

AVIO

Sector: Industrials

OUTPERFORM

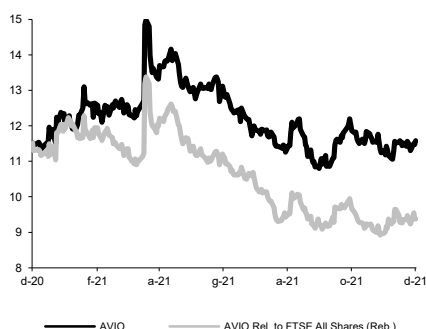
Price: Eu11.58 - Target: Eu13.80

Long-Term Outlook Remains Healthy Despite Rebasing Expectations

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Stock Rating				
Rating:	from BUY to OUTPERFORM			
Target Price (Eu):	from 17.50 to 13.80			
	2021E	2022E	2023E	
Chg in Adj EPS	-32.2%	-48.0%	-40.4%	

AVIO - 12M Performance



Stock Data			
Reuters code:	AVI.MI		
Bloomberg code:	AVIO IM		
Performance	1M	3M	12M
Absolute	2.5%	5.7%	0.5%
Relative	4.4%	1.8%	-23.0%
12M (H/L)	14.98/10.80		
3M Average Volume (th):	76.37		

Shareholder Data	
No. of Ord shares (mn):	27
Total no. of shares (mn):	27
Mkt Cap Ord (Eu mn):	315
Total Mkt Cap (Eu mn):	315
Mkt Float - Ord (Eu mn):	177
Mkt Float (in %):	56.2%
Main Shareholder:	
Leonardo	29.6%

Balance Sheet Data	
Book Value (Eu mn):	308
BVPS (Eu):	11.33
P/BV:	1.0
Net Financial Position (Eu mn):	44
Enterprise Value (Eu mn):	241

- **3Q shows signs of top-line normalization, but profitability still weak.** Avio's 3Q results (out on November 8th) showed a recovery by turnover vs last year (+45% YoY), while profitability suffered from an unfavourable business mix and the rise in energy costs on the same period last year. Net revenues came to Eu70.1mn, up 45% YoY and 1.7% above our estimates, while adjusted EBITDA was Eu1.3mn, lower than our Eu2.3mn estimate due to higher-than-expected utilities price rises. Regarding cash generation, the typical seasonal trend (cash absorption in 3Q) led to a decrease in the NFP to Eu15mn as at end-September, a trend that should significantly reverse in the final months of the year thanks to the achievement of important milestones and to down payments on orders to be received in the final months of the year.
- **Speed of return to pre-pandemic level largely dependent on maiden flights.** 4Q21 should see a further recovery on 2020, above all in terms of profitability (business mix more favourable than 3Q). That should lead to the achievement of the guidance given to investors on release of half-year results. The medium-long term prospects remain positive and the speed of the recovery to pre-pandemic levels will depend to a large extent on the success of the inaugural flights of Vega C and Ariane 6, which will take place in 2022. Moreover, the orders that could come as part of the NRRP could represent important upside compared to our current revised estimates, with the main variable being the timing of the award of funds.
- **Vega back to normal.** On November 16th, the company successfully completed the 20th flight of Vega, a remarkable achievement bearing in mind that it was the third successful flight in the last 6 months. The return to normal operating conditions for Vega after the failure of VV17 should in our view restore client confidence in a launcher that has proved its ability to take satellites of strategic importance into orbit, a key factor for Europe's independent space access. Moreover, it shows that Vega has been able to quickly resume normal launch frequency and the rate could even increase to 4-5 launches a year in a reasonably short time.
- **Reassessing estimates.** We are reassessing our estimates to factor the latest developments into our model, substantially shifting our numbers by two years in order to now foresee a return to pre-pandemic levels in 2023-2024. The result is a cut at EBITDA level of around 20% for the 2021-2025 period (see the Outlook paragraph for more information).
- **Downgrade to OUTPERFORM; target to Eu13.8 from Eu17.5.** Although we maintain a positive stance on the stock, we are downgrading it from BUY to OUTPERFORM to reflect short-term earnings momentum that remains unsupportive and the consequent lower upside to our target price. Nevertheless, over the longer term, we believe Avio is well placed in the highly promising market for small satellite launchers, which should continue to enjoy sustainable growth in the coming years thanks to demand for increasingly accurate, flexible, and reliable launchers. Furthermore, the maintenance of a sound cash position enables the company to calmly navigate the current tough environment and continue investing to further develop its business and seize potential external growth opportunities arising on the market. Our valuation model yields a target price of Eu13.8, down from Eu17.5.

