

# LEONARDO

Sector: Industrials

## OUTPERFORM

Price: Eu20.01 - Target: Eu22.00

## Financial Targets Feature Better FOCF

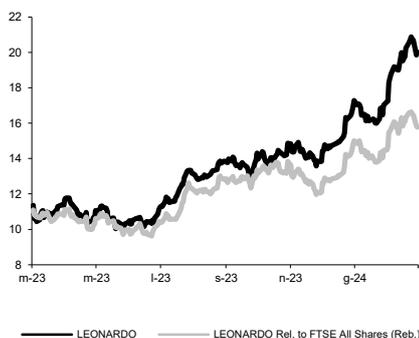
12

**Enrico Coco +39-02-77115.230**  
 enrico.coco@intermonte.it

### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 15.00 to 22.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	0.0%	0.0%	

### LEONARDO - 12M Performance



### Stock Data

Reuters code:	LDOF.MI
Bloomberg code:	LDO IM

Performance	1M	3M	12M
Absolute	16.3%	44.6%	81.5%
Relative	9.5%	33.5%	59.7%
12M (H/L)	20.88/10.01		
3M Average Volume (th):	3,107.64		

### Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	11,569
Total Mkt Cap (Eu mn):	11,569
Mkt Float - Ord (Eu mn):	8,075
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

### Balance Sheet Data

Book Value (Eu mn):	7,964
BVPS (Eu):	13.78
P/BV:	1.5
Net Financial Position (Eu mn):	-1,583
Enterprise Value (Eu mn):	13,152

**2024-28 business plan.** Leonardo's 2024-28 financial targets, disclosed yesterday, were broadly in line on orders (cumulative 5-year total of Eu105bn vs. our estimate of Eu106bn), revenues (cumulative Eu95bn vs. our Eu93bn), and EBITA (Eu1.44bn in 2024 vs. our Eu1.45bn and consensus of Eu1.39bn not including Telespazio) and significantly better on FOCF, foreseen at Eu770mn in 2024 (cons. Eu707mn), rising to Eu1bn in 2026 (cons. Eu887mn) and Eu1.3bn in 2028. The capital allocation strategy also includes an improving payout (doubling of proposed FY23 DPS to Eu0.28), a debt repayment strategy aimed at maintaining a solid investment grade while paying down c.50% of maturing debt, room for external growth in strategic areas (Cyber and Space), and a potential future buyback.

**Few details on potential M&A and alliances, FOCF targets supported by significant cost efficiencies.** CEO Cingolani has been quite vocal in recent months about European consolidation (of assets through JVs) which is also supported by the EU Commission given the need to make defence spending more efficient and focus investments on fewer platforms. On that front, yesterday's presentation did not add much on potential developments and extensions of partnerships (with Hensoldt in EU Electronics, with KNDS in land defence and with Thales in space) as well as possible M&A, after Leonardo executed a Eu340mn placement of DRS shares at YE23 to increase flexibility for acquisitions: the CEO said no talks are underway on Iveco Defence Vehicles (recent press reports indicated a Eu750mn valuation), while confirming talks with Fincantieri for collaboration in the underwater domain after the two companies signed an MoU last year (WASS may be sold to Fincantieri for Eu200-250mn). We also note the much better FOCF relies on an aggressive cost efficiency plan which is back-end loaded (Eu150mn in 2024 rising to Eu590mn run-rate in 2028) with no upfront costs. Pending negotiations, no indications were provided on re-pricing of the fuselage supply for the Boeing 787 which is a key driver of margin improvement going forward (Eu168mn of losses in FY23, or 12% of group EBITA including Telespazio).

