
Reuters code:			LDOF.MI
Bloomberg code:			LDO IM
Performance	**1M**	**3M**	**12M**
Absolute	46.3%	73.0%	107.8%
Relative	43.9%	62.9%	94.0%
12M (H/L)			46.17/19.85
3M Average Volume (th):			4,179.80

Shareholder Data	
No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	24,860
Total Mkt Cap (Eu mn):	24,860
Mkt Float - Ord (Eu mn):	17,353
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data	
Book Value (Eu mn):	9,310
BVPS (Eu):	16.10
P/BV:	2.7
Net Financial Position (Eu mn):	-1,009
Enterprise Value (Eu mn):	25,869

- **Business plan update: consolidating the core business while adding growth from strategic alliances.** Leonardo's updated plan, presented yesterday, focuses on consolidating incremental but inertial growth in core business (massive digitalisation and rationalisation of products, cost efficiencies at group level), while developing next generation technologies for global security (mainly software) and accelerating competitiveness and growth through strategic alliances and initiatives (Space, JVs with Rheinmetall and Baykar, GCAP). This should support an acceleration of profitable growth and cash generation beyond 2026 (2027/28 EBITA targets are 6%/11% above consensus, FOCF targets are 5%/10% above consensus). We also note the plan has several buffers related to increasing defence spending in Europe as well as the export market for the JVs with Rheinmetall and Baykar (none of which is reflected in plan targets). Finally, Leonardo's CEO expressed great confidence in structurally addressing issues in the aerostructures division by year-end (although no comments were made as negotiations are covered by a strict NDA) and improving trends at TAS. These two businesses generated aggregate EBITA losses exceeding Eu200mn for Leonardo in 2024, so their turnaround could drive a significant increase in group EBITA targets. For these reasons, and despite its strong recent performance, we maintain our OUTPERFORM rating on the stock.
- **Financial targets: accelerating growth in profitability and FCF, higher shareholder remuneration, flexibility for M&A.** The plan assumes 2023-29 CAGRs of 6% on orders (Eu26.2bn in 2029), 7% on revenues (Eu24bn in 2029), 13% on EBITA (Eu2.83bn in 2029) and 15% on FOCF (Eu1.53bn in 2029). 2025 targets are 2-3% above consensus on all key metrics, while the plan envisages growth acceleration beyond 2026 with EBITA growing by >15% per year in 2026-2028, and an FCF target >10% above consensus in 2028, when Leonardo envisages FCF of Eu1.39bn, rising to Eu1.53bn in 2029. The plan also assumes a raise in DPS to Eu0.52 (from Eu0.28) or Eu300mn a year, and room for a buyback (to be proposed to shareholders), with net debt guidance of Eu1.6bn for 2025 including Eu500mn available for M&A in the cyber business. The company is also working on a constellation of 12+6 low-orbit military satellites (launch between 2027 and 2028) financed by the Ministry of Defence, and 20 multi-sensor satellites to be used in the civil sector (Eu450mn over three years). In fact, the balance sheet provides flexibility for increasing CapEx to address rising defence spending.
- **OUTPERFORM; target raised to Eu49 (SOP-based).** We are raising our SOP-based TP from Eu37 to Eu49. This reflects updated market prices for DRS (Eu5.6bn) and Hensoldt (Eu1.7bn), 25% of MBDA valued at Eu2.87bn (Eu2.25bn previously), the Space division valued at Eu2.6bn (Eu1.34bn previously), and the rest of Leonardo (helicopters, trainers, EU electronics, Eurofighter/GCAP, aerostructures/ unmanned, and 50% of ATR) at 12.0x EV/EBITA (10.0x previously) on average 2026/27 figures (previously 2025-26 average). Leonardo has a strong positioning in European defence electronics and should benefit from increasing spending in Europe (the CEO said an increase in spending by 1% of GDP in Europe and Italy implies Eu4-6bn of additional business for Leonardo under conservative assumptions). This supports medium-term visibility on earnings/cash flow generation trends in a volatile macro context.

Key Figures & Ratios	2022A	2023A	2024A	2025E	2026E
Sales (Eu mn)	14,713	15,982	17,763	18,614	19,618
EBITDA Adj (Eu mn)	1,763	1,911	2,219	2,356	2,603
Net Profit Adj (Eu mn)	721	737	773	1,003	1,160
EPS New Adj (Eu)	1.254	1.281	1.344	1.744	2.016
EPS Old Adj (Eu)	1.254	1.281	1.357	1.685	1.974
DPS (Eu)	0.140	0.280	0.520	0.520	0.520
EV/EBITDA Adj	4.5	4.8	6.5	11.0	9.7
EV/EBIT Adj	6.5	6.9	9.4	15.6	13.4
P/E Adj	34.3	33.6	32.0	24.7	21.3
Div. Yield	0.3%	0.7%	1.2%	1.2%	1.2%
Net Debt/EBITDA Adj	1.7	1.2	0.8	0.4	0.2

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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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As at 31 December 2024 Intermonte's Research Department covered 132 companies.

As of today Intermonte's distribution of stock ratings is as follows:

BUY:	30.60 %
OUTPERFORM:	43.28 %
NEUTRAL:	26.12 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

As at 31 December 2024 the distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (71 in total) is as follows:

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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