Intermonte

Milan, 15 January 2025

Italian Equity Research – Company Update

LEONARDO

OUTPERFORM

Sector: Industrials

Price: Eu27.87 - **Target: Eu33.00**

Reiterating Outperform, TP raised to Eu33 per share

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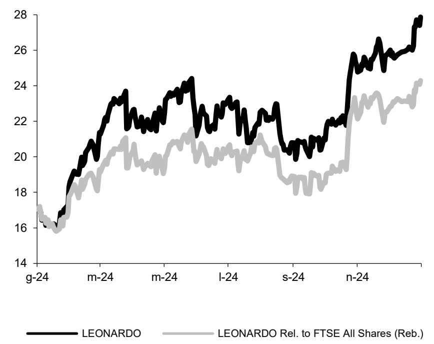
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 27.50 to 33.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-0.8%	0.1%	0.6%

LEONARDO - 12M Performance



Stock Data			
Reuters code:			LDOF.MI
Bloomberg code:			LDO IM
Performance	**1M**	**3M**	**12M**
Absolute	8.2%	32.3%	61.3%
Relative	7.9%	31.2%	47.0%
12M (H/L)			27.87/15.99
3M Average Volume (th):			2,601.72

Shareholder Data	
No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	16,113
Total Mkt Cap (Eu mn):	16,113
Mkt Float - Ord (Eu mn):	11,247
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data	
Book Value (Eu mn):	9,428
BVPS (Eu):	16.31
P/BV:	1.7
Net Financial Position (Eu mn):	-1,014
Enterprise Value (Eu mn):	17,127

- **Good visibility on medium-term earnings growth, undemanding valuation.** Leonardo will disclose preliminary FY24 results on 20th February and will present an update of its strategic plan in March. After the strong performance of the last three years, we think risk/return on the stock remains attractive due to visibility on medium-term earnings growth and undemanding multiples (EV/EBITDA 8.0x, P/E 15x avg. 2025-26E estimates). We expect spending on global security (defence electronics, cyber, space, drones, multi-domain capabilities) to remain strong in the coming years and largely uncorrelated to macro. In particular, Leonardo has a strong positioning in defence electronics in Europe and should benefit from the increase in spending vs. the current NATO threshold of 2% of GDP. Commercial momentum (i.e. Eurofighters ordered by Italy and Spain and potential for an additional 100-150 aircraft in 2025, Italy's contract on MBT tanks) is strong and supports visibility on earnings growth going forward. We confirm the Outperform rating on the stock, with the SOTP-based TP raised from Eu27.5 to Eu33 per share.
- **Industrial plan update in March might be a positive catalyst for shares.** The focus is on the strategy update on Space, in which area Leonardo is discussing development in Europe with Thales and Airbus (while the press has reported a potential agreement between Italy and Starlink); industrial partnerships in Aerostructures (Baykar is acquiring Piaggio Aero and the press has reported a partnership with Leonardo on drones); the expected contribution to the business plan from the JV with Rheinmetall; and development of synergies with DRS in electronics. Weak spots are the lower production rates on the B787 delaying breakeven at Aerostructures, and the ongoing restructuring at TAS, which impacts EBITA.
- **Shareholder remuneration.** Another focus is the capital allocation strategy, as the execution on debt de-leveraging and supportive outlook on FCF generation provides ample flexibility (in our current model, NFP turns positive in FY2027E) to increase remuneration to shareholders (likely introduction of buybacks) while maintaining leeway for external growth in areas such as Cyber and Space (small size M&A).
- **FY2025-28 estimates**. We have made minor changes to our estimates (sales FY2025-28E +0.3%, EBITA -0.9%, FOCF unchanged), assumed higher leasing debt in FY24, and included the WASS disposal to Fincantieri for Eu415mn EV in 2025. As for FY2024, our estimates are aligned to business plan targets of orders at Eu19.5bn, sales at Eu16.8bn, EBITA at Eu1.44bn, FOCF at Eu770mn, and net debt at Eu2.0bn. We think the industrial plan update might provide some upside to estimates beyond 2026 based on the current order intake trend.
- **OUTPERFORM, target price raised to Eu33 (SOP-based).** We raise our SOP-based TP from Eu27.5 to Eu33.0, keeping our OUTPERFORM rating; this mainly reflects updated market prices for DRS (Eu6.3bn) and Hensoldt (Eu1.0bn), 25% of MBDA valued at Eu2.25bn, the space division valued at Eu1.34bn, and the rest of Leonardo (helicopters, trainers, EU electronics, Eurofighter/GCAP, aerostructures, and 50% of ATR) valued at 8.0 vs. the previous 7.5x rolled to avg. 2025-26E EV/EBITA.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	14,713	15,982	16,894	17,825	18,821
EBITDA Adj (Eu mn)	1,763	1,878	2,037	2,211	2,460
Net Profit Adj (Eu mn)	721	737	774	970	1,136
EPS New Adj (Eu)	1.254	1.281	1.345	1.685	1.974
EPS Old Adj (Eu)	1.254	1.281	1.355	1.683	1.962
DPS (Eu)	0.140	0.280	0.300	0.320	0.340
EV/EBITDA Adj	4.5	4.9	7.1	7.7	6.7
EV/EBIT Adj	6.5	6.9	10.0	10.6	8.9
P/E Adj	22.2	21.8	20.7	16.5	14.1
Div. Yield	0.5%	1.0%	1.1%	1.1%	1.2%
Net Debt/EBITDA Adj	1.7	1.2	1.0	0.5	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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BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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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