**No significant changes to short-term estimates: target raised to Eu22.0 (SOP-based).** We expect no significant changes to our short-term estimates as we are aligned to management guidance, while we see some upside on FOCF (c.3% in 2024 and 10% in 2025). Despite the strong recent performance (partly driven by the impact of a multiple re-rating on a company with high debt), we think the risk to estimates remains low and the stock is trading at undemanding multiples (c.14.0x 2024E P/E, c.7.0% FCF Yield). We are updating our valuation, raising our TP from Eu15.0 to Eu22.0, while retaining our OUTPERFORM rating. This reflects the market prices of DRS and Hensoldt, 25% of MBDA valued at Eu2.42bn (20x estimated P/E 2024E), the space division valued at Eu1.2bn, with the rest of Leonardo (helicopters, trainers, EU defence electronics, aircrafts, aerostructures and 50% of ATR) valued at 7.0x EV/EBITDA 2024E. Sources of upside are Space and EU electronics (Leonardo has distinctive supercomputing capabilities). Potential downside relates to changed sector sentiment and a multiple de-rating (including DRS, 35% of LDO's market cap).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	14,135	14,713	15,291	16,679	17,574
EBITDA Adj (Eu mn)	1,626	1,763	1,841	2,004	2,257
Net Profit Adj (Eu mn)	607	721	709	815	1,015
EPS New Adj (Eu)	1.055	1.254	1.233	1.417	1.764
EPS Old Adj (Eu)	1.055	1.149	1.268	1.378	
DPS (Eu)	0.140	0.140	0.200	0.200	0.200
EV/EBITDA Adj	4.3	4.5	4.9	6.6	5.5
EV/EBIT Adj	6.2	6.5	7.0	9.1	7.3
P/E Adj	19.0	16.0	16.2	14.1	11.3
Div. Yield	0.7%	0.7%	1.0%	1.0%	1.0%
Net Debt/EBITDA Adj	1.9	1.7	1.2	0.8	0.4

**DISCLAIMER (for more details go to [DISCLAIMER](#))**

**IMPORTANT DISCLOSURES**

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website [www.intermonte.it](http://www.intermonte.it) under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Brasil Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

**ANALYST CERTIFICATION**

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certifies that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Brasil Plural Securities LLC, 545 Madison Avenue, New York 10022.

**GUIDE TO FUNDAMENTAL RESEARCH**

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&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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

**CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS**

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 December 2023 Intermonte's Research Department covered 117 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

**CONFLICT OF INTEREST**

In order to disclose its possible conflicts of interest Intermonte SIM states that:

**Intermonte is acting as financial advisor to SAES Getters in relation to the partial voluntary tender offer on ordinary treasury shares.**

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambientthesis), Growens, Illimity Bank, Maire Tecnimont, SAES Getters, Tinexta, Unidata and WIIT.

**Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.**

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Anima Holding, Antares Vision, Aquafil, Avio, Banca Ifis, Banca Sistema, Civitanavi Systems, Cyberoo, Cy4gate, DeA Capital, ElEn, Elica, Emak, Esprinet, Expert AI, Fimit - Fondo Alpha, Fine Foods, Franchi Umberto Marmi, Go Internet, GPI, Greenthesis (formerly Ambientthesis), IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Intred, Luvè, Matica Fintec, Mondadori, Notorious Pictures, Omer, Pharmanutra, Reevo, Relatech, Reply, Revo Insurance, Sababa Security, Saes Getters, Salcef, Sciuker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Talea, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Finenco, FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STI, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, Intermonte SIM, through Websim, which constitute the digital division of Intermonte, acts as a Financial Content Provider on the following companies: Abitare In, Alkemy, Banca Sistema, Bifire S.P.A., B&C Speakers, Cleanbnb, Crowdfundme, Cy4gate, Cyberoo, Digital Bros, Digital Magics, Doxee, Ediliziaacrobatica Spa, Eles, Elica, Emak, Esi, Esprinet, Eviso, Fae Technology, Fiera Milano, Fope, FOS, Franchi Umberto Marmi, Giglio Group, GPI, Intercos, Intred, Lventure Group, Maps, Masi Agricola, Matica Fintec, Neodecortech, Notorious Pictures, Osai Automation System, Racing Force Group, Relatech, Reti, Sciuker Frames, Solid World Group, Spindox Digital Soul, Tamburi, Tesmec, Tinexta, Tps Group, Trendevice, Ulisse Biomed, Wiit.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short

**© Copyright 2024 by Intermonte SIM - All rights reserved**

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid.

Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website [MIFID](#)

Further information is available