LEONARDO

OUTPERFORM

Sector: Industrials

Price: Eu11.88 - **Target: Eu14.00**

Solid 1H23 results. New Plan at the Beginning of 2024

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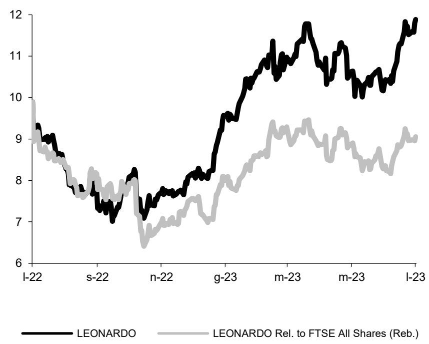
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

LEONARDO - 12M Performance



Stock Data			
Reuters code:			LDOF.MI
Bloomberg code:			LDO IM
Performance	**1M**	**3M**	**12M**
Absolute	15.3%	9.9%	20.1%
Relative	9.2%	2.1%	-11.1%
12M (H/L)			11.88/7.02
3M Average Volume (th):			2,611.86

Shareholder Data	
No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	6,868
Total Mkt Cap (Eu mn):	6,868
Mkt Float - Ord (Eu mn):	4,794
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):	9,457

- **Solid 1H23 results.** Leonardo released 1H23 results above expectations (5% beat on 2Q23 EBITA vs. consensus) and on track with targets, which were reiterated. 1H23 orders at Eu8.7bn, up 19% YoY (+21% perimeter adjusted), with sales up 6.4% to Eu6.89bn (consensus Eu6.78bn); EBITA up 3% to Eu430mn (consensus Eu415mn) with the margin higher in 2Q23 after a weak 1Q; and net profit of Eu196mn (consensus Eu219mn) after a Eu20mn one-off (provision for the extension of early retirements) and Eu10mn restructuring at DRS. FOCF at Eu-517mn was Eu60mn better than consensus estimate, with net debt at Eu3.6bn as at end-June (Eu1.16bn de-leverage vs. 1H22). Key takeaways from the quarter: good quality in orders and FOCF, Helicopters growing, Defence Electronics contributing strong margins.
- **FY23 guidance confirmed, some upside risk on FOCF**. We think the company is on track on targets for revenues (+5.8% YoY in 2H23E vs. +6.4% YoY in 1H23 implied by our FY23 estimate of Eu15.6bn, which is at the high-end of the Eu15.0-15.6bn guidance range) and EBITA (9.9% margin in 2H23E vs. 9.8% in 2H22 implied by our FY23 estimate of Eu1.29mn, consensus in line, which is at the mid-point of the Eu1.26/1.31bn guidance). Upside risks is on orders (the Eu17bn guidance implies Eu400mn lower orders in 2H23E vs. 1H23), and mainly FOCF (Eu445mn YoY improvement in 1H23 vs. a Eu60mn improvement implied by the Eu600m guidance).
- **New Strategic Plan at the beginning of 2024: Space and Cyber the key priorities.** New CEO Cingolani trailed the strategic pillars of the new plan to be presented at the beginning of 2024 and aimed at making Leonardo more innovative, agile, and positioned for growth in services. Beside strengthening the core business through massive digitalization, making the organization more efficient, and growing internationally, key pillars will be growth in new high-tech services (recurring revenues, higher margins, and cash conversion) and a more focused R&D (Eu2.0bn spent today including product customization; electric buses, solar drones and satellite telcos were mentioned as activities that may be cut). In this context, space/satellite services (today managed through the JVs with Thales and the stakes in Avio and e-GEOS) and cyber (it will become pervasive, embedded in products and platforms, i.e. cyber-secure by design) are key priorities for the group. We also note that management said medium-term targets (2022-2026 orders at Eu90bn, implying a step-up in orders to Eu18.5bn on avg. in coming years, 2023-27 revenue CAGR at 4/5% with EBITA up high-single digit and Eu3.0bn cumulative cash generation in 2021-2025, implying FOCF improving beyond 2023 to >Eu800mn) will be confirmed or improved, and Leonardo is open to M&A (while maintaining debt under control) to develop synergies with other defence players and accelerate growth in Space/Cyber. Overall, we were impressed by Cingolani's speech on how defence is moving to data (production and use of data, cyber security, space control, infrastructure security, energy security) and on Leonardo's urgency to evolve into a company offering more services and solutions.
- **Estimates and rating confirmed.** We confirm our estimates, which are in line with company targets and consensus, the Outperform rating, and TP of Eu14.0. Excluding DRS and Hensoldt, the shares trade below 5.0x EV/EBITA FY23 (at 7.0x, fair value would be above Eu14.0). Presentation of the new plan may be a catalyst for the stock.

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	724	794	855
EPS New Adj (Eu)	1.055	1.254	1.259	1.380	1.487
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	5.2	4.6	4.0
EV/EBIT Adj	6.2	6.5	7.3	6.4	5.6
P/E Adj	11.3	9.5	9.4	8.6	8.0
Div. Yield	1.2%	1.2%	1.7%	1.7%	1.7%
Net Debt/EBITDA Adj	1.9	1.7	1.4	1.0	0.6