

AVIO

Sector: Industrials

OUTPERFORM

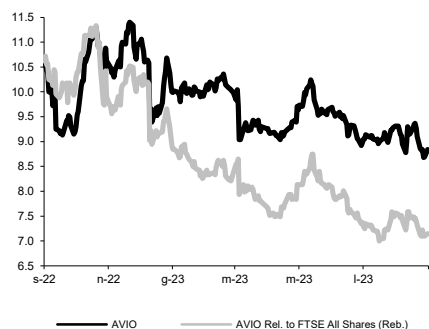
Price: Eu8.84 - Target: Eu11.70

With Order Book at Record High, Focus Now is Execution

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| Stock Rating | | | |
|--------------------|-----------|-------|-------|
| Rating: | Unchanged | | |
| Target Price (Eu): | Unchanged | | |
| | 2023E | 2024E | 2025E |
| Chg in Adj EPS | n.m. | 12.8% | -2.4% |

AVIO - 12M Performance



| Stock Data | | | |
|-------------------------|------------|--------|--------|
| Reuters code: | AVI.MI | | |
| Bloomberg code: | AVIO IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | -5.0% | -8.4% | -29.4% |
| Relative | -5.7% | -12.5% | -56.1% |
| 12M (H/L) | 11.40/8.68 | | |
| 3M Average Volume (th): | 32.31 | | |

| Shareholder Data | |
|---------------------------|-------|
| No. of Ord shares (mn): | 27 |
| Total no. of shares (mn): | 27 |
| Mkt Cap Ord (Eu mn): | 240 |
| Total Mkt Cap (Eu mn): | 240 |
| Mkt Float - Ord (Eu mn): | 100 |
| Mkt Float (in %): | 41.5% |
| Main Shareholder: | |
| Leonardo | 29.6% |

| Balance Sheet Data | |
|---------------------------------|-------|
| Book Value (Eu mn): | 295 |
| BVPS (Eu): | 10.88 |
| P/BV: | 0.8 |
| Net Financial Position (Eu mn): | 62 |
| Enterprise Value (Eu mn): | 157 |

■ **2Q marks a clear improvement YoY and QoQ.** As expected, 2Q results were a sharp improvement on last year and the previous quarters, showing a significant expansion of the order book to Eu1,372mn vs. Eu1,260mn as at the end of March, a new company record which provides visibility on 3-4 years of revenues. Turnover was Eu97.9mn (vs. Eu90.3mn expected), up ~44% YoY, thanks mainly to growth in R&D linked to NRRP orders awarded and to the growth in production activity linked to the tactical propulsion business, leading to adj. EBITDA of Eu7.8mn (vs. Eu4.4mn last year), above our Eu6.8mn estimate. Profitability benefited from lower energy costs YoY and the contribution of R&D activities. Adj. EBIT was Eu3.5mn vs. Eu0.4mn in 2Q22. Down the line, in the semester the net loss more than halved YoY to Eu3.7mn vs. Eu9.5mn in 1H22 thanks to better financial management, lower taxes, and lower minorities. Finally, the NFP was positive at Eu102.2mn, a further QoQ improvement thanks to downpayments on new contracts signed in the quarter, slightly higher than our Eu100mn estimate.

■ **Update on next launches.** The next Vega launch is scheduled for 4 October 2023 and the subsequent one in spring 2024, while return to flight planning for Vega C is currently under evaluation pending the findings of the Independent Evaluation Board analysing the cause of the anomaly in the static firing test of the Zefiro 40 motor. As for Ariane 6, as recently communicated by the ESA, the maiden flight is expected in 2024.

■ **2023 estimates aligned to high end of company guidance.** While our top-line estimates for the next 4 years remain basically unchanged, we are revising the revenue mix to incorporate lower revenues from production activities related to the Vega and Ariane programs, but higher ones for the tactical propulsion business and R&D. This prompts us to revise our profitability forecast downward, as we assume lower absorption of production-related fixed costs. In any case, at the bottom line the revision is very limited (positive for 2023) as we have lowered D&A due to a longer amortization period on some investments and higher financial income thanks to remuneration of the significant cash position. Our 2023 estimates are substantially aligned to the top end of guidance provided by the company, which targets an order book of Eu1,150mn-Eu1,250mn, revenues of Eu330mn-Eu350mn, reported EBITDA of Eu19mn-Eu25mn, and net profit of Eu2mn-Eu6mn.

■ **OUTPERFORM confirmed; target Eu11.7.** In the short term, market focus will likely remain on the timing of Vega C's return to flight and the maiden flight of the Ariane 6 rather than on quarterly results, although we appreciate the first signs of improvement after a run of difficult quarters. We believe the robust order intake since the beginning of the year and a record order book provide a good indication of the company's medium-long term prospects, with the focus now necessarily shifting to execution of the numerous contracts awarded in order to unleash the company's true potential. We confirm our positive view on the stock and our DCF-based target price, where the bulk of the value is represented by the terminal value (>80%), in line with the belief that this sector should be looked at from a long-term perspective.

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn) | 312 | 357 | 351 | 399 | 441 |
| EBITDA Adj (Eu mn) | 38 | 28 | 30 | 37 | 43 |
| Net Profit Adj (Eu mn) | 16 | 6 | 10 | 13 | 17 |
| EPS New Adj (Eu) | 0.596 | 0.218 | 0.369 | 0.486 | 0.639 |
| EPS Old Adj (Eu) | 0.596 | 0.102 | 0.133 | 0.431 | |
| DPS (Eu) | 0.178 | 0.000 | 0.089 | 0.236 | 0.328 |
| EV/EBITDA Adj | 6.5 | 7.3 | 5.2 | 4.4 | 3.9 |
| EV/EBIT Adj | 14.8 | 23.7 | 15.8 | 12.0 | 9.3 |
| P/E Adj | 14.8 | 40.5 | 23.9 | 18.2 | 13.8 |
| Div. Yield | 2.0% | 0.0% | 1.0% | 2.7% | 3.7% |
| Net Debt/EBITDA Adj | -1.5 | -2.7 | -2.1 | -1.5 | -1.2 |

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- 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)

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Frequency of research: quarterly.

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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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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;

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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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| | |
|--------------|---------|
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| OUTPERFORM: | 52.99 % |
| NEUTRAL: | 22.22 % |
| UNDERPERFORM | 01.71 % |
| SELL: | 00.00 % |

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| | |
|--------------|---------|
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| OUTPERFORM: | 51.02 % |
| NEUTRAL: | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|-----------|---|------------|
|-----------|---|------------|

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