Key Figures & Ratios	2019A	2020A	2021E	2022E	2023E
Sales (Eu mn)	369	322	314	348	372
EBITDA Adj (Eu mn)	44	43	36	35	39
Net Profit Adj (Eu mn)	28	22	15	12	16
EPS New Adj (Eu)	1.018	0.818	0.545	0.448	0.584
EPS Old Adj (Eu)	1.018	0.818	0.804	0.863	0.981
DPS (Eu)	0.000	0.285	0.217	0.192	0.295
EV/EBITDA Adj	5.7	6.4	6.7	7.0	6.2
EV/EBIT Adj	9.0	11.6	15.6	17.5	13.8
P/E Adj	11.4	14.2	21.2	25.8	19.8
Div. Yield	0.0%	2.5%	1.9%	1.7%	2.5%
Net Debt/EBITDA Adj	-1.3	-1.4	-1.2	-1.1	-1.0

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AVIO – Key Figures						
Profit & Loss (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	389	369	322	314	348	372
EBITDA	43	43	35	31	32	37
EBIT	29	27	16	10	11	15
Financial Income (charges)	-1	0	-0	-0	-0	-0
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	28	27	15	10	10	15
Taxes	-2	0	-1	0	-1	-1
Tax rate	-7.3%	0.0%	-3.5%	0.0%	-10.8%	-7.4%
Minorities & Discontinued Operations	-1	-1	-1	-0	-0	-0
Net Profit	24	26	14	10	9	13
EBITDA Adj	47	44	43	36	35	39
EBIT Adj	33	28	24	15	14	18
Net Profit Adj	29	28	22	15	12	16
Per Share Data (Eu)	2018A	2019A	2020A	2021E	2022E	2023E
Total Shares Outstanding (mn) - Average	27	27	27	27	27	27
Total Shares Outstanding (mn) - Year End	27	27	27	27	27	27
EPS f.d	0.896	0.965	0.520	0.361	0.320	0.492
EPS Adj f.d	1.069	1.018	0.818	0.545	0.448	0.584
BVPS f.d	10.478	10.903	11.174	11.330	11.469	11.681
Dividend per Share ORD	0.440	0.000	0.285	0.217	0.192	0.295
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	49.1%	0.0%	54.8%	60.0%	60.0%	60.0%
Cash Flow (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Gross Cash Flow	39	42	31	30	29	34
Change in NWC	-2	10	13	-6	-4	-4
Capital Expenditure	-23	-28	-35	-35	-25	-25
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	14	23	10	-12	-1	5
Acquisitions, Divestments & Other Items	3	-0	1	1	1	1
Dividends	-10	-12	0	-7	-6	-5
Equity Financing/Buy-back	0	-3	-6	0	0	0
Change in Net Financial Position	7	9	5	-18	-6	1
Balance Sheet (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Total Fixed Assets	278	299	317	328	339	345
Net Working Capital	-31	-41	-54	-48	-43	-39
Long term Liabilities	-1	-12	-14	-8	-15	-21
Net Capital Employed	247	246	249	272	281	286
Net Cash (Debt)	49	58	63	44	39	40
Group Equity	296	304	312	316	320	326
Minorities	11	8	9	9	9	9
Net Equity	285	296	303	308	311	317
Enterprise Value (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Average Mkt Cap	362	340	370	315	315	315
Adjustments (Associate & Minorities)	29	29	29	29	29	29
Net Cash (Debt)	49	58	63	44	39	40
Enterprise Value	284	253	278	241	247	245
Ratios (%)	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA Adj Margin	12.2%	11.9%	13.4%	11.5%	10.1%	10.6%
EBIT Adj Margin	8.5%	7.6%	7.4%	4.9%	4.1%	4.8%
Gearing - Debt/Equity	-16.6%	-19.1%	-20.1%	-14.0%	-12.1%	-12.3%
Interest Cover on EBIT	43.0	nm	33.6	27.8	28.3	40.9
Net Debt/EBITDA Adj	-1.0	-1.3	-1.4	-1.2	-1.1	-1.0
ROACE*	11.7%	10.8%	6.4%	4.0%	3.8%	5.4%
ROE*	10.4%	9.5%	7.4%	4.8%	3.9%	5.0%
EV/CE	1.2	1.0	1.1	0.9	0.9	0.9
EV/Sales	0.7	0.7	0.9	0.8	0.7	0.7
EV/EBITDA Adj	6.0	5.7	6.4	6.7	7.0	6.2
EV/EBIT Adj	8.6	9.0	11.6	15.6	17.5	13.8
Free Cash Flow Yield	5.0%	8.1%	3.5%	-4.1%	-0.2%	1.8%
Growth Rates (%)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	13.0%	-5.2%	-12.6%	-2.4%	10.8%	6.7%
EBITDA Adj	1.7%	-6.8%	-1.7%	-16.6%	-2.5%	11.7%
EBIT Adj	3.0%	-15.8%	-14.3%	-35.7%	-8.5%	26.4%
Net Profit Adj	33.8%	7.6%	-46.1%	-30.5%	-11.6%	54.0%
EPS Adj	14.2%	-4.8%	-19.6%	-33.3%	-17.8%	30.2%
DPS	15.8%	nm	nm	-23.9%	-11.6%	54.0%

*Excluding extraordinary items Source: Intermonte SIM estimates

Avio in Brief

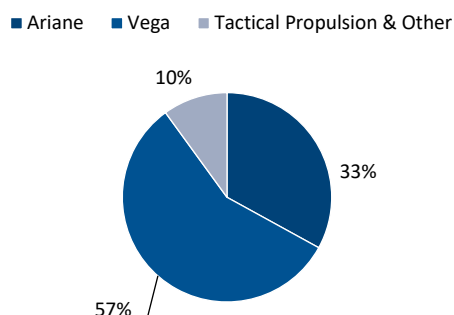
Company description

Avio is a leading company in space propulsion, based in Colleferro, near Rome, Italy. The company offers solutions for launching institutional, governmental and commercial payloads in Earth orbit through its Vega rocket family. The expertise and know-how acquired in over 50 years, currently allow Avio to compete in the segment of solid, liquid and cryogenic propulsion for space launchers and military tactical missiles.

