

AVIO

Sector: Industrials

OUTPERFORM

Price: Eu9.49 - Target: Eu11.70

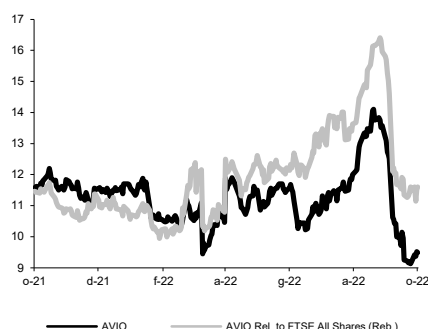
Short-term clouds, but positive signs for the longer term

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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

■ **2Q22 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

AVIO – Key Figures						
Profit & Loss (Eu mn)	2019A	2020A	2021A	2022E	2023E	2024E
Sales	369	322	312	340	370	403
EBITDA	43	35	30	21	29	39
EBIT	27	16	9	-1	4	12
Financial Income (charges)	0	-0	-0	-0	-0	-0
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	27	15	9	-1	3	11
Taxes	0	-1	1	0	-1	-1
Tax rate	0.0%	-3.5%	5.9%	0.0%	-35.7%	-9.8%
Minorities & Discontinued Operations	-1	-1	-1	-1	-1	-1
Net Profit	26	14	8	-2	1	9
EBITDA Adj	44	43	38	26	32	41
EBIT Adj	28	24	17	4	6	14
Net Profit Adj	28	22	16	3	4	12
Per Share Data (Eu)	2019A	2020A	2021A	2022E	2023E	2024E
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	0.965	0.520	0.312	-0.082	0.041	0.338
EPS Adj f.d	1.018	0.818	0.596	0.102	0.133	0.431
BVPS f.d	10.903	11.174	11.137	11.055	11.073	11.220
Dividend per Share ORD	0.000	0.285	0.178	0.000	0.025	0.203
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	0.0%	54.8%	57.0%	0.0%	60.0%	60.0%
Cash Flow (Eu mn)	2019A	2020A	2021A	2022E	2023E	2024E
Gross Cash Flow	42	31	26	19	27	37
Change in NWC	10	18	25	5	6	8
Capital Expenditure	-28	-35	-36	-35	-35	-30
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	23	14	12	-11	-3	15
Acquisitions, Divestments & Other Items	-0	-3	-11	-7	-3	-4
Dividends	-12	0	-7	-5	0	-1
Equity Financing/Buy-back	-3	-6	0	-5	0	0
Change in Net Financial Position	9	5	-5	-27	-6	11
Balance Sheet (Eu mn)	2019A	2020A	2021A	2022E	2023E	2024E
Total Fixed Assets	299	320	338	351	360	363
Net Working Capital	-41	-58	-83	-88	-94	-102
Long term Liabilities	-12	-12	-2	15	18	16
Net Capital Employed	246	249	253	278	284	277
Net Cash (Debt)	58	63	57	31	24	35
Group Equity	304	312	310	308	309	313
Minorities	8	9	8	8	8	8
Net Equity	296	303	302	300	301	305
Enterprise Value (Eu mn)	2019A	2020A	2021A	2022E	2023E	2024E
Average Mkt Cap	340	370	331	258	258	258
Adjustments (Associate & Minorities)	29	29	29	17	17	17
Net Cash (Debt)	58	63	57	31	24	35
Enterprise Value	253	278	245	210	216	205
Ratios (%)	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA Adj Margin	11.9%	13.4%	12.1%	7.7%	8.6%	10.3%
EBIT Adj Margin	7.6%	7.4%	5.3%	1.2%	1.6%	3.5%
Gearing - Debt/Equity	-19.1%	-20.1%	-18.4%	-9.9%	-7.9%	-11.3%
Interest Cover on EBIT	nm	33.6	37.4	nm	7.3	25.8
Net Debt/EBITDA Adj	-1.3	-1.4	-1.5	-1.2	-0.8	-0.9
ROACE*	10.8%	6.4%	3.5%	-0.4%	1.3%	4.2%
ROE*	9.5%	7.4%	5.3%	0.9%	1.2%	3.9%
EV/CE	1.0	1.1	1.0	0.8	0.8	0.7
EV/Sales	0.7	0.9	0.8	0.6	0.6	0.5
EV/EBITDA Adj	5.7	6.4	6.5	8.1	6.8	5.0
EV/EBIT Adj	9.0	11.6	14.8	nm	35.7	14.5
Free Cash Flow Yield	10.1%	6.2%	5.4%	-4.5%	-1.1%	6.4%
Growth Rates (%)	2019A	2020A	2021A	2022E	2023E	2024E
Sales	-5.2%	-12.6%	-3.2%	9.0%	8.9%	8.9%
EBITDA Adj	-6.8%	-1.7%	-12.9%	-31.0%	22.8%	29.5%
EBIT Adj	-15.8%	-14.3%	-31.0%	-75.7%	50.5%	134.1%
Net Profit Adj	7.6%	-46.1%	-39.9%	nm	nm	723.7%
EPS Adj	-4.8%	-19.6%	-27.2%	-82.8%	30.2%	223.4%
DPS	nm	nm	-37.5%	nm	nm	723.7%

