AVIO

BUY

Price (Eu): 12.54

Target Price (Eu): 17.50

SECTOR: Industrials

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In the Right Position to Seize Growing Launches Demand in LEO Orbits

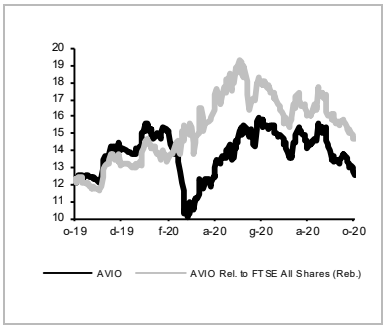
While we are revising our estimates for the next 2 years to account for the unforeseeable effects of the pandemic, we remain confident on the mid- to long-term outlook for the company, which is in the right position and has the right products to intercept growing demand for launches of satellites into LEO orbits. We confirm our positive view on the stock, which we see as a defensive play in times of uncertainty, thanks to a healthy order backlog that provides already good visibility on the evolution of the business for the next few years and which is destined to increase further once orders deriving from the last ESA ministerial conference are booked.

- **Mid-term outlook not only unchanged, but even improved for LEO orbits.** As proof of the soundness of the company's competitive positioning, recent market studies have revised upward the expected growth of the total mass of satellites that will be sent into LEO orbits in the coming years (the core market for the Vega launcher). An average annual compound growth rate of 14% is now forecast from 2019 to 2028, up from the previous estimate of 9%. The growth rate is even more remarkable when compared to the expected growth rates for services in MEO and GEO orbits, which are expected to remain substantially stable in the coming years (+3% / - 1% respectively, target segments for the Ariane launcher family). In our view, these trends support the management view of 5 launches per year expected for Vega C once it is fully up and running, up from the current 2 to 3 launches of Vega on average, and enable a material turnover expansion (we see a cumulative 35% top line expansion from 2020 to 2023)
- **Some headwinds in the short term due to the pandemic.** While the mid-term outlook remains positive for the company, in the short term there will be some headwinds from the delays accumulated in 2020 due mainly to the pandemic, and to a lesser extent to the delays accrued in returning Vega to flight (caused first by the pandemic and later by unfavourable weather conditions during the summer). Nevertheless, we would like to highlight that weather conditions are unlikely to cause any delays in the future: over the summer, the company worked with the CNES (French Space Agency) to increase the maximum allowable wind for flight while still complying with strict parameters to ensure the safety of the local population in the event of a flight anomaly that could lead to destruction of the rocket. Overall, we are cutting our adj. EBITDA estimates by 11.0% and 9.9% for 2021 and 2022 respectively, which mean adj. EPS estimates being trimmed by 17.9%/15.4% in 2021/2021.
- **BUY reaffirmed; target Eu17.5 from Eu18.0.** We reaffirm our positive view on the stock as Avio is well placed in the highly promising market for launchers of small satellites, which should continue to enjoy sustainable growth in the coming years thanks to demand for increasingly accurate, flexible, and reliable launchers. Furthermore, a sound cash position enables the company to calmly navigate the current tough environment, continuing to invest to further develop its business and to seize potential external growth opportunities arising in the market. Our valuation model yield a target price of Eu17.5, slightly down from Eu18.0.

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	389	369	334	394	435
Ebitda (Eu mn)	43	43	35	40	47
Net profit (Eu mn)	24	26	17	21	28
EPS - New Adj.(Eu)	1.069	1.018	0.871	0.922	1.105
EPS - Old Adj.(Eu)	1.069	1.018	0.953	1.124	1.306
DPS (Eu)	0.423	0.000	0.306	0.388	0.506

Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	11.7	12.3	14.4	13.6	11.3
Div. Yield	3.4%	0.0%	2.4%	3.1%	4.0%
EV/Ebitda Adj.	5.6	5.8	6.3	6.1	5.3
ROCE	17.0%	15.7%	10.2%	11.3%	14.1%

AVIO - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): from 18.00 to 17.50

Ch. in Adj.EPS est:	2020E	2021E
	-8.6%	-17.9%

STOCK DATA

Reuters code:	AVI.MI
Bloomberg code:	AVIO IM

Performance	1m	3m	12m
Absolute	-7.7%	-12.9%	1.8%
Relative	-9.0%	-5.6%	16.4%

12 months H/L: 15.94/10.06

SHAREHOLDER DATA

No. of Ord. shares (mn):	27
Total No. of shares (mn):	27
Mkt Cap Ord (Eu mn):	341
Total Mkt Cap (Eu mn):	341
Mkt Float - ord (Eu mn):	200
Mkt Float (in %):	*58.8%*
Main shareholder:	
Leonardo	25.9%

BALANCE SHEET DATA	2020
Book value (Eu mn):	320
BVPS (Eu):	11.76
P/BV:	1.1
Net Financial Position (Eu mn):	46
Enterprise value (Eu mn):	268