Strengths/Opportunities

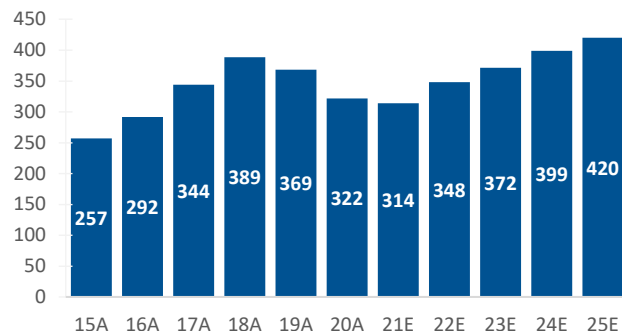
- Leading company operating in a sector with extremely high technological entry barriers
- High visibility thanks to a solid backlog
- Exposure to the fast-growing LEO market
- Solid balance sheet able to support future growth
- Launch of new products (i.e. mini launchers)
- Exploitation of important economies of scale

Figure 1: Revenues Breakdown by Business



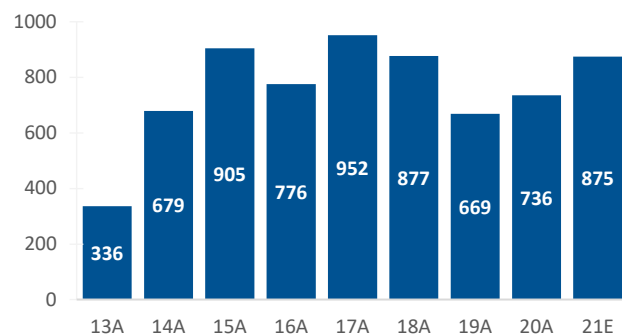
Source: Intermonte SIM

Figure 3: Net Revenues (Eu mn)



Source: Intermonte SIM

Figure 5: Order Backlog (Eu mn)



Source: Intermonte SIM

Management

CEO: Giulio Ranzo
Chairman: Roberto Italia
CFO: Alessandro Agosti

Next BoD renewal: 2023

BoD independent members: 7/11

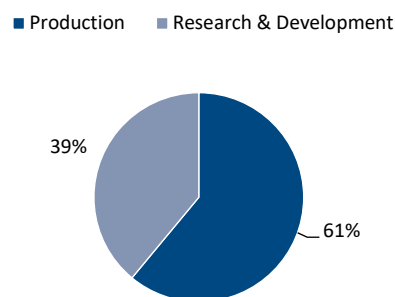
Shareholders

Leonardo	29.6%
Space Holding	4.8%
InOrbit	4.1%
Treasury Shares	2.6%
Floating	58.9%

Weaknesses/Threats

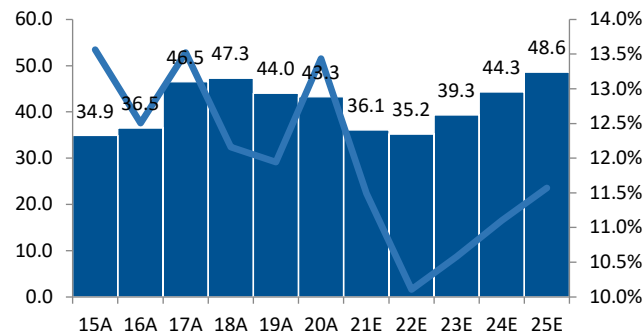
- More expensive products compared to competitors
- Highly concentrated client base
- Increasing competition
- Failure of launches

Figure 2: Revenues Breakdown by Activity



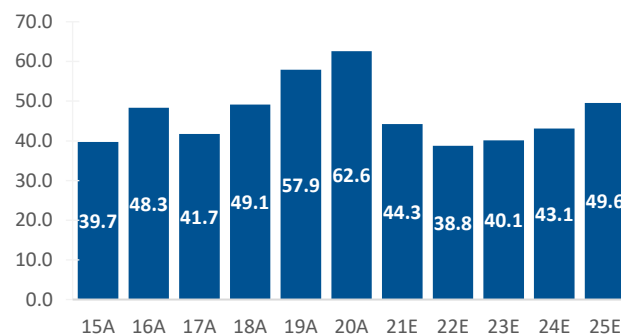
Source: Intermonte SIM

Figure 4: EBITDA Adjusted (Eu mn) and margin (%)



Source: Intermonte SIM

Figure 6: Net Cash (Eu mn)



Source: Intermonte SIM

3Q results

Avio's 3Q results (out on November 8th) showed a recovery by turnover vs last year (+45% YoY), while profitability suffered from an unfavourable business mix and the rise in energy costs on the same period last year. Net revenues came to Eu70.1mn, up 45% YoY and 1.7% above our estimates, while adjusted EBITDA was Eu1.3mn, lower than our Eu2.3mn estimate due to higher-than-expected utilities price rises. Regarding cash generation, the typical seasonal trend (cash absorption in 3Q) led to a decrease in the NFP to Eu15mn as at end-September, a trend that should significantly reverse in the final months of the year thanks to the achievement of important milestones and to down payments on orders to be received in the final months of the year.