*Excluding extraordinary items Source: Intermonte SIM estimates

Avio in Brief

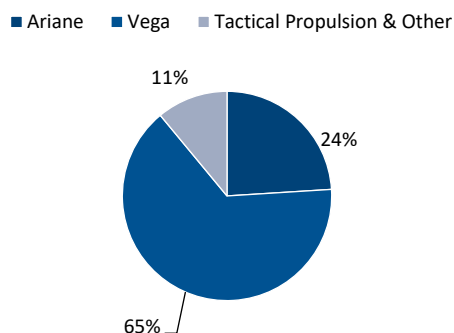
Company description

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

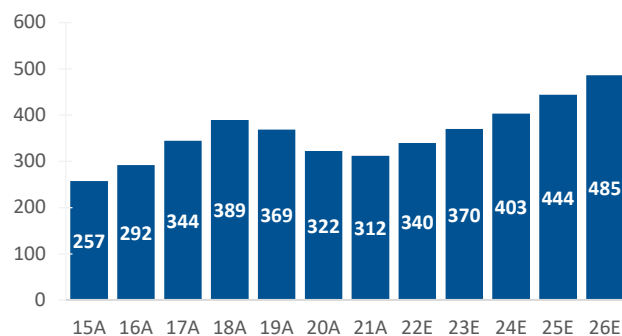
- Leading company operating in a sector with extremely high technological entry barriers
- High top line visibility thanks to a solid backlog
- Exposure to the fast-growing LEO market
- Solid balance sheet able to support future growth
- Launch of new products
- Exploitation of important economies of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

Figure 1: Revenues Breakdown by Business (2021)



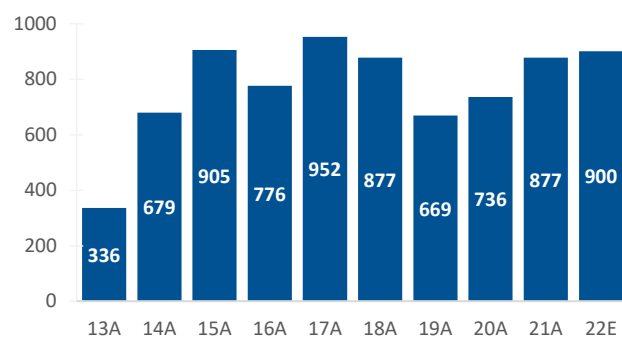
Source: Intermonte SIM

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

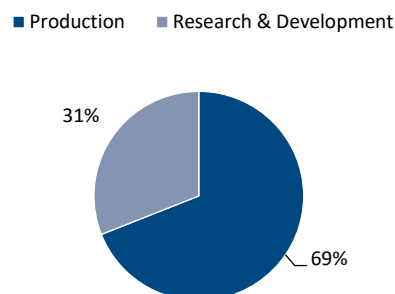
Shareholders

Leonardo	29.6%
Cobas AM	5.0%
Space Holding	4.1%
InOrbit	4.1%
Treasury Shares	4.2%
Floating	53.0%

Weaknesses/Threats

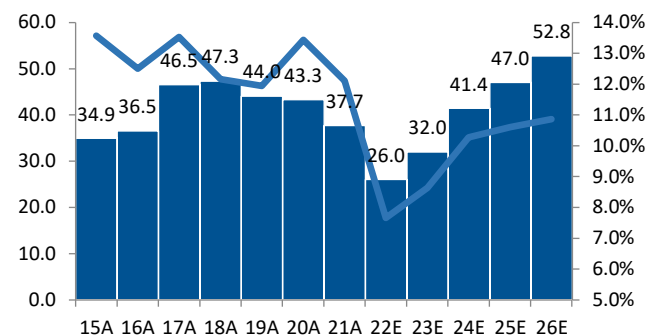
- More expensive products compared to competitors
- Highly concentrated client base
- Increasing competition
- Deteriorating of the macroeconomic environment leading to reduced budget allocations for space programmes
- Failure of launches
- Delays in development of new products (i.e. Ariane 6)

