

# LEONARDO

Sector: Industrials

# OUTPERFORM

Price: Eu13.74 - Target: Eu15.00

## 9M23 Results Preview. TP Raised to Eu15 (from Eu14)

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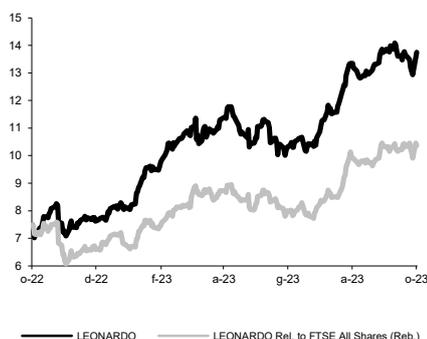
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 14.00 to 15.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	1.3%	1.2%	1.1%

### Next Event

3Q23 Results Out 9 November

### LEONARDO - 12M Performance



### Stock Data

Reuters code:	LDOF.MI		
Bloomberg code:	LDO IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	0.0%	26.4%	83.3%
Relative	0.2%	25.6%	50.5%
12M (H/L)	14.08/7.02		
3M Average Volume (th):	2,615.00		

### Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	7,947
Total Mkt Cap (Eu mn):	7,947
Mkt Float - Ord (Eu mn):	5,547
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):	10,526

- 3Q/9M23 results due on 9 November.** Leonardo will release 9M23 results on 9 November. We think the earnings release is likely to be uneventful and visibility on FY23 guidance is good. We expect the strong 1H23 commercial momentum to have continued in 3Q, while FCF should have normalised after the c.Eu450mn YoY improvement in 1H23 (vs. a Eu60mn improvement implied by FY23 guidance of Eu600mn), as guided by management during 1H23 call. We estimate 9M23 sales of Eu10.36bn (+4.5%), EBITA of Eu628mn (6.1% margin, fairly flat YoY), negative FOCF of Eu647mn (Eu277mn improvement vs. 9M22), net debt at Eu3.59bn (Eu1.12bn de-leverage vs. 9M22), orders at Eu12.6bn have upside risk vs. FY guidance (Eu17bn).
- New plan in 2024:** investors' focus is on potential comments ahead of the strategic plan to be presented on March 11. In July, CEO Cingolani trailed the strategic pillars: massive digitalisation to strengthen the core business and strategic focus on growth in Space (currently managed through the JVs with Thales) and Cyber (it will become pervasive, embedded in products and platforms). Management said medium-term targets (implying 2023-27 revenue CAGR at 4/5% with a high single-digit lift in EBITA and a step-up in orders and FOCF in coming years) will be confirmed or improved.
- Talks with Thales likely to involve strategic focus:** LDO is seeking to review its partnership with Thales based on the two JVs: Telespazio (services: Leonardo 67%, Thales 33%) and Thales Alenia Space (manufacturing: Thales 67%, Leonardo 33%). Visibility on the outcome of negotiations is low and not discounted in the stock price (the starting point is that LDO is consolidating a few million euro of EBITA from Space). We note during the 1H23 call in July, LDO's management deemed satellite telcos (a strategic focus of Thales) an unattractive business (the comment was about the opportunity to re-focus R&D and we think reference is to the positioning of Starlink and Kuiper in the market). We note LDO does not consolidate Telespazio (which is considered a JV under IFRS10) as it concludes that in the event of deadlock the minority partner has the right to recover assets originally assigned. We would expect the same governance for Thales Alenia, although that asset is consolidated by Thales. Discussions might also involve Avio (29.6% LDO) after Cingolani recently said the competitive threat comes from the US. We will also be on the lookout for potential comments about GCAP (LDO's CEO recently called for an equal role with British and Japanese partners) and Aerostructure (Eu250mn cash drag in FY23e included in the Eu600 FCF target; potential new contract by YE).
- Target raised to Eu15 (from Eu14).** We confirm our OUTPERFORM rating and lift the TP from Eu14.0 to Eu15.0 to reflect the MtM on DRS and Hensoldt. The valuation of Leonardo's assets ex DRS/Hensoldt is unchanged at 7.0x average 2023-24 EV/EBITDA vs. 6.4x at the current price (STUB valuation). Besides the improvement in Aerostructure which, in our view, may achieve breakeven ahead of the 2025 target, some value could also emerge from JVs: Telespazio and Alenia vs. the current Space contribution to LDO's EBITA, and MBDA (LDO has 25%, worth c. Eu1.5bn in our estimate; the dividend flow should rise reflecting the strong growth of the business). We await the new plan to better understand synergies with DRS (also in the light of LDO's repositioning on space and cyber) and its benefits for LDO's export sales to US vs. the financial value of the asset (c. 45% of LDO's NAV).

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	5.7	5.1	4.6
EV/EBIT Adj	6.2	6.5	8.2	7.2	6.3
P/E Adj	13.0	11.0	10.8	9.8	9.1
Div. Yield	1.0%	1.0%	1.5%	1.5%	1.5%
Net Debt/EBITDA Adj	1.9	1.7	1.4	1.0	0.6