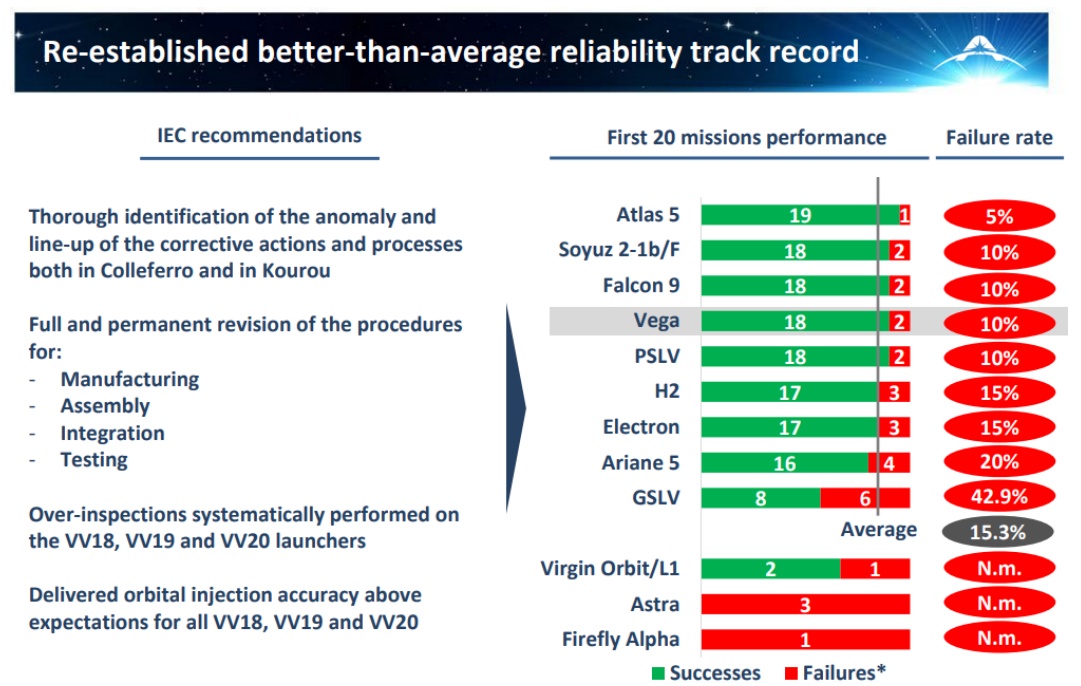
3Q results										
	3Q20A	3Q21A	% YoY	3Q21E	A vs E	9M20A	9M21A	% YoY	9M21E	A vs E
Net Revenues	48.2	70.1	45.4%	69.0	1.7%	216.1	197.8	-8.5%	196.7	0.6%
EBITDA Adj.	3.2	1.3	-59.4%	2.3	-43.5%	23.1	11.8	-48.9%	12.8	-7.8%
% margin	6.6%	1.9%		9.9%		10.7%	6.5%		6.5%	
EBITDA rep.	0.6	-0.1	-116.7%	0.9	nm	17.5	8.0	-54.3%	9.0	-11.1%
% margin	1.2%	-0.1%		1.3%		8.1%	4.0%		4.6%	
EBIT rep.	-3.8	-5.2	36.8%	-4.1	nm	4.7	-7.6	261.7%	-6.5	nm
% margin	-7.9%	-7.4%		-5.9%		2.2%	-3.8%		-3.3%	

Source: Company data & Intermonte SIM Estimates

Vega back to normality

On November 16th, the company successfully completed the 20th flight of Vega, a remarkable achievement bearing in mind that it was the third successful flight in the last 6 months. The return to normal operating conditions for the Vega after the failure of the VV17 should in our view restore client confidence in a launcher that has proved its ability to take satellites of strategic importance into orbit, a key factor for Europe's independent space access. Moreover, it shows that Vega has been able to quickly resume normal launch frequency and the rate could even increase to 4-5 launches a year in a reasonably short time. We highlight that as of now, Vega's reliability after 20 launches is above the average for launchers in their first 20 launches, confirming the validity and reputation of Avio's product offering.