Figure 2: Revenues Breakdown by Activity (2021)



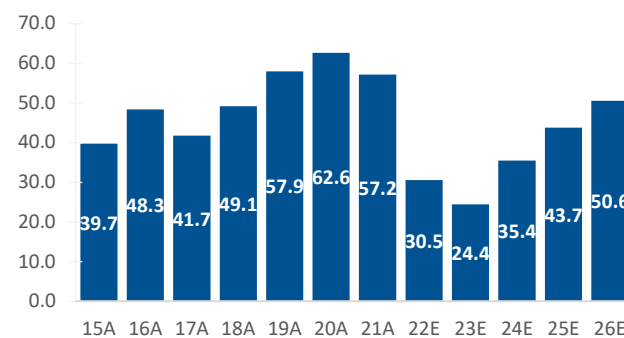
Source: Intermonte SIM

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



Source: Intermonte SIM

Figure 6: Net Cash (Eu mn)



Source: Intermonte SIM

2Q22 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.

Avio – Quarterly results

	2Q20	2Q21	2Q22	% YoY	2Q22E	A vs E	1H21	1H22	% YoY	1H22E	A vs E
Net Revenues	87.9	75.1	68.1	-9.3%	72.0	-5.5%	127.7	134.0	4.9%	137.9	-2.8%
YoY Growth	-17.4%	-14.6%	-9.3%		-4.1%		-23.9%	4.9%		8.0%	
EBITDA Adj.	12.1	6.0	4.4	-26.2%	3.6	22.2%	10.5	5.6	-46.4%	4.8	16.7%
% margin	13.8%	8.0%	6.5%		5.0%		8.2%	4.2%		3.5%	
EBITDA rep.	9.7	5.1	3.0	-42.0%	2.6	12.6%	8.1	3.2	-61.0%	2.8	11.7%
% margin	11.0%	6.8%	0.0%		0.0%		6.3%	0.0%		0.0%	
EBIT Adj.	7.7	0.8	0.4	nm	-1.9	nm	0.0	-3.7	nm	-6.0	nm
% margin	8.8%	1.1%	0.5%		-2.6%		0.0%	-2.8%		-4.3%	
EBIT rep.	5.4	-0.1	-1.1	nm	-2.9	nm	-2.4	-6.2	nm	-8.0	nm
% margin	6.1%	-0.1%	-1.6%		-4.0%		-1.9%	-4.6%		-5.8%	
Net Cash	26.9	36.6	40.9		35.0	16.9%	36.6	40.9		35.0	16.9%

Source: Company data & Intermonte SIM Estimates

Acquisition of Temis and of 5% of ART

In addition to the results, the company has also announced the completion of its first acquisition since the listing of the company, having closed the acquisition of the entire share capital of Temis, a company involved in the avionics business and a legacy supplier of Avio, providing avionics, on-board telemetry and cameras for Vega (since the very first flight) and Vega C.

As part of the transaction, Avio also acquired a 5% stake in ART, Temis's former controlling shareholder operating in the infotainment industry for sport and luxury cars, with a concurrent Long Term Cooperation Agreement designed to support Temis's operations and supply chain.

Having already received the go-ahead in relation to Golden Power decrees, the transaction was therefore concluded on 8 September 2022. It will involve a total financial commitment of Eu4.7mn, comprising:

- the purchase price of the holding in Temis for Eu3.0mn, of which Eu1.75mn paid in cash and Eu1.25mn in Avio treasury shares;
- the purchase price of Eu1.7mn for the stake in ART, which will be paid entirely in cash.

With this transaction Avio acquires crucial core competencies in the field of avionics, also bringing a chunk of the supplier costs associated with the Vega programme in-house. Temis's expertise and ART's support to Temis will be particularly important with a view to developing new advanced avionics systems, including in connection with programmes to be funded within the scope of the Italian NRRP.

While figures for the acquired companies have not been disclosed so far, we believe the impact on Avio's numbers will be marginal given the limited investment. However, this move should help profitability, as it increases the company's vertical integration, as well as providing key personnel to further push development revenues.

Change to estimates

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. The mid-point of the new guidance was ~20% below the pre-release consensus and 22% below previous guidance at mid-point.

