

AVIO

Sector: Industrials

OUTPERFORM

Price: Eu9.49 - Target: Eu11.70

Short-term clouds, but positive signs for the longer term

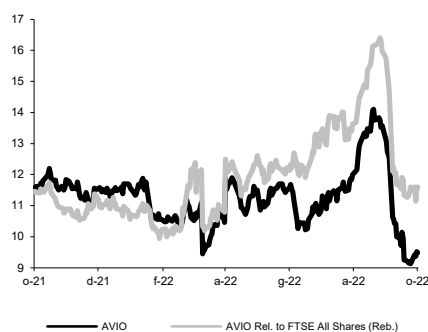
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 12.70 to 11.70		
	2022E	2023E	2024E
Chg in Adj EPS	-66.0%	-63.9%	-9.9%

AVIO - 12M Performance



Stock Data

Reuters code:	AVI.MI
Bloomberg code:	AVIO IM

Performance	1M	3M	12M
Absolute	-27.6%	-12.6%	-17.2%
Relative	-25.7%	-12.9%	0.9%
12M (H/L)	14.10/9.13		
3M Average Volume (th):	93.14		

Shareholder Data

No. of Ord shares (mn):	27
Total no. of shares (mn):	27
Mkt Cap Ord (Eu mn):	258
Total Mkt Cap (Eu mn):	258
Mkt Float - Ord (Eu mn):	145
Mkt Float (in %):	56.2%
Main Shareholder:	
Leonardo	29.6%

Balance Sheet Data

Book Value (Eu mn):	300
BVPS (Eu):	11.06
P/BV:	0.9
Net Financial Position (Eu mn):	31
Enterprise Value (Eu mn):	210

- 2022 broadly in line:** the company has reported quarterly results that came in slightly above our expectations at operating level, with numbers affected by activity to prepare for the inaugural flight of Vega C and the rise in energy costs. Revenues came in at Eu68mn, below our estimate of Eu72mn and down 9.3% YoY. The fall in the top line was due to the focus on the activity linked to the Vega C maiden voyage, which has taken resources away from other activities, an effort more than justified by the importance of the milestone. Adj. EBITDA stood at Eu4.4mn, above our estimate of Eu3.6mn, but down 26% YoY mainly due to the sharp rise in energy costs, leading to adj. EBIT of Eu0.4mn (vs. our Eu-1.9mn estimate), broadly in line with last year thanks to lower D&A. Finally, the NFP was positive at Eu40.9mn, above our estimate of Eu35mn.
- 2022 guidance cut because of rising energy costs:** along with the release, the company also updated its guidance for 2022, confirming targets for the order book (Eu870-920mn) and revenues (Eu330-350mn), but cutting the reported EBITDA target (Eu17-25mn from Eu24-30mn) to account for the higher-than-previously-expected impact of energy costs, pending mitigation measures (by Italian Government, ESA...) that are not included in the target. As a consequence, net profit has also been rebased (Eu-2/+3mn from Eu5-10mn), now also incorporating one-off taxation effects.
- 2022/23 estimates down double-digit, limited impact in the longer term.** We are aligning our 2022 estimates with the mid-point of the new guidance provided by the company, thereby cutting adj. EBITDA by 19.5%, while leaving top line unchanged. Given the lack of visibility on the evolution of energy prices in the near future, we are also going to take a more cautious stance on 2023 profitability in light of the limited possibility of revising the terms of existing contracts, cutting adjusted EBITDA by about 16% (margin reduced by 1.7pp). For the following years, however, the cut is much more limited and assumes a gradual return to normal as of 2024. We note that our estimates only partially include the substantial upside that could derive from 1) the NRRP funds destined for the aerospace sector, 2) the ESA funds that will be allocated in the ministerial conference that will be held at the end of the year and 3) the increase in defence spending following the worsening of the geopolitical scenario in the wake of the Russian invasion of Ukraine.
- OUTPERFORM confirmed; target Eu11.7.** While profitability estimates could potentially suffer in the short term from low visibility due to energy price trends, we believe that over the longer term Avio is well placed to seize the opportunities materialising in the highly promising small satellite launchers market, which should continue to enjoy sustainable growth in the coming years thanks to demand for increasingly accurate, flexible, and reliable launchers. The materialisation of the NRRP, ESA and defence orders detailed in this report could translate into material upside compared to current estimates, providing significant potential upside to our valuation. Our valuation model yields a target price of Eu11.7, down from Eu12.7 following the cuts we have made to our estimates and the updated WACC (8.9% from 8.2%) following the increase in the risk-free rate adopted in our model (4% from 3%).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	322	312	340	370	403
EBITDA Adj (Eu mn)	43	38	26	32	41
Net Profit Adj (Eu mn)	22	16	3	4	12
EPS New Adj (Eu)	0.818	0.596	0.102	0.133	0.431
EPS Old Adj (Eu)	0.818	0.596	0.301	0.369	0.478
DPS (Eu)	0.285	0.178	0.000	0.025	0.203
EV/EBITDA Adj	6.4	6.5	8.1	6.8	5.0
EV/EBIT Adj	11.6	14.8	nm	35.7	14.5
P/E Adj	11.6	15.9	92.8	71.3	22.0
Div. Yield	3.0%	1.9%	0.0%	0.3%	2.1%
Net Debt/EBITDA Adj	-1.4	-1.5	-1.2	-0.8	-0.9

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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 2.5% and a risk premium of 5.0% 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 their 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.

Explanation of our ratings system:

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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 June 2022 Intermonte's Research Department covered 120 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	25.00 %
OUTPERFORM:	57.69 %
NEUTRAL:	17.31 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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