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AVIO - *KEY FIGURES*		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
PROFIT & LOSS (Eu mn)	Sales	389	369	334	394	435
	EBITDA	43	43	35	40	47
	EBIT	29	27	19	23	30
	Financial income (charges)	(1)	0	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	28	27	19	23	30
	Taxes	(2)	0	(1)	(1)	(1)
	Tax rate (%)	-7.3%	0.0%	-5.4%	-4.3%	-3.7%
	Minorities & discontinue activities	(1)	(1)	(1)	(1)	(1)
	Net profit	24	26	17	21	28
	Total extraordinary items	5	1	7	4	3
	Ebitda excl. extraordinary items	47	44	42	44	50
	Ebit excl. extraordinary items	33	28	26	27	33
	Net profit restated	29	28	24	25	30
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	27	27	27	27	27
	EPS stated fd	0.896	0.965	0.613	0.775	1.013
	EPS restated fd	1.069	1.018	0.871	0.922	1.105
	BVPS fd	10.478	10.769	11.764	12.152	12.658
	Dividend per share (ord)	0.423	0.000	0.306	0.388	0.506
	Dividend per share (sav)					
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	39	42	31	38	45
	Change in NWC	(2)	10	(11)	(1)	(6)
	Capital expenditure	(23)	(28)	(30)	(28)	(25)
	Other cash items	7	(0)	0	0	0
	Free cash flow (FCF)	14	23	(10)	8	14
	Acquisitions, divestments & others	(4)	0	0	0	0
	Dividend	(10)	(12)	0	(8)	(11)
	Equity financing/Buy-back	0	(3)	(1)	0	0
	Change in Net Financial Position	7	9	(11)	(0)	3
BALANCE SHEET (Eu mn)	Total fixed assets	278	302	310	325	340
	Net working capital	(31)	(41)	(30)	(28)	(23)
	Long term liabilities	(77)	(93)	(77)	(85)	(99)
	Net capital employed	171	168	204	211	219
	Net financial position	49	58	46	46	50
	Group equity	296	304	331	341	355
	Minorities	11	11	11	11	11
	Net equity	285	292	320	330	344
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	341	341	341	341	341
	Adjustments (associate & minorities)	26	26	26	26	26
	Net financial position	49	58	46	46	50
	Enterprise value	266	257	268	268	265
RATIOS(%)	EBITDA margin*	12.2%	11.9%	12.7%	11.2%	11.5%
	EBIT margin*	8.5%	7.6%	7.7%	7.0%	7.5%
	Gearing - Debt/equity	-16.6%	-19.1%	-14.0%	-13.6%	-14.0%
	Interest cover on EBIT	43.0	nm	50.4	62.4	80.9
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	17.0%	15.7%	10.2%	11.3%	14.1%
	ROE*	8.7%	9.1%	5.4%	6.5%	8.2%
	EV/CE	1.6	1.5	1.4	1.3	1.2
	EV/Sales	0.7	0.7	0.8	0.7	0.6
	EV/Ebit	8.0	9.2	10.4	9.8	8.1
	Free Cash Flow Yield	4.5%	7.3%	-3.2%	2.6%	4.4%
GROWTH RATES (%)	Sales	13.0%	-5.2%	-9.3%	17.8%	10.4%
	EBITDA*	1.7%	-6.8%	-3.8%	4.5%	12.5%
	EBIT*	3.0%	-15.8%	-7.4%	5.8%	19.8%
	Net profit	33.8%	7.6%	-36.5%	26.5%	30.7%
	EPS restated	14.2%	-4.8%	-14.4%	6.0%	19.8%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Recent developments

Vega successfully returns to flight

After a series of postponements due to Covid-19 in the first instance and then to unfavourable weather conditions, on 3 September Vega successfully completed its 16th mission, returning to flight after the failure that occurred in July 2019.

The launcher placed 7 microsatellites weighing from 15 kg to 150 kg in orbit, along with 46 smaller CubeSats in a single rideshare thanks to the SSMS (Small Spacecraft Mission Service) payload adapter, a modular carbon-fibre dispenser designed by Avio to meet low Earth orbit launch service demand for clusters of small satellites weighing anywhere between 1 kg and 400 kg. The SSMS program, initiated by the European Space Agency (ESA) with a contribution from the European Commission, will boost the ability to offer ride-share solutions tailored to the flourishing small satellite market.

In our view, Vega's return to flight is to be appreciated for at least three reasons:

- It demonstrates the ability of management and the workforce to resolve problems of an extraordinary nature in a reasonable amount of time;
- It reaffirms the launcher's validity and reliability in critical missions, making it easier to commercialise in an evolving competitive environment;
- The successful use of the SSMS shows the company's ability to respond quickly to client demands, which require flexible and innovative solutions with increasing frequency.

Commercial activity resuming

On 17 September, Arianespace announced the signing of the contract for two launches of three satellites, Galaxy 35, Galaxy 36 and Galaxy 37, on Ariane 5 and Ariane 6 launch vehicles. Arianespace will launch the Galaxy 35 and Galaxy 36 satellites together as a stacked pair in 2022, and Galaxy 37 in 2023. Both launches will be performed from the European Spaceport in South America aboard Ariane 5 and Ariane 64 launch vehicles respectively. All three satellites will operate in the upper portion of the C-band spectrum, a range of wireless radio frequencies that is used for critical telecommunications and data connectivity around the world. Intelsat will operate the three satellites. Avio manufactures the 2 lateral P230 boosters for Ariane 5 and the 4 P120 engines for the take-off of Ariane 6.