2022 New vs Old Guidance

	New			Old			Delta		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Net Order Backlog	870	895	920	870	895	920	0.0%	0.0%	0.0%
Net Revenues	330	340	350	330	340	350	0.0%	0.0%	0.0%
EBITDA Reported	17	21	25	24	27	30	-29.2%	-22.2%	-16.7%
margin	5.2%	6.2%	7.1%	7.3%	7.9%	8.6%			
Net Income	-2.0	0.5	3.0	5.0	7.5	10.0	nm	-93.3%	-70.0%

Source: Company data & Intermonte SIM Estimates

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 normalization of energy costs 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.

Here is a reminder of the key drivers of our estimates:

Top line: estimates confirmed, while the mix has been revised slightly as we expect some delays in the ramping-up of P120 production due to the delay accumulated by the Ariane 6 program (not dependent on Avio), with the maiden flight rescheduled for 2023, while previous indications were for a flight expected by year-end. This effect should be entirely compensated by an acceleration of development revenues, made possible by the new contracts from the Italian NRRP in particular, and by an acceleration at the Tactical propulsion business thanks to orders recently signed and likely future intake (see the following section for more details on the opportunities at this division).

EBITDA: we expect rising energy costs to hit profitability in both 2022 and 2023 due to the limited leeway for revising the terms of previously signed contracts. A material improvement is expected starting from 2024 on the basis of a forecast normalisation of energy costs and the materialisation of the benefits in terms of economies of scale from the ramping-up of P120 production.

CAPEX: while operating cash flow in the next 2 years is expected to be penalized by the subdued EBITDA, we expect the company to keep investing heavily (Eu35mn per year) in order to be able to seize the growth opportunities that will materialise on the market once the situation normalises. The solid NFP enables the company to pursue such a strategy, as it does not have to pass on sizeable required investments in order to deliver on its important growth targets in the medium to long term.

Change to estimates

	'22N	'23N	'24N	'25N	'26N	'22O	'23O	'24O	'25O	'26O	Δ'22	Δ'23	Δ'24	Δ'25	Δ'26
Net Revenues	339.6	369.7	402.7	443.6	485.5	339.6	369.7	402.7	443.6	485.5	0%	0%	0%	0%	0%
YoY growth	9.0%	8.9%	8.9%	10.2%	9.4%	9.0%	8.9%	8.9%	10.2%	9.4%					
EBITDA Adj.	26.0	32.0	41.4	47.0	52.8	32.3	38.2	42.6	48.4	54.2	-19%	-16%	-3%	-3%	-3%
% margin	7.7%	8.6%	10.3%	10.6%	10.9%	9.5%	10.3%	10.6%	10.9%	11.2%					
EBITDA	21.0	29.5	38.9	44.5	50.3	27.3	35.7	40.1	45.9	51.7	-23%	-18%	-3%	-3%	-3%
% margin	6.2%	8.0%	9.7%	10.0%	10.4%	8.0%	9.7%	10.0%	10.3%	10.7%					
EBIT Adj.	4.0	6.1	14.2	20.3	26.6	9.3	12.4	15.4	21.7	28.0	-57%	-51%	-8%	-6%	-5%
EBIT	-1.0	3.6	11.7	17.8	24.1	4.3	9.9	12.9	19.2	25.5	-122%	-64%	-9%	-7%	-6%
Net profit	-2.2	1.1	9.2	15.3	22.4	3.2	7.5	10.5	16.7	23.9	-170%	-85%	-12%	-8%	-6%
Net profit Adj	2.8	3.6	11.7	17.8	24.9	8.2	10.0	13.0	19.2	26.4	-66%	-64%	-10%	-7%	-6%
Net Cash	30.5	24.4	35.4	43.7	50.6	39.9	36.2	33.8	37.7	45.1	-23%	-33%	5%	16%	12%

