

# LEONARDO

Sector: Industrials

# OUTPERFORM

Price: Eu11.03 - Target: Eu14.00

## Solid FY results and outlook. TP raised to Eu14.0

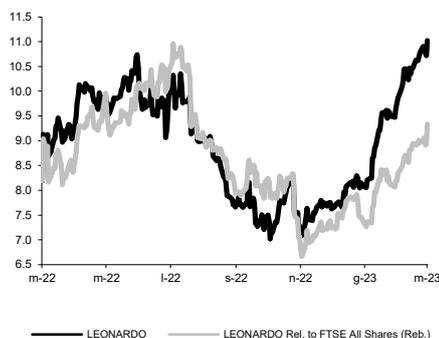
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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 11.00 to 14.00		
	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Chg in Adj EPS</b>	9.1%	-0.7%	0.2%

### LEONARDO - 12M Performance



### Stock Data

Reuters code:	LDOF.MI
Bloomberg code:	LDO IM

Performance	1M	3M	12M
Absolute	11.8%	44.6%	34.6%
Relative	11.8%	32.6%	16.7%
12M (H/L)	11.03/7.02		
3M Average Volume (th):	3,422.90		

### Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	6,374
Total Mkt Cap (Eu mn):	6,374
Mkt Float - Ord (Eu mn):	4,449
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):	8,963

■ **FY22 results better than expected for orders and FOCF.** Leonardo's FY22 results met or exceeded initial guidance and were 5% above consensus for orders, 2% better than consensus for EBITA, and 6% better for FOCF. In FY22, excluding the contribution of GES from the 2021 base, orders were up 21% YoY to Eu17.3bn (vs. guidance of Eu16.0bn), revenues increased +4.7% YoY to Eu14.7bn (vs. guidance of Eu14.5/15.0bn), EBITA was up 14.9% YoY to Eu1.22bn (high-end of the guidance of Eu1.17/1.22bn), FOCF more than doubled YoY to Eu539mn (vs. guidance of Eu500mn), and net debt decreased by 3% to Eu3.0bn (in line with the guidance). 4Q performance was driven by improving Aerostructures and strong profitability at Electronics both in Europe (15.8% EBITA margin in 4Q, +220bps YoY) and at DRS (12.7% margin, +230 bps YoY). Proposed DPS of Eu0.14 is in line with consensus.

■ **Solid FY23 guidance, confidence on mid-term outlook.** Guidance provided for FY23 is 2% above consensus for orders (seen flattish at Eu17bn), in line for revenues (Eu15.0/15.6bn), 1% above consensus for EBITA (range 1260-1310mn, mid-point Eu1285mn vs. consensus Eu1274mn), and 8% above consensus for FOCF (Eu600mn vs. consensus Eu556mn). Net debt is projected down by ca. Eu400mn to Eu2.6bn as at end-2023. Management also disclosed 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). We note that the results achieved in FY22 and targets set for FY23 show the group is able to maintain profitability in a tough cost and supply chain environment. Moreover, medium term targets for orders and FOCF imply improving trends going forward.

■ **Main feedback from the call.** 1) Debt deleveraging is a priority for the group, while maintaining shareholder returns constant. They aim to be investment grade from S&P and Moody's in 2023; 2) the Eu17bn order intake target for 2023 is good quality as it is built on small orders (no jumbo contract included). Commercial momentum is strong and driven by Defence Electronics; 3) FCF target for 2023 of Eu600mn assumes decreasing factoring vs. 2022 (ca. Eu400mn), CapEx at Eu700-800mn, and only a slight improvement at Aerostructures vs. the Eu296mn cash absorption of 2022; 4) Aerostructures: 2022 production rate for the B787 was <2/month, they expect to increase activity to 4/5 shipsets per month in 2023, rising to 10/month by 2025. EuroMALE will provide significant industrial impacts on the Grottaglie and Foggia plants.

■ **Fine-tuning of estimates.** We are merely fine-tuning our estimates model (EBITA unchanged in FY23, +1% in FY24 and FY25), with FOCF improved by 16% in FY23 in line with the Eu600mn guidance and by +19% in FY24-25.

■ **OUTPERFORM; target Eu14.0 (from Eu11.0).** We confirm the Outperform rating with a TP of Eu14.0 (previous Eu11.0), implying a 9.5% 2024-25E avg. FCF yield target applied to revised estimates vs. 12% 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 implied by the target of Eu3.0bn cumulative FCF for 2021-25). 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 8.6x), and significantly below peers (P/E 2023E above 15x).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	13,410	14,135	14,713	15,607	16,335
EBITDA Adj (Eu mn)	1,458	1,626	1,763	1,832	1,932
Net Profit Adj (Eu mn)	446	607	721	724	794
EPS New Adj (Eu)	0.776	1.055	1.254	1.259	1.380
EPS Old Adj (Eu)	0.776	1.055	1.149	1.268	1.378
DPS (Eu)	0.000	0.140	0.140	0.200	0.200
EV/EBITDA Adj	4.9	4.3	4.5	4.9	4.3
EV/EBIT Adj	7.7	6.2	6.5	7.0	6.1
P/E Adj	14.2	10.4	8.8	8.8	8.0
Div. Yield	0.0%	1.3%	1.3%	1.8%	1.8%
Net Debt/EBITDA Adj	2.3	1.9	1.7	1.4	1.0