Vega reliability vs competitors



Source: Company presentation

Outlook

As emerged from the 3Q results, the first signs of a top-line recovery have been seen but are unlikely to be enough to recover the ground lost in the first part of the year, for which reason the company has confirmed its guidance, which is below our previously published estimates except for the order book, which was stronger:

- Net order backlog of Eu850-900mn
- Net revenues of Eu300-330mn vs our Eu373mn estimate
Reported EBITDA of Eu30-32mn vs our Eu39mn estimate
- Net income of Eu10-12mn vs our Eu16.8mn estimate

In this report we are rebasing our expectations as a result of the expected impact of a variety of factors:

- the return to flight of the Vega after the failure of flight 17 required strenuous efforts that diverted expert Group personnel away from research and development activities, which consequently suffered a slowdown compared to initial plans. Despite the recovery in the subsequent months, it was not enough to fully regain the lost ground;
- the covid emergency continued to impact group activities in two different ways: on the one hand, the town of Colleferro, where the company's headquarters are located, was categorised as a red zone for a period and was therefore subject to limitations that partly slowed group activities; on the other, covid continues to entail extraordinary costs for each new launch campaign due to stricter health and safety requirements, and higher shipping and other charges;
- the postponement of the inaugural flight of the Ariane 6 resulted in a production gap in 2021. In essence, the ramp-up in production of the new P120 engines for the new generation of the Ariane family launcher was unable to compensate for the ramping down of the side boosters and the Ariane 5 turbopump, currently supplied by Avio.
- Last but not least, as for most of the industrial stocks that we cover, we expect the increase in energy and raw material costs to impact margins, not only for 2021, but at least for the first part of 2022.

In light of the above, we expect 2021 to register a turnover broadly in line with 2020, with the rebound in activity expected to slip substantially by one year, an effect that we expect will continue in subsequent years as well. The speed of the recovery to pre-pandemic levels will depend to a large extent on the success of the inaugural flights of Vega C and Ariane 6, which will take place in 2022.

We are reassessing our estimates to factor the latest developments into our model, substantially shifting our numbers by two years in order to now foresee a return to pre-pandemic levels in 2023-2024. The result is a cut at EBITDA level of around 20% for the 2021-2025 period.

Changes to estimates

	2021E N	2022E N	2023E N	2021E O	2022E O	2023E O	Δ 2021	Δ 2022	Δ 2023
Net Revenues	314.1	348.2	371.6	372.9	391.9	411.7	-15.8%	-11.2%	-9.7%
EBITDA Adj.	36.1	35.2	39.3	43.7	46.2	49.9	-17.4%	-23.8%	-21.2%
% margin	11.5%	10.1%	10.6%	11.7%	11.8%	12.1%			
EBITDA	31.1	31.7	36.8	38.7	43.7	47.4	-19.7%	-27.4%	-22.3%
% margin	9.9%	9.1%	9.9%	10.4%	11.1%	11.5%			
EBIT	10.4	10.6	15.3	19.0	23.6	26.9	-45.3%	-55.0%	-43.0%
Net profit	9.8	8.7	13.4	16.8	20.9	24.1	-41.7%	-58.6%	-44.6%
Net profit Adj	14.8	12.2	15.9	21.8	23.4	26.6	-32.2%	-48.0%	-40.4%
Net Cash	44.3	38.8	40.1	48.1	52.9	59.5	-8.0%	-26.8%	-32.5%

Source: Intermonte SIM

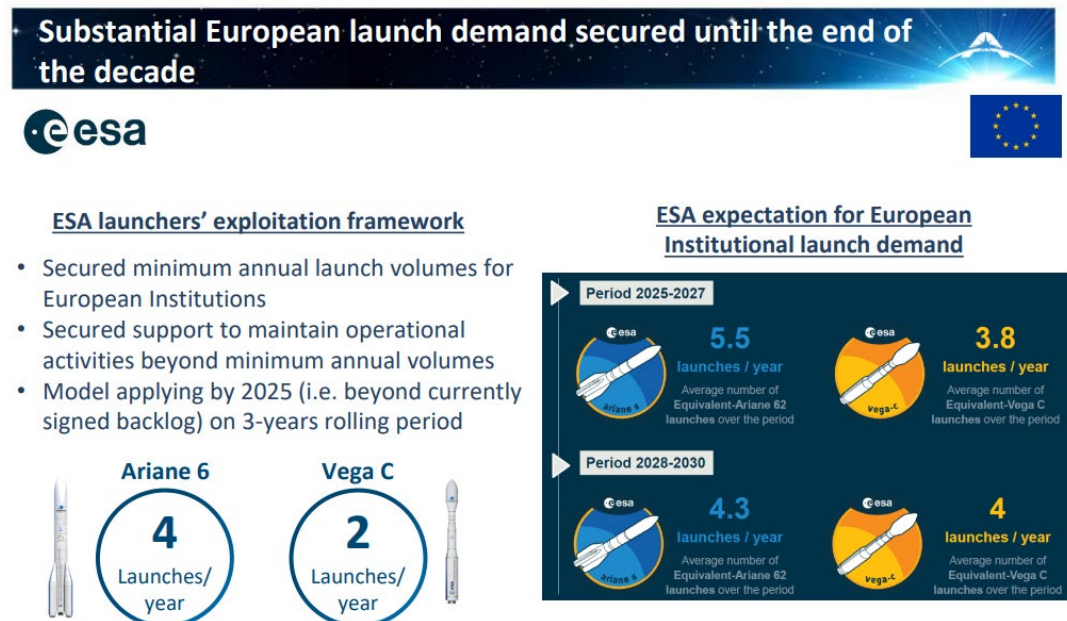
Mid-term outlook remains solid and may be bettered

Although short-term numbers could be below our expectations for the aforementioned reasons, the prospects in the medium-long term, a time horizon that is appropriate for sector companies, appear to be confirmed and may be bettered. This is possible thanks to an order book that remains robust, new orders that could arrive in the next few months following the launch of the NRRP (which could be of significant size and just a touch below typical funding from the ESA), and growth of the core market, which could be above market expectations again.