Source: Intermonte SIM

Financials

P&L										
	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Net Revenues	343.8	388.7	368.7	322.0	311.6	339.6	369.7	402.7	443.6	485.5
% growth	17.7%	13.0%	-5.2%	-12.6%	-3.2%	9.0%	8.9%	8.9%	10.2%	9.4%
EBITDA Adjusted	46.5	47.3	44.0	43.3	37.7	26.0	32.0	41.4	47.0	52.8
% margin	13.5%	12.2%	11.9%	13.4%	12.1%	7.7%	8.6%	10.3%	10.6%	10.9%
% YoY growth	27.3%	1.6%	-6.8%	-1.7%	-12.9%	-31.0%	22.8%	29.5%	13.6%	12.2%
EBITDA	39.2	42.6	42.6	35.2	30.0	21.0	29.5	38.9	44.5	50.3
% margin	11.4%	10.9%	11.6%	10.9%	9.6%	6.2%	8.0%	9.7%	10.0%	10.4%
D&A	-14.2	-14.0	-16.1	-19.3	-21.2	-22.0	-25.9	-27.2	-26.7	-26.2
EBIT Adjusted	32.3	33.2	28.0	24.0	16.6	4.0	6.1	14.2	20.3	26.6
% margin	9.4%	8.5%	7.6%	7.4%	5.3%	1.2%	1.6%	3.5%	4.6%	5.5%
EBIT	25.0	28.5	26.5	15.9	8.9	-1.0	3.6	11.7	17.8	24.1
% margin	7.3%	7.3%	7.2%	4.9%	2.8%	-0.3%	1.0%	2.9%	4.0%	5.0%
Financial Income	0.0	0.8	2.1	0.7	0.7	0.3	0.3	0.4	0.4	0.4
Financial Charges	-3.6	-1.5	-1.7	-1.1	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8
Pretax	21.5	27.9	27.0	15.4	8.6	-1.4	3.1	11.2	17.4	23.7
Taxes	0.3	-2.0	0.0	-0.5	0.5	0.0	-1.1	-1.1	-1.1	-0.1
tax rate	2%	-7%	0%	-3%	6%	0%	-36%	-10%	-6%	0%
Minorities	-3.6	-1.5	-0.8	-0.8	-0.7	-0.8	-0.9	-0.9	-1.0	-1.1
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net Profit	18.2	24.3	26.2	14.1	8.5	-2.2	1.1	9.2	15.3	22.4
% YoY Growth	1261%	34%	8%	-46%	-40%	-126%	-150%	721%	66%	47%
Adjusted Net Profit	25.4	29.0	27.6	22.2	16.2	2.8	3.6	11.7	17.8	24.9

Source: Company data & Intermonte SIM Estimates

Balance Sheet

	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Tangible assets	82.9	92.3	107.5	124.3	135.8	148.9	158.0	160.8	164.1	162.9
Goodwill	61.0	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	129.4	129.4	129.4	129.4	129.4	129.4
Investments	8.0	8.1	7.8	9.1	11.6	11.6	11.6	11.6	11.6	11.6
Total Fixed Assets	269.5	278.4	298.5	320.0	337.8	350.8	359.9	362.7	366.0	364.9
Inventories	117.5	116.1	145.5	140.3	154.7	166.4	173.8	181.2	195.2	208.7
Contract WIP	-131.3	-73.9	-104.9	-143.0	-155.8	-160.0	-165.0	-175.0	-185.0	-185.0
Trade receivables	8.5	7.0	6.2	2.2	3.7	4.0	4.4	4.8	5.3	5.8
Trade Payables	-89.4	-131.4	-100.3	-66.5	-76.9	-88.4	-93.7	-99.7	-109.0	-118.5
Other assets/ liabilities	61.3	51.3	12.9	8.8	-8.7	-10.0	-13.0	-13.0	-13.0	-13.0
Working Capital	-33.4	-31.0	-40.6	-58.2	-83.0	-88.0	-93.5	-101.7	-106.5	-101.9
Def. tax assets and liab.	76.5	76.2	77.8	78.0	79.4	82.4	85.4	88.4	91.4	94.4
Provisions for risks	-61.3	-66.0	-78.6	-79.2	-70.7	-57.3	-57.1	-61.6	-64.8	-55.5
Provisions for employee	-10.9	-10.7	-11.2	-11.3	-10.3	-10.4	-10.5	-10.6	-10.7	-10.8
Net Invested Capital	240.5	246.9	245.9	249.4	253.2	277.6	284.2	277.1	275.4	291.0
Equity	272.2	284.6	296.1	303.5	302.5	300.3	300.7	304.7	311.3	333.7
Minorities	10.1	11.4	7.8	8.5	7.8	7.8	7.8	7.8	7.8	7.8
Total Equity	282.2	296.0	303.9	312.0	310.3	308.1	308.6	312.6	319.2	341.6
Net Cash (Debt)	41.7	49.1	57.9	62.6	57.2	30.5	24.4	35.4	43.7	50.6