Moreover, just one month after the SSMS Maiden Mission on Vega VV16, the SSMS module to fly on Vega VV18, scheduled for the beginning of 2021 after the next VV17 mission in November, is already fully booked. The Vega VV18 flight will be a piggyback mission with a dispenser configuration based on one hexagonal module below the main payload interface, partially exploiting the SSMS technology. The fact that it is fully booked underscores how attractive this opportunity is to users and customers, including Spire and Nanoavionics through SAB Launch Services; Eutelsat and Myriota through Tyvak; and the Norwegian Space Center with its Norsat-3 satellite through SpaceFlight Laboratories.

The aforementioned contracts add to the already sizeable Arianespace backlog, which as of today sees:

- 18 flights for Ariane, with:
  - 8 flights for Ariane 5
  - 5 for Ariane 6.2 (with 4 additional launches of Ariane 6.2 pre-ordered by the European Commission)
  - 5 for Ariane 6.4
- 9 flights for Vega and Vega C

Resilient 2Q results

Avio reported a solid set of 2Q results, which were above our profitability estimates despite falling short at the top line due to a reduction of both production and development activities related to Covid-19 and the delay in returning Vega to flight.

2Q details:

- Revenues at Eu87.9mn vs our Eu87.9mn, a 17.4% decline attributable to the reduction in Ariane 5 production, the delay in the transition to Ariane 6, the slowdown in Ariane 5 and Vega C development due to Covid-19, and the postponement of Vega's return to flight
- Adj. EBITDA at Eu12.1mn, stronger than our Eu9.1mn estimate thanks to cost reduction measures adopted during the pandemic
- EBIT at Eu5.4mn vs our Eu4.6mn

1H details:

- Net profit at Eu8.3mn vs our Eu6.5mn, benefiting from a positive Eu0.5mn fiscal one-off related to Covid-19
- Net cash as at the end of June amounted to Eu26.9mn, reflecting seasonal working capital absorption

1H20 results

	2Q19A	2Q20A	% YoY	2Q20E	A vs E	1H19A	1H20A	% YoY	1H20E	A vs E
Net Revenues	**106.4**	**87.9**	**-17.4%**	**99.6**	**-11.7%**	**189.0**	**167.9**	**-11.2%**	**179.6**	**-6.5%**
EBITDA Adjusted	**9.8**	**12.1**	**23.5%**	**9.1**	**33.2%**	**16.9**	**19.9**	**17.8%**	**16.9**	**17.9%**
% margin	9.2%	13.8%		9.1%		8.9%	11.9%		9.4%	
EBITDA reported	**9.1**	**9.7**	**6.7%**	**8.2**	**17.6%**	**16.1**	**16.9**	**5.0%**	**15.4**	**9.4%**
% margin	8.5%	11.0%		8.3%		8.5%	10.1%		8.6%	
EBIT reported	**5.0**	**5.4**	**8.5%**	**4.6**	**16.8%**	**8.1**	**8.5**	**5.3%**	**7.7**	**10.1%**
% margin	4.7%	6.1%		4.6%		4.3%	5.1%		4.3%	
Pretax						7.9	8.2		7.5	
Net Profit						**6.8**	**8.3**	**21.9%**	6.5	**26.9%**

Source: Company data (A) and Intermonte SIM estimates (E)

What's next

2020 guidance

Alongside the release of 1H20 results, management provided guidance for 2020, which was broadly in line with consensus and slightly below our estimates:

- Net order backlog of Eu650-680mn vs our Eu680mn → in 2H, the finalisation is expected of some development contracts discussed at the latest ESA Ministerial conference
- Net revenues of Eu325-345mn → a 9% decline YoY at mid-point, caused mainly by delays to both development and production activities
- Adjusted EBITDA of Eu41-43mn → improving margins YoY thanks to savings on industrial fixed costs and G&A costs
- Net income of Eu16-19mn (reported) or Eu23-26mn (adjusted).

We have therefore adjusted our numbers, which are now in line with the indications provided.

Activity expected in 2021

Moving forward, we expect a busy schedule for the next year, as the company will try to recover at least part of the delay built up in 2020 due to the pandemic, and to roll out the new generation of launchers for both the Vega and Ariane families. In detail, we expect:

- 3 Vega flights, of which one at the very beginning of 2021
- Vega C maiden flight expected by the end of 1H21
- 4 Ariane5 launches
- Ariane6 maiden flight expected by the end of the year

We note that Avio revenue recognition is not based on the number of launches performed during the year but on production activity carried out. Nevertheless, launch activity somewhat influences production, because of the limited storage capacity at the launch site in Guyana (mainly for Vega, Ariane has greater storage capability), which makes it impossible to manufacture indefinitely without regular launching.