Order Book

The record order book underpins our confidence in the company's medium-term prospects, with the target at the end between Eu850mn and Eu900mn. This level of orders should provide excellent visibility, at least for the next 3 years (barring launch related problems). In addition to this, we believe that visibility for the next few years is ensured by the ESA launcher exploitation framework, which ensures annual launch volumes by European institutions starting from 2025 (therefore beyond the coverage of the current backlog). A commitment has been given for at least four Ariane 6 launches and two Vega C launches per year. We underline that expected demand for institutional launches is actually even higher than these numbers and therefore upside remains in terms of volumes: those specified by the framework must be understood as the minimum guaranteed threshold for European launchers. We also note that commercial launches for private customers and for those space agencies lacking their own rocket should also be considered on top of these launches. In light of this, we therefore believe our long-term estimate for 2030, which takes into consideration the 10 Ariane and 6 Vega launches per year, is credible.

Launch demand secured until 2030

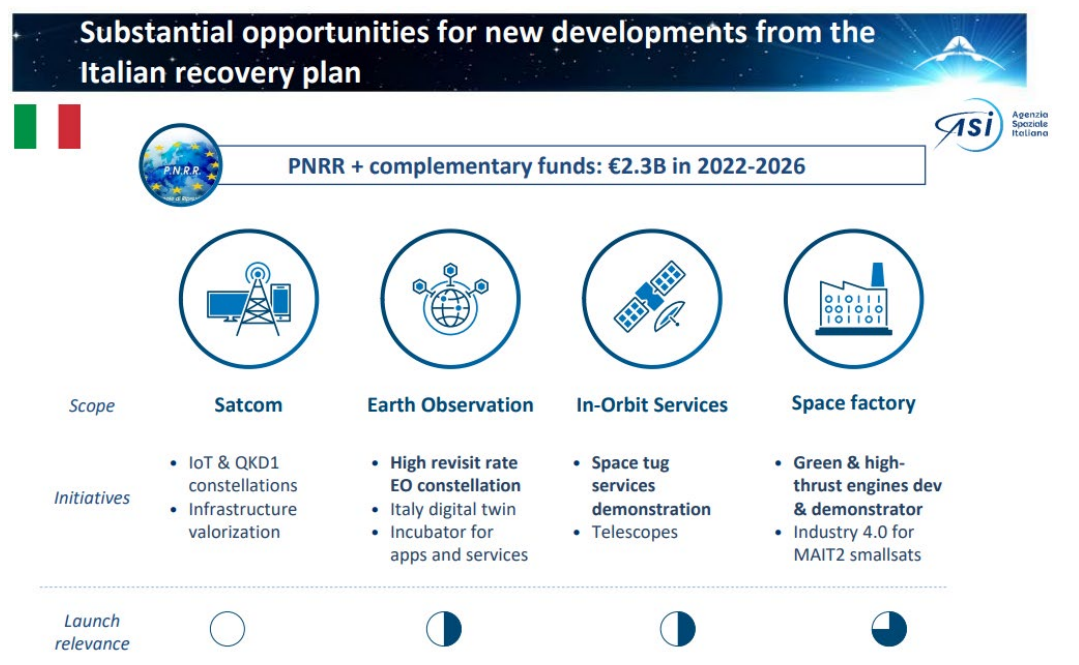


Source: Company presentation

NRRP funds

Important opportunities for the company could come from the programs that will be financed by the NRRP (National Recovery and Resilience Plan), which should dedicate approximately Eu2.3bn to the national space sector in the 2022-2026 period. In our opinion, Avio could benefit from these funds both directly and indirectly. Regarding direct benefits, we believe that it could be involved in development of new green liquid propulsion engines, as well as in the development of orbital services aimed at extending the useful life of satellites. As for the possible indirect benefits, the development of a constellation of satellites for earth observation will require the launch of these satellites at a later time, and Avio, being the only national player in the sector, appears to be the ideal candidate to perform this activity. Although at this point the timetable for these funds reaching the market and becoming orders is still practically impossible to gauge, the company believes it credible that the orders it might win could amount to slightly less than those obtained following the last ESA ministerial conference (about Eu500mn). Given that the money will have to be spent in a rather short time frame, this could prove to be an important boost to numbers for the next few years (assuming Eu500mn revenues split equally over 5 years, it would mean around Eu100mn in additional revenues and some Eu12mn in EBITDA per year). **We emphasize that our estimates do not yet incorporate this potential upside.**

