

LEONARDO

Sector: Industrials

OUTPERFORM

Price: Eu22.64 - Target: Eu25.40

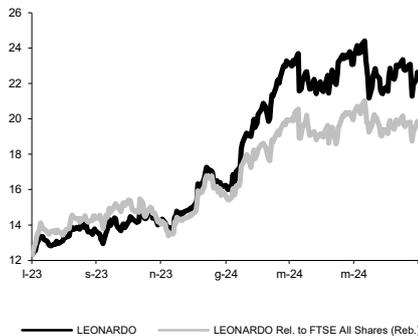
1H24 results in line, guidance confirmed. TP up to Eu25.4

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Stock Rating

Rating:	Unchanged	
Target Price (Eu):	from 22.00 to 25.40	
	2024E	2025E
Chg in Adj EPS	-4.4%	-4.6%

LEONARDO - 12M Performance



Stock Data

Reuters code:	LDOF.MI		
Bloomberg code:	LDO IM		
Performance	1M	3M	12M
Absolute	4.4%	4.7%	90.6%
Relative	2.2%	4.2%	76.0%
12M (H/L)	24.40/12.32		
3M Average Volume (th):	2,509.90		

Shareholder Data

No. of Ord shares (mn):	578
Total no. of shares (mn):	578
Mkt Cap Ord (Eu mn):	13,089
Total Mkt Cap (Eu mn):	13,089
Mkt Float - Ord (Eu mn):	9,136
Mkt Float (in %):	69.8%
Main Shareholder:	
Italian Treasury	30.2%

Balance Sheet Data

Book Value (Eu mn):	8,254
BVPS (Eu):	14.28
P/BV:	1.6
Net Financial Position (Eu mn):	-1,613
Enterprise Value (Eu mn):	14,702

■ **1H/2Q24 results in line with estimates and on track with targets.** Leonardo released 1H24 results in line with expectations (in 2Q: 3% beat vs. consensus on orders, 2% beat on sales, EBITA in line, net debt 4% or Eu25mn higher) and on track for FY targets, which were reiterated. Orders at Eu4.57bn in 2Q24 (consensus Eu4.37bn) were up 20% YoY, with sales up 12% to Eu4.18bn (consensus Eu4.08bn). EBITA was stable YoY (-1%) at Eu321mn (consensus Eu313mn) after 1Q24 above trend with the margin at 7.4%, down 100bps YoY to 6.3%. FOCF at Eu119mn was Eu29mn better than consensus (Eu90mn), with 1H24 FOCF of Eu-502mn, practically stable YoY (Eu-517mn in 1H23). Net debt at Eu3.0bn as at end-June was stable vs. end-March (Eu2.93bn) and in line with consensus. Key takeaways from the quarter: strong commercial momentum (orders and sales up double digit), strengthening and good quality of FOCF, good contribution from Defence Electronics to operating margins with accelerated efficiency plan compensating for weak aerostructures and space telco manufacturing.

■ **FY23 guidance confirmed.** Management reiterated targets for FY24 of orders at Eu19.5bn, sales at Eu16.8bn, EBITA at Eu1.44bn, FOCF at Eu770mn, and net debt at Eu2.0bn including strategic investments. The capital allocation strategy also includes an improving payout (doubling of proposed FY23 DPS to Eu0.28), a debt repayment strategy aimed at paying down c.50% of maturing debt, and room for external growth in strategic areas (Cyber and Space).

■ **Conference call feedback:** 1) the JV with Rheinmetall should be signed in September with first deliveries in 2/3 years; the potential involvement and synergies with Iveco will be evaluated in a second step; 2) while confirming talks with Airbus and Thales, a new plan for the space division will be presented by year-end; 3) LDO's management expects production rates for B787 back to 10 a month by 2025 and is in talks with Airbus to expand collaboration for the rear fuselage. An accelerated cost efficiency plan should compensate for the short-term shortfall in aerostructures; 4) Leonardo is interested in M&A (small size deal in space, cyber).

■ **No significant changes to short-term estimates: target raised to Eu25.4 (SOP-based).** We made minor changes to our estimates (sales +1% in both FY24E and FY25E, EBITA +1%/-2%, FOCF +3%/+10%) which are aligned to business plan targets. Despite the strong recent performance, we think the risk to estimates remains low and the stock is trading at undemanding multiples (13.4x 2025E P/E, 6.7% FCF yield). We are updating our valuation, raising our TP from Eu22 to Eu25.4, while retaining our OUTPERFORM rating. This reflects updated market prices of DRS and Hensoldt which explain a Eu2.5 per share higher fair value, 25% of MBDA valued at Eu2.42bn (20x estimated P/E 2024E), the space division valued at Eu1.2bn, and the rest of Leonardo (helicopters, trainers, EU defence electronics, aircrafts, aerostructures and 50% of ATR) valued at 7.5 vs. the previous 7.0x EV/EBITA 2024E (this explains +Eu0.9 per share vs. previous target price).

Key Figures & Ratios	2021A	2022A	2023A	2024E	2025E
Sales (Eu mn)	14,135	14,713	15,982	16,894	17,758
EBITDA Adj (Eu mn)	1,626	1,763	1,878	2,045	2,256
Net Profit Adj (Eu mn)	607	721	737	780	968
EPS New Adj (Eu)	1.055	1.254	1.281	1.355	1.683
EPS Old Adj (Eu)	1.055	1.254	1.233	1.417	1.764
DPS (Eu)	0.140	0.140	0.280	0.300	0.330
EV/EBITDA Adj	4.3	4.5	4.8	7.2	6.2
EV/EBIT Adj	6.2	6.5	6.8	10.1	8.4
P/E Adj	21.5	18.1	17.7	16.7	13.4
Div. Yield	0.6%	0.6%	1.2%	1.3%	1.5%
Net Debt/EBITDA Adj	1.9	1.7	1.2	0.8	0.4

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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&PMB40 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:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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