Specifically, in 2021 we expect Avio to produce:

- The equivalent of 3.5 Vega
- Around 15 P120C engines (serving both the new Vega C and Ariane 6)
- Propulsion systems for tactical purposes for around Eu20mn

Finally, in 2021 we would expect a rebound in development activities, which we expect to return to a similar level to 2019 at around Eu140mn (from the Eu117mn expect in 2020).

Due to the aforementioned assumptions, we would expect Avio to record revenues of Eu394mn in 2021, up 17.8% on our expectations for 2020, but 4.9% below our previous estimate.

Having cut our revenues estimates for the next 2 years, we are also revising our margin forecasts, which are mainly impacted by delays to the roll out of new launchers, as these are the ones that enable significant economies of scale and consequently an improvement of margins. Overall, we are cutting our adj. EBITDA estimates by 11.0% and 9.9% for 2021 and 2022 respectively, which means adj. EPS. estimates being trimmed by 17.9%/15.4% for 2021/2021.

Finally, regarding order intake, we expect the orders generated by the funds allocated by the last ESA ministerial conference to gradually start coming in during 2021, and to amount to Eu490mn over a 2-year period.

Avio – Changes to estimates

	2020 N	2020 O	Δ	2021 N	2021 O	Δ	2022N	2022O	Δ
Net revenues	**334.4**	**372.2**	**-10.1%**	**394.0**	**414.2**	**-4.9%**	**435.0**	**451.2**	**-3.6%**
EBITDA Adj.	**42.4**	**44.6**	**-5.0%**	**44.3**	**49.7**	**-11.0%**	**49.8**	**55.3**	**-9.9%**
% margin	12.7%	12.0%		11.2%	12.0%		11.5%	12.2%	
EBITDA	35.4	42.1	-16.0%	40.3	47.2	-14.8%	47.3	52.8	-10.3%
% margin	10.6%	11.3%		10.2%	11.4%		10.9%	11.7%	
EBIT	18.9	25.6	-26.3%	23.4	30.4	-23.0%	30.3	35.8	-15.2%
Net profit	**16.6**	**23.4**	**-28.8%**	**21.1**	**28.0**	**-24.9%**	**27.5**	**33.0**	**-16.5%**
Net profit Adj	**23.6**	**25.9**	**-8.6%**	**25.1**	**30.5**	**-17.9%**	**30.0**	**35.5**	**-15.4%**

Source: Intermonte SIM estimates

Maiden flights of Vega C and Ariane 6

The maiden flight of the new generation of European launchers is on track, with confirmation of the new schedule coming from the recent successes in the testing of the Zefiro 9 and the P120C, among the last steps required before inaugural flights.

The qualification test of the **Zefiro 9** VT3 engine, an advanced version of the third stage propulsion system already in use on the Vega launcher and specifically enhanced and customised for the new Vega C, was successfully completed on 1 October. Thanks to this test, which took 4 weeks of preparation and involved 20 technicians and specialised personnel, it was possible to record more than 500 measurements in the 120 seconds of engine ignition, collecting all the necessary data and parameters to calculate engine behaviour in what was a very close approximation to real operating conditions in space.

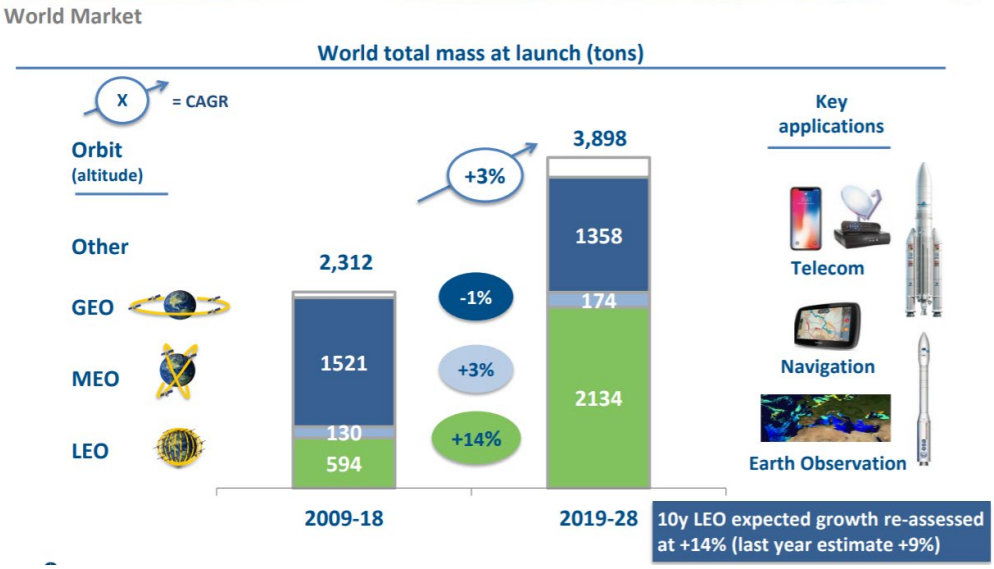
A week later, the **P120C** (the engine common to Vega C and Ariane 6) was successfully tested for the third time at the European Spaceport solid rocket motor test bench operated by the French Space Agency (CNES). This third successful test, carried out on the Ariane 6 configuration, paves the way for final qualification by the European Space Agency (ESA). The first and second tests on 13 July 2018 and 28 January 2019 were also successful. The P120C motor is co-developed by Avio and ArianeGroup through their 50/50 joint venture Europropulsion. The P120 program is managed and funded by the European Space Agency.

