

LEONARDO

Sector: Industrials

OUTPERFORM

Price: Eu34.80 - Target: Eu37.00

Waiting for the Plan Update. TP Raised to Eu37

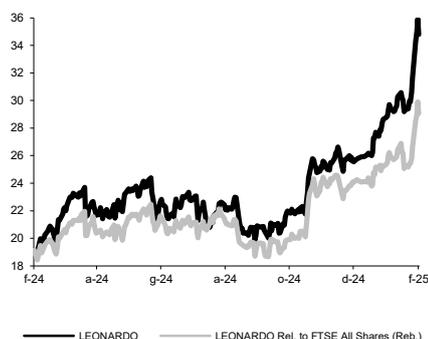
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 33.00 to 37.00		
	2024E	2025E	2026E
Chg in Adj EPS	0.9%	0.0%	0.0%

LEONARDO - 12M Performance



Stock Data

Reuters code:	LDOF.MI		
Bloomberg code:	LDO IM		
Performance	1M	3M	12M
Absolute	21.0%	38.6%	81.7%
Relative	15.3%	24.1%	61.9%
12M (H/L)	35.91/19.00		
3M Average Volume (th):	3,032.37		

Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	20,120
Total Mkt Cap (Eu mn):	20,120
Mkt Float - Ord (Eu mn):	14,044
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data

Book Value (Eu mn):	9,435
BVPS (Eu):	16.32
P/BV:	2.1
Net Financial Position (Eu mn):	-887
Enterprise Value (Eu mn):	21,007

■ **Preliminary FY24 results.** Leonardo reported preliminary FY24 results (orders, sales, EBITA, FOCF, net debt) that beat guidance and came in 3% better than consensus on sales (Eu17.8bn +11% YoY), 6% on orders (Eu20.9bn +12% YoY) and 11% on FOCF (Eu826mn +27% YoY). EBITA (E1525mn +13% YoY) was 6% better than consensus after a change in EBITA definition which now excludes extraordinary items of strategic JVs (Eu-73mn in FY24 and Eu-25mn in FY23 due to TAS). With the previous definition of EBITA, FY24 EBITA would have been Eu1,452mn or 1% better than consensus.

■ **Conference call pointers.** Management said the EU Commission's proposal to activate the escape clause for defence investments will support higher European spending (we estimate >Eu150bn annually on aggregate if member states move from 2% of GDP to 3%). They are not seeing an acceleration of orders yet (but expect this to happen, starting with Nordics) and stressed that Leonardo is positioned to compete at European level (5% of an additional Eu150bn of spending is >30% of LDO's current annual intake), not just in Italy. Management also confirmed that in the group's key businesses it will take 2-3 years to convert orders into production (no impact on 2025-27 estimates). Other company-specific comments will be provided with the approval of full FY24 results and the update of the business plan on 11th March.

■ **Upcoming plan update.** In our view, the key focus will be on 1) inclusion of the JV with Rheinmetall in land defence; 2) strategic partnership with Airbus and Thales in Space aimed at creating a European champion similar to what was done in missiles with MBDA. We think a deal has a solid industrial rationale and backing from the companies involved, but remains a political issue; 3) strategic partnership with Baykar on unmanned/drones, which may crystallise significant value for Leonardo as the manufacture of drones (much lower prices but scaling up to very high volumes) supports the restructuring of Leonardo's aerostructures business, which is currently suffering from low production volumes from Boeing. *Il Foglio* recently reported that the Italian armed forces are ready to order an initial batch of 1,300 TB-2 drones. Execution on debt de-leveraging provides flexibility to increase remuneration to shareholders (i.e. buybacks) while keeping scope for external growth in Cyber and Space.

■ **OUTPERFORM; target raised to Eu37 (SOP-based).** Waiting for the plan, we are leaving our estimates unchanged but raising our SOP-based TP from Eu33 to Eu37. This reflects updated market prices for DRS (Eu5.7bn) and Hensoldt (Eu1.2bn), 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/unmanned, and 50% of ATR) at 10.0x 2025-26E EV/EBITA vs. the previous 8.0x avg. Leonardo has a strong positioning in European defence electronics and should benefit from increased spending vs. the current NATO threshold of 2% of GDP, which supports visibility on earnings growth going forward. In our SOP valuation, we see potential upside in Space (share of a JV with Airbus and Thales values more than the Eu1.34bn currently included in our model), MBDA (vs. the current Eu2.25bn included in our SOP), restructuring of Aerostructures (Eu150mn EBITA loss in FY24) thanks to drones partnerships, and value from the JV with Rheinmetall.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	14,713	15,982	17,763	17,914	18,913
EBITDA Adj (Eu mn)	1,763	1,911	2,219	2,211	2,460
Net Profit Adj (Eu mn)	721	737	781	970	1,136
EPS New Adj (Eu)	1.254	1.281	1.357	1.685	1.974
EPS Old Adj (Eu)	1.254	1.281	1.345	1.685	1.974
DPS (Eu)	0.140	0.280	0.300	0.320	0.340
EV/EBITDA Adj	4.5	4.8	6.5	9.5	8.3
EV/EBIT Adj	6.5	6.9	9.4	13.0	11.0
P/E Adj	27.7	27.2	25.7	20.6	17.6
Div. Yield	0.4%	0.8%	0.9%	0.9%	1.0%
Net Debt/EBITDA Adj	1.7	1.2	0.8	0.4	0.1

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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&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.

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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 %

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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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