Milan, 10 May 2024

Italian Equity Research – 1Q24 Results

AVIO

OUTPERFORM

Sector: Industrials

Price: Eu12.08 - **Target: Eu14.00**

Defence Business Drives Sound Start to the Year

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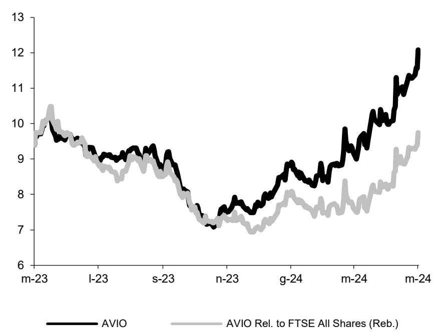
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 13.00 to 14.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-2.7%	-3.7%	-17.5%

AVIO - 12M Performance



Stock Data			
Reuters code:			AVI.MI
Bloomberg code:			AVIO IM
Performance	**1M**	**3M**	**12M**
Absolute	20.6%	42.8%	28.6%
Relative	19.4%	32.9%	4.8%
12M (H/L)			12.08/7.08
3M Average Volume (th):			103.79

Shareholder Data	
No. of Ord shares (mn):	27
Total no. of shares (mn):	27
Mkt Cap Ord (Eu mn):	328
Total Mkt Cap (Eu mn):	328
Mkt Float - Ord (Eu mn):	136
Mkt Float (in %):	41.5%
Main Shareholder:	
Leonardo	29.6%

Balance Sheet Data	
Book Value (Eu mn):	304
BVPS (Eu):	11.18
P/BV:	1.1
Net Financial Position (Eu mn):	27
Enterprise Value (Eu mn):	274

- **P&L showing signs of improvement in 1Q:** Avio has reported 1Q24 results that were slightly better than our estimates, confirming a slight YoY improvement. The quarter closed with turnover of Eu78.8mn, up 32% YoY thanks to development projects and tactical propulsion activity, which offset the slowdown in production for launchers. The improvement in revenues led to a similar increase in adj. EBITDA, which went from Eu2.6mn in 1Q23 to Eu3.4mn in 1Q24 (margin fairly stable), and in adj. EBIT, which went from a Eu2.1mn loss in 1Q23 to a Eu1.0mn loss in 1Q24. Finally, cash was slightly worse (Eu9.6mn vs. Eu15mn estimated), falling QoQ due to the transfer to subcontractors of advances previously booked from clients, and due to procurement of strategic components for Vega C.
- **Solid order momentum continues in 1Q24, with defence propulsion taking the lion's share:** the order intake remained pretty solid, with a further Eu97mn of orders booked in 1Q (book-to-bill 1.2x), most of which came in the defence propulsion business, where awards amounted to ~Eu80mn in the quarter, mainly for ASTER missile production. Thanks to these order acquisitions the total order backlog for defence activity reached Eu317mn, representing 23% of the total for the Group (Eu1,378mn as at end-March). We believe it is worth highlighting that this figure excludes NAREW and other potential opportunities, so we would expect defence business order momentum to remain very solid in the short term and quite lively in the medium term due to ongoing geopolitical tensions. Moreover, some Eu15mn of new orders came for development activities related to the Vega programme.
- **2024 guidance confirmed:** management has confirmed 2024 guidance, projecting the order backlog to increase by 10-15% YoY to reach Eu1,500mn-Eu1,600mn, revenues to grow by 10% vs. 2023 (Eu370mn-Eu390mn), adj. EBITDA to come to between Eu28mn and Eu33mn and net income between Eu6mn and Eu10mn. We confirm our P&L estimates for 2024 (in line with guidance), while lowering net cash as we now incorporate higher NWC absorption due to the aforementioned transfer to subcontractors of advances previously booked from clients, and due to the procurement of strategic components for Vega C. As for the following years, we increased revenues on the back of the strong order book, but at the same time we assume a more gradual ramp-up in margins as well as higher D&As.
- **OUTPERFORM; target at Eu14.0.** 1Q generally has little impact on full-year figures, so we don't expect any significant changes to consensus estimates (which are in line with guidance) following this release. On a positive note, we welcome the solid momentum in the Tactical Propulsion business as the increasing importance of this business should decrease the dependency on launch activity, which may prove bumpy as seen in the recent past. Following the stock's recent positive performance, we believe a further re-rating relies on the successful maiden flight of Ariane 6 (confirmed for June/July 2024) and the resumption of Vega C flights (on track to happen in 4Q24), which are key to unlocking the company's full potential and allow execution of the hefty order book. Our TP, the result of a DCF model, is increased from Eu13.0 to Eu14.0 following a 6-months rollover of the valuation.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	357	339	379	418	487
EBITDA Adj (Eu mn)	28	28	31	36	43
Net Profit Adj (Eu mn)	6	12	12	16	19
EPS New Adj (Eu)	0.218	0.443	0.439	0.572	0.699
EPS Old Adj (Eu)	0.218	0.443	0.452	0.594	0.848
DPS (Eu)	0.000	0.240	0.149	0.286	0.371
EV/EBITDA Adj	7.1	5.1	8.8	7.4	6.0
EV/EBIT Adj	22.9	11.1	19.5	15.5	12.6
P/E Adj	55.4	27.3	27.5	21.1	17.3
Div. Yield	0.0%	2.0%	1.2%	2.4%	3.1%
Net Debt/EBITDA Adj	-2.7	-2.7	-0.9	-1.0	-1.0

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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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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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