Mid-term targets unchanged

Despite cutting our short-term estimates due to the unforeseeable effects of the pandemic and the further delays accumulated due to unfavourable weather conditions, we are still confident that the company's mid- to long term prospects remain unchanged thanks to the right market positioning and the validity of its offer.

As proof of the soundness of the company's competitive positioning, recent market studies have revised upward the expected growth of the total mass of satellites that will be sent into LEO orbits in the coming years (the core market for the Vega launcher). An average annual compound growth rate of 14% is now forecast from 2019 to 2028, up from the previous estimate of 9%. The growth rate is even more remarkable when compared to the expected growth rates for services in MEO and GEO orbits, which are expected to remain substantially stable in the coming years (+3% / - 1% respectively, target segments for the Ariane launcher family). In our view, these trends support the management view of 5 launches per year expected for Vega C once it is fully up and running, up from the current 2 to 3 launches of Vega on average, and enable a material turnover expansion (we see a cumulative 35% top line expansion from 2020 to 2023).

Satellites launch demand



Company presentation

In the medium term, the target is to perform 9/10 Ariane 6 launches (in the 6.2 or 6.4 configuration) and 4/5 Vega C launches when fully up and running. We had forecast this target being reached in 2023, but due to the extraordinary issues that affected 2020 we now see this being put back by a year. This will enable the company to achieve important economies of scale, mainly related to the production of P120C engines that are common to both families of launchers and that could bring additional margin that has been quantified at around 100/200 bps when fully up and running.

Valuation

We have valued Avio using a market multiples comparison and a discounted cash flow (DCF). As we think that the companies in the panel are not perfectly comparable, we have decided to attribute a higher weighting to the DCF (80%). We have adjusted the net cash position by the discounted amount of current liabilities owed to the Italian State, as we consider these items to be financial debt. In addition, we have factored into our estimates the discounted amount of deferred tax assets on the company balance sheet (discounted over 20 years). Following this, associate companies and minorities are added back into our valuation at book value.

Finally, we have included a discount in our valuation to reflect the execution risk embedded in the business. This is calculated as the failure rate of the currently active launchers only, which have a combined failure rate of 3.4% according to our interpretation of Space Launch Report data (Vega 14/15 successes, Ariane 5 ECA 72/74).

Avio – Valuation Summary

Method	Eu p.s.	Weight
DCF	18.0	80%
Multiples comparison	18.2	20%
Average	**18.0**	
Execution risk	3.4%	
Target Price	**17.5**	
Current price	13.7	
Upside/(downside)	31.6%	

Source: Intermonte SIM estimates

APPENDIX

Group Snapshot

The Avio Group is a leading international player in the space propulsion sector. The experience and expertise developed in over 50 years of activity enable Avio to excel in the solid, liquid and cryogenic Space propulsion systems for launch vehicles and solid propulsion systems for tactical missiles.

The Group has 838 highly qualified direct employees in Italy and abroad, 30% of which are involved in Research & Development activities.

It is based in Italy, with operational headquarters located near Rome and other sites in Campania and Piedmont; other operational sites are located in France and French Guiana.

Its main operational focus is in the field of space propulsion, in particular the design, development and production of solid rocket motors, for Space launchers and tactical missiles, liquid propulsion systems and liquid oxygen Turbopumps for cryogenic engine, for space launchers, the design, development and integration of a complete space launcher (Vega), the development and integration of liquid-propellant propulsion systems for satellites, and research and development for new propulsion systems with low environmental impact.

The space launchers that currently incorporate AVIO products are the Ariane 5, used for the positioning of satellites in Geostationary Earth Orbit (GEO) and VEGA, used for the positioning of satellites in Low Earth Orbit (LEO). As for tactical missiles, AVIO is a participant in the leading national and international programmes.

Since the late 1980s AVIO has been involved in the Ariane 5 programme, supplying the boosters and oxygen turbo pump for the Vulcain engine. Since 2000, through ELV, Avio has developed and manufactured VEGA, which carried out a successful qualification launch in February 2012, and in December 2015 successfully completed the 5 further launches required under the Vega Research and Technology Accompaniment (VERTA) contract in order to complete its qualification for commercial exploitation. Since 1990 Avio has had production facilities at the European Space Centre in French Guiana, which it uses for the production of solid propellant, the manufacture of engines for Ariane and Vega, the assembly of boosters and their integration into the Ariane launcher, and the integration of the entire Vega launcher.

Avio is also engaged in tactical propulsion, in particular with the production of the Aster 30 engine, provided to MBDA France. In the field of satellite propulsion, Avio has developed and supplied ESA and ASI with propulsion subsystems for the launching and control of several satellites, including the latest SICRAL, Small GEO and EDRS-C satellites.