NRRP opportunities



Source: Company presentation

Estimates

Income Statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net Revenues	343.8	388.7	368.7	322.0	314.1	348.2	371.6	399.1	420.2
% growth	17.7%	13.0%	-5.2%	-12.6%	-2.4%	10.8%	6.7%	7.4%	5.3%
EBITDA Adjusted	46.5	47.3	44.0	43.3	36.1	35.2	39.3	44.3	48.6
% margin	13.5%	12.2%	11.9%	13.4%	11.5%	10.1%	10.6%	11.1%	11.6%
% YoY growth	27.3%	1.6%	-6.8%	-1.7%	-16.6%	-2.5%	11.7%	12.7%	9.7%
EBITDA	39.2	42.6	42.6	35.2	31.1	31.7	36.8	41.8	46.1
% margin	11.4%	10.9%	11.6%	10.9%	9.9%	9.1%	9.9%	10.5%	11.0%
D&A	-14.2	-14.0	-16.1	-19.3	-20.7	-21.1	-21.5	-21.9	-22.3
% on net revenues	-4.1%	-3.6%	-4.4%	-6.0%	-6.6%	-6.1%	-5.8%	-5.5%	-5.3%
EBIT Adjusted	32.3	33.2	28.0	24.0	15.4	14.1	17.8	22.4	26.3
% margin	9.4%	8.5%	7.6%	7.4%	4.9%	4.1%	4.8%	5.6%	6.3%
EBIT	25.0	28.5	26.5	15.9	10.4	10.6	15.3	19.9	23.8
% margin	7.3%	7.3%	7.2%	4.9%	3.3%	3.0%	4.1%	5.0%	5.7%
Financial Income	0.0	0.8	2.1	0.7	0.1	0.1	0.1	0.1	0.1
Financial Charges	-3.6	-1.5	-1.7	-1.1	-0.5	-0.5	-0.5	-0.5	-0.5
Pretax	21.5	27.9	27.0	15.4	10.0	10.2	15.0	19.5	23.4
Taxes	0.3	-2.0	0.0	-0.5	0.0	-1.1	-1.1	-1.1	-1.1
tax rate	2%	-7%	0%	-3%	0%	-11%	-7%	-6%	-5%
Minorities	-3.6	-1.5	-0.8	-0.8	-0.2	-0.5	-0.5	-0.5	-0.6
Net Profit	18.2	24.3	26.2	14.1	9.8	8.7	13.4	17.9	21.7
% YoY Growth	1261%	34%	8%	-46%	-30%	-12%	54%	34%	22%
Adjusted Net Profit	25.4	29.0	27.6	22.2	14.8	12.2	15.9	20.4	24.2

Source: Company data & Intermonte SIM Estimates

Balance Sheet

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Tangible assets	82.9	92.3	107.5	121.2	133.0	144.4	151.6	157.4	162.0
Goodwill	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0
Intangible assets	117.6	117.0	122.3	125.6	125.1	124.5	123.8	123.0	122.1
Investments	8.0	8.1	7.8	9.1	9.1	9.1	9.1	9.1	9.1
Total Fixed Assets	269.5	278.4	298.5	316.9	328.2	339.0	345.5	350.6	354.2
Inventories	117.5	116.1	145.5	140.3	125.7	139.3	148.6	159.7	168.1
Contract work in progress	-131.3	-73.9	-104.9	-143.0	-115.0	-115.0	-115.0	-115.0	-115.0
Trade receivables	8.5	7.0	6.2	2.2	2.1	2.4	2.5	2.7	2.8
Trade Payables	-89.4	-131.4	-100.3	-66.5	-75.5	-84.9	-90.4	-96.5	-101.3
Other assets and liabilities	61.3	51.3	12.9	12.9	15.0	15.0	15.0	16.0	17.0
Working Capital	-33.4	-31.0	-40.6	-54.0	-47.8	-43.3	-39.2	-33.1	-28.4
Def. tax assets and liab.	76.5	76.2	77.8	78.0	81.0	84.0	87.0	90.0	93.0
Provisions for risks	-61.3	-66.0	-78.6	-80.2	-78.1	-87.0	-96.0	-105.4	-101.3
Provisions for employee benefits	-10.9	-10.7	-11.2	-11.3	-11.4	-11.5	-11.6	-11.7	-11.8
Net Invested Capital	240.5	246.9	245.9	249.4	272.0	281.2	285.6	290.4	305.7
Equity	272.2	284.6	296.1	303.5	307.7	311.5	317.3	325.0	346.7
Minorities	10.1	11.4	7.8	8.5	8.5	8.5	8.5	8.5	8.5
Total Equity	282.2	296.0	303.9	312.0	316.2	320.0	325.8	333.5	355.3
Net Cash (Debt)	41.7	49.1	57.9	62.6	44.3	38.8	40.1	43.1	49.6

Source: Company data & Intermonte SIM Estimates

Cash Flow

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net profit	21.8	25.8	27.0	14.9	10.0	9.1	13.9	18.4	22.3
D&A	14.2	14.0	16.1	19.3	20.7	21.1	21.5	21.9	22.3
Change in Working Capital	5.4	-2.4	9.6	13.5	-6.3	-4.5	-4.0	-6.1	-4.7
Provisions	-6.4	-0.7	-0.7	-3.2	-1.2	-1.3	-1.0	0.0	0.0
Change in funds	0.0	0.2	-0.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	35.1	37.0	51.5	44.4	23.2	24.3	30.2	34.1	39.8
YoY change	-3.8	0.1	0.4	-0.1	-0.5	0.1	0.2	0.1	0.2
Capex	-25.6	-22.7	-28.4	-34.5	-35.0	-25.0	-25.0	-25.0	-25.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition	0.0	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Increase/Buyback	0.0	0.0	-2.7	-6.4	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	-10.0	-11.5	0.0	-7.3	-5.6	-4.9	-7.6	-10.2
Others	-16.1	6.7	-0.1	1.2	0.8	0.7	1.1	1.5	1.8
Cash Flow	-6.6	7.4	8.8	4.7	-18.4	-5.5	1.4	3.0	6.4
NFP at the beg. of the year	48.3	41.7	49.1	57.9	62.6	44.3	38.8	40.1	43.1
Cash Flow: Cash/(Debt)	-6.6	7.4	8.8	4.7	-18.4	-5.5	1.4	3.0	6.4
NFP at year end	41.7	49.1	57.9	62.6	44.3	38.8	40.1	43.1	49.6