AVIO operates in three business segments:

Vega

Vega is a European Space Agency (ESA)-sponsored programme for LEO missions, for which Avio is prime contractor for the production and integration of components for the entire launcher and for the production of the solid propulsion engines P80, Zefiro 23 and Zefiro 9 and the liquid propulsion system of the Attitude Vernier Upper Module (AVUM). Moreover, the Group is prime contractor for the Vega C and Vega E, new generation launchers, for which qualification launches are planned in 2021 and 2024 respectively. For the latter group, Avio is responsible for the development and subsequent production of all of the space launchers, in addition to the development of the solid propulsion engine P120C, the Z40 solid propellant engine and an oxygen-methane liquid engine for the upper stage of the Vega E.

Ariane

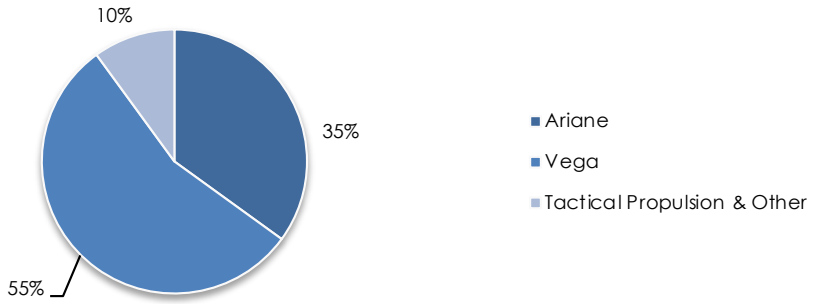
Ariane is a ESA-sponsored programme for GEO missions. ArianeGroup is the prime contractor and Avio operates as subcontractor for the production of Ariane's components, and in particular for the manufacture of the P230 solid propulsion booster and the liquid oxygen turbo pump (LOX) for Vulcain 2 engines. Avio is also a subcontractor for the new generation launcher, Ariane 6, which is predicted to be launched by the end of 2021. For this launcher Avio is developing and will produce the P120C solid propellant engine and the LOX for the Vinci engine, as well as continuing to produce the LOX for Ariane 6's Vulcain 2 engine.

Tactical Propulsion

Avio is engaged in the Italian-French-UK joint programme for the development and production of the Aster 30 engine, more specifically the development and production of the propulsion components (booster and sustainer), steering (thrust vector control), and the aerodynamics (wings). Moreover, it is responsible for the design and production of the Aster 15 (sustainer motor and aerodynamic control surfaces), Aspide propulsion units and Marte sustainer. As for development programmes, Avio is involved in the CAMM-ER, Aster 30 MLU and E TVC programmes.

In 2019, Avio recorded net revenues of Eu368.7mn, of which 35% from the Ariane business segment, 55% from the Vega activities and the remaining 10% from Tactical Propulsion and other revenues.

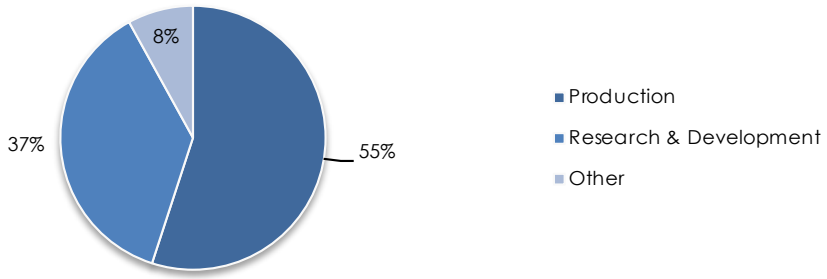
Avio – Revenues breakdown by Business (2019)



Source: Company data

As for the breakdown by activity, in 2019 Avio generated 55% of revenues from production activities, while Research and Development for the new Vega C and Ariane 6 launchers contributed 37%.

Avio – Revenue Breakdown by Activity (2019)

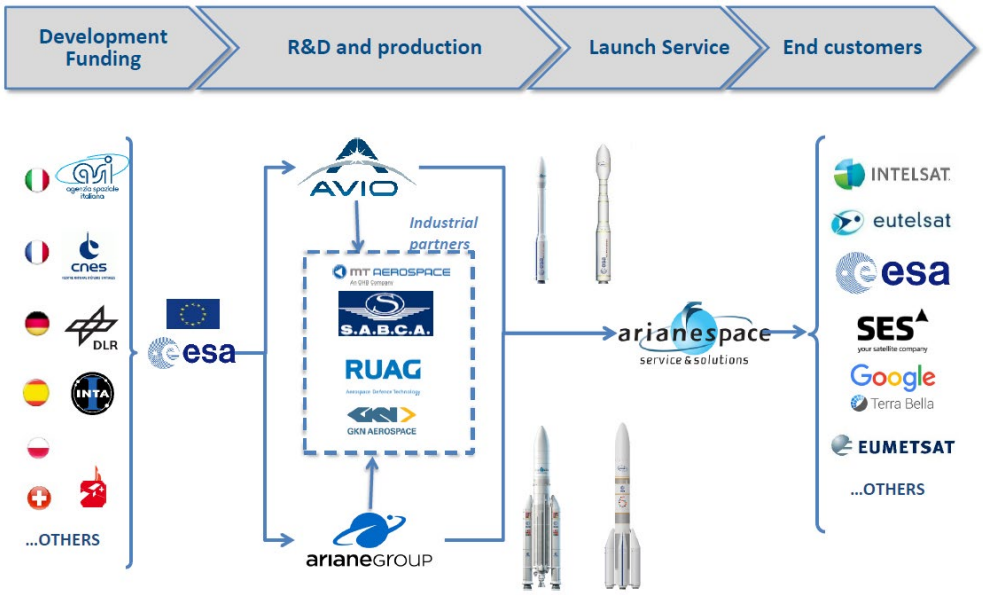


Source: Company data

Business Model

In terms of the business model, Avio is in charge of the development and production phase for Vega family launchers and of part of the Ariane launchers. Commercial exploitation of the launchers, are the responsibility of Arianespace, in which Avio has a 3.38% stake. Avio's liability in the event of launch failure ceases on acceptance of products by Arianespace.

Business Model

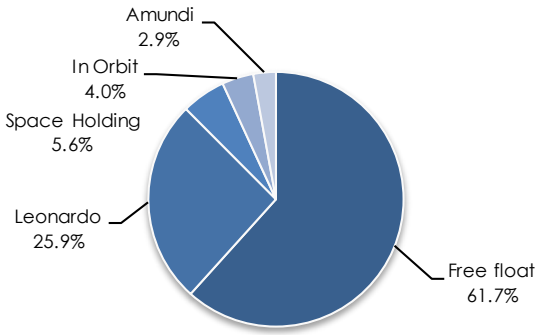


Source: Company presentation

Shareholders

The main shareholder of the company is Leonardo, with 25.88% of the capital. The other shareholders with more than 3% of the capital are Space Holding (5.6%) and In Orbit (Avio management; 4.0%). The free float therefore stands at 61.7%.

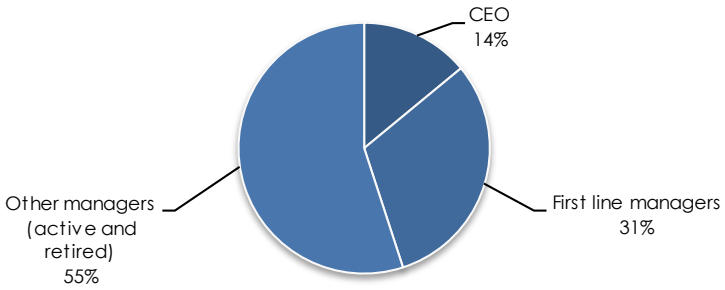
Avio – Current Shareholding



Source: Company data

Since the listing in April 2017, In Orbit has increased its investment in Avio by buying additional 140k shares, with 67 managers now participating to the investment vehicle. The main investor in In Orbit are the CEO (14% stake), the first line of managers (31%) and second, third line and retired managers of the company (55%).

In Orbit – Shareholding at 1H19



Source: Company data

Company History

1912: Establishment of BPD, which develops and manufactures munitions for the Italian armed forces and for export.

1915-1955: Growth and consolidation of BPD in the national market; the company's activities become ever more diverse, ranging from munitions-related metalworking and mechanical engineering to construction and maintenance of railway carriages.

1960: With the dawning of the space age, rocket propellants enter the scene, and in 1962 BPD is approved by an international board to supply spacecraft propulsion systems as part of the ELDO/PAS project.

1968: BPD is acquired by SNIA

1970: Development and production work begins for the European Ariane launcher, including the manufacturing of the stage separation motors and the solid-propellant launch boosters for Ariane versions 3, 4 and 5.

1983: Snia Viscosa, which in the meantime had set up a Defence and Space division, sells BPD to Fiat Group.

1994: BPD Difesa e Spazio is absorbed by Fiat Avio, a Turin-based firm established in 1908.

2000: in collaboration with ASI, which has a 30% stake, ELV is set up as lead contractor for the European satellite launcher Vega.

2003: The company assumes its current name when it leaves Fiat Group to become an independent player in the global aerospace sector.

2006: The group is acquired by BCV Investments, whose ownership is divided amongst private equity fund Cinven (81% stake), Finmeccanica Group (14%) and other investors (5%).

2012: On 13th February, the Vega launcher successfully completes its first space mission

2013: Vega completes first commercial launch. On 1st August its aeronautical assets are acquired by General Electric and Avio remains an independent player in the space sector.

2014: In December the Ministerial Conference of the European Space Agency Member States decides to finance the programme for the consolidation and development of the Vega launcher up to completion; the project includes a common first stage (P120) shared with the future Ariane 6 launcher, which will also be financed up to qualification.

2015: The outcome of the Ministerial Conference of the ESA Member States the previous December leads in August 2015 to an important development contract for the Vega C and Ariane 6 launchers. Avio lands a significant role thanks to its participation in the development of the P120 first stage engine (common to both launchers) and its leading role in software development for the VECEP programme aimed at developing the Vega C launcher. For the first time ever, the Kourou Space Centre achieves 12 launches in a year, including 6 by Ariane and 3 by Vega.