Source: Company data & Intermonte SIM Estimates

Valuation

Although we maintain a positive stance on the stock, we are downgrading it from BUY to OUTPERFORM to reflect short-term earnings momentum that remains unsupportive and the consequent lower upside to our target price. Nevertheless, over the longer term, we believe Avio is well placed in the highly promising market for small satellite launchers, which should continue to enjoy sustainable growth in the coming years thanks to demand for increasingly accurate, flexible, and reliable launchers. Furthermore, the maintenance of a sound cash position enables the company to calmly navigate the current tough environment and continue investing to further develop its business and seize potential external growth opportunities arising on the market. Our valuation model yields a target price of Eu13.8, down from Eu17.5.

Valuation summary

Method	Comment	Value (Eu ps)	weight
DCF	WACC 7.4%, TGR 2.0%	14.7	80%
Market Multiples	2022 EV/EBITDA & P/E	12.8	20%
Weighted average		14.4	
Execution risk	failure rate Vega+Ariane	4.3%	
Target Price		13.8	
Current price		11.5	
Upside/Downside		25%	

Source: Intermonte SIM

DCF Method

	Eu mn
Discounted Free cash flows 22-28	79.0
Terminal value	259.6
Total EV (with DCF)	338.6
Net financial position (YE21)	44.3
Associates	9.1
Law 808/85	-13.9
Deferred tax assets	31.9
Cash in from Sponsor Warrants	10.4
Employee benefits	-11.4
Minorities & Adjustments	-8.5
Total EQUITY	400.5
N. of shares FD (mn)	27.2
TARGET PRICE (Eu)	14.7
WACC	7.4%
Terminal growth	2.0%

Source: Intermonte SIM

Peers comparison method

	2022		2021
Peer Group median EV/EBITDA	10.1 x	Peer Group median P/E	19.2 x
EBITDA Adj.	39.3	Net profit Adj.	12.2
Fair EV	396.5		
Net Debt+Others	67.8		
Fair Equity value	464.2	Fai Equity value	233.6
N. of shares F.d.	27.2	N. of shares F.d.	27.2
Equity value per share	17.1	Equity value per share	8.6

Source: Intermonte SIM

Multiple comparison

Company name	Country	Mkt cap (EU mn)	EV/EBITDA			EV/EBIT			PE		
			2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Avio SpA @ our est.	IT	303	6.6 x	6.9 x	6.2 x	15.5 x	17.3 x	13.6 x	21.1 x	25.6 x	19.7 x
Airbus SE	NL	83,954	11.1 x	9.0 x	7.3 x	17.0 x	13.3 x	10.1 x	26.7 x	21.1 x	16.2 x
Moog Inc. Class A	US	2,228	9.7 x	8.5 x	7.4 x	13.9 x	11.8 x		16.0 x	14.3 x	12.9 x
OHB AG	DE	606	8.7 x	7.2 x	6.0 x	13.3 x	9.9 x	7.7 x	22.8 x	17.3 x	13.9 x
Safran S.A.	FR	43,382	15.8 x	12.1 x	9.6 x	26.1 x	17.7 x	13.7 x	39.3 x	25.3 x	19.3 x
Thales SA	FR	15,589	7.1 x	5.9 x	5.1 x	10.4 x	8.3 x	6.9 x	12.5 x	10.9 x	10.0 x
Boeing Company	US	104,113	38.0 x	16.7 x	12.8 x	108.5 x	23.5 x	16.8 x		43.2 x	26.0 x
Aerojet Rocketdyne	US	3,344	11.5 x	11.1 x		14.3 x	14.8 x		23.5 x	22.8 x	20.7 x
Northrop Grumman	US	53,278	13.1 x	13.6 x	13.1 x	16.0 x	16.2 x	15.4 x	14.8 x	15.1 x	13.6 x
Median			11.3 x	10.1 x	7.4 x	15.1 x	14.0 x	11.9 x	22.8 x	19.2 x	15.0 x

Source: FactSet

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	AVIO		
Current Recomm:	OUTPERFORM	Previous Recomm:	BUY
Current Target (Eu):	13.80	Previous Target (Eu):	17.50
Current Price (Eu):	11.58	Previous Price (Eu):	13.84
Date of report:	23/12/2021	Date of last report:	29/04/2021

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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.

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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:	17,36 %
OUTPERFORM:	52,89 %
NEUTRAL:	25,62 %
UNDERPERFORM:	04,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (55 in total) is as follows:

BUY:	30,91 %
OUTPERFORM:	49,09 %
NEUTRAL:	20,00 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

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IKF	0,57	SHORT
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