2016: Space 2 identifies Avio as the target of the Business combination.

2017: Merger between Avio and Space 2 and subsequent listing on the STAR segment of the MTA.

SWOT Analysis

Strengths

- Leading company operating in a sector with extremely high technological entry barriers
- Strong reliability of both Vega and Ariane launchers
- High visibility thanks to a backlog that covers around 3 years of activity
- Exposure to the fast growing LEO market
- Exclusive access to the only European Spaceport
- Solid balance sheet able to support future growth
- Unique access to the European institutional market

Weaknesses

- More expensive products compared to competitors
- Highly concentrated client base
- Lack of diversification

Opportunities

- Potential access to new markets and new business segments (i.e. mini-launchers)
- Insourcing of critical industrial supplies to consolidate margins and reduce dependency on external suppliers
- Exploitation of important economies of scale thanks to the supply of P120 engines
- Improvement of launch cadence

Threats

- Increasing competition, especially from emerging countries (India in particular) could lead to price pressure
- Deteriorating of the macroeconomic environment leading to reduced budget allocations for space programmes
- Failure of launches

Source: Intermonte SIM

Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
AVIO	**12.54**	**EUR**	**341**	**-7.7%**	**-12.9%**	**0.8%**	**-9.5%**	**1.8%**	**9.0%**
AEROJET ROCKETDYNE	37.28	USD	2,931	-7.2%	-0.6%	-8.4%	-18.4%	-18.6%	15.7%
AIRBUS	64.06	EUR	50,200	0.0%	-5.9%	23.3%	-50.9%	-47.5%	-34.6%
BOEING	163.86	USD	92,491	4.8%	-8.3%	20.2%	-49.7%	-50.5%	-54.0%
LEONARDO	4.69	EUR	2,710	-8.6%	-25.6%	-24.4%	-55.1%	-54.6%	-52.8%
MOOG	65.14	USD	2,131	3.9%	24.2%	31.3%	-23.7%	-23.3%	-13.8%
NORTHROP GRUMMAN	308.37	USD	51,410	-5.4%	0.1%	-7.6%	-10.3%	-12.0%	0.2%
OHB	38.25	EUR	667	1.5%	-8.5%	16.6%	-12.1%	15.9%	15.7%
SAFRAN	91.00	EUR	36,417	2.6%	-2.8%	23.1%	-33.9%	-34.1%	-15.3%
THALES	63.78	EUR	13,550	2.4%	-11.8%	-10.4%	-31.1%	-29.5%	-45.1%
Mean performance				**-1.4%**	**-5.2%**	**6.5%**	**-29.5%**	**-25.2%**	**-17.5%**
Italy FTSE Mib	19,086.0	EUR		1.6%	-7.9%	16.0%	-18.8%	-15.1%	0.0%

Source: FactSet

Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2020	EV/Sales 2021	EV/Ebitda 2020	EV/Ebitda 2021	EV/Ebit 2020	EV/Ebit 2021	P/E 2020	P/E 2021	Div Yield 2020	Div Yield 2021
AVIO	**12.54**	**EUR**	**341**	**0.8**	**0.7**	**6.3**	**6.1**	**10.4**	**9.8**	**14.4**	**13.6**	**2.4%**	**3.1%**
AEROJET ROCKETDYNE	37.28	USD	2,931	1.2	1.0	8.3	7.1	10.0	8.5	21.0	18.5	0.0%	0.0%
AIRBUS	64.06	EUR	50,200	1.1	1.0	14.6	8.5	67.0	15.5	150.4	22.8	0.1%	1.3%
BOEING	163.86	USD	92,491	2.1	1.5		15.5		21.6		43.4	0.7%	0.1%
LEONARDO	4.69	EUR	2,710	0.5	0.4	4.3	3.7	7.9	6.1	6.8	5.1	3.0%	3.0%
MOOG	65.14	USD	2,131	1.1	1.1	11.4	9.8	17.2	14.2	17.3	17.6	0.0%	0.0%
NORTHROP GRUMMAN	308.37	USD	51,410	1.7	1.6	11.9	10.8	15.4	13.6	13.7	12.2	1.8%	2.0%
OHB	38.25	EUR	667	0.7	0.6	9.5	7.8	17.7	12.5	28.7	19.5	0.8%	1.4%
SAFRAN	91.00	EUR	36,417	2.5	2.1	15.1	11.3	24.7	16.7	37.1	24.0	0.8%	1.7%
THALES	63.78	EUR	13,550	1.0	0.9	8.0	6.4	12.7	9.2	15.0	10.9	2.1%	3.4%
Median				**1.1**	**1.0**	**10.5**	**8.5**	**16.3**	**13.6**	**19.2**	**18.5**	**0.8%**	**1.4%**

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	AVIO		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	17.50	Previous Target (Eu):	18.00
Current Price (Eu):	12.54	Previous Price (Eu):	13.90
Date of report:	22/10/2020	Date of last report:	07/05/2020