Source: Company data & Intermonte SIM Estimates

Cash Flow

	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Net profit	21.8	25.8	27.0	14.9	9.1	-1.4	2.0	10.1	16.3	23.6
D&A	14.2	14.0	16.1	19.3	21.2	22.0	25.9	27.2	26.7	26.2
Change in NWC	5.4	-2.4	9.6	17.7	24.8	5.0	5.5	8.2	4.8	-4.6
Provisions	-6.4	-0.7	-0.7	-3.2	-4.4	-1.3	-1.0	0.0	0.0	0.0
Change in funds	0.0	0.2	-0.5	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Others	0.0	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	35.1	37.0	51.5	48.6	48.9	24.1	32.3	45.5	47.7	45.1
<i>YoY change</i>	-377.6%	5.5%	39.1%	-5.5%	0.5%	-50.6%	33.9%	40.8%	4.9%	-5.5%
Capex	-25.6	-22.7	-28.4	-34.5	-36.4	-35.0	-35.0	-30.0	-30.0	-25.0
Disposals	0.0	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	-3.5	0.0	0.0	0.0	0.0
Buyback	0.0	0.0	-2.7	-6.4	0.0	-4.6	0.0	0.0	0.0	0.0
Dividends	0.0	-10.0	-11.5	0.0	-7.3	-4.6	0.0	-0.6	-5.2	-8.7
Others	-16.1	6.7	-0.1	-3.0	-10.6	-3.1	-3.4	-3.8	-4.2	-4.6
Cash Flow	-6.6	7.4	8.8	4.7	-5.5	-26.6	-6.1	11.0	8.3	6.8
NFP beg. of the year	48.3	41.7	49.1	57.9	62.6	57.2	30.5	24.4	35.4	43.7
Cash Flow: Cash/(Debt)	-6.6	7.4	8.8	4.7	-5.5	-26.6	-6.1	11.0	8.3	6.8
NFP at year end	41.7	49.1	57.9	62.6	57.2	30.5	24.4	35.4	43.7	50.6

Source: Company data & Intermonte SIM Estimates

Potential short/medium-term upside to estimates

As we highlighted in our latest report, **several elements that are starting to materialise could lead to considerable additional additional business for the company**. In the following paragraphs we summarise the most important ones and provide an update of the developments that have taken place since June. **We emphasise that our estimates only partially incorporate the potential upside from these developments.**

NRRP

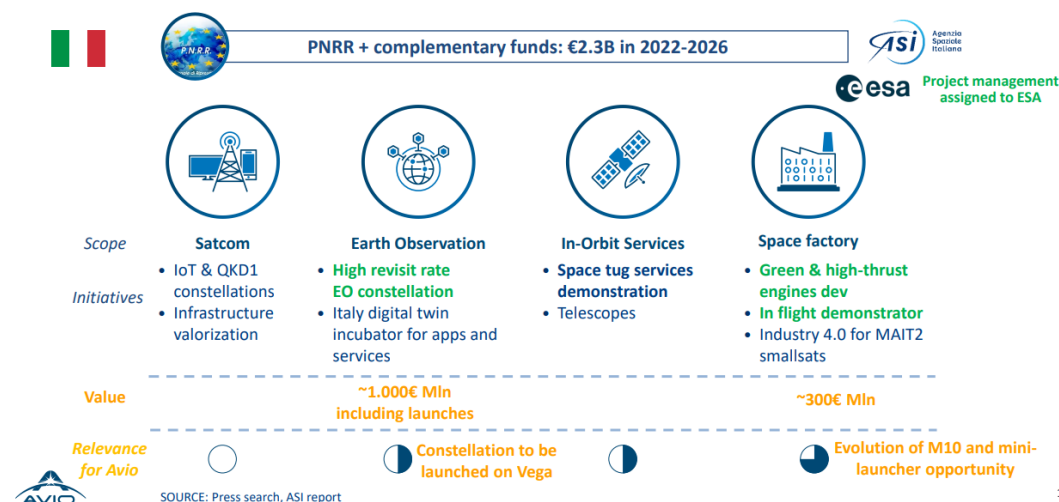
Important opportunities for the company could come from the programmes that will be financed by the NRRP (National Recovery and Resilience Plan), which dedicates approximately Eu2.3bn to the national space sector in the 2022-2026 period. In our opinion, Avio could benefit from these funds both directly 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 difficult 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 according to our very preliminary estimates).

UPDATE: On 29th June, the first two contracts were awarded to Avio. In the previous few months, the Italian Government had decided to invest around Eu340mn to improve the technological capability of the Italian industry for "Access to Space". The goal is to leverage existing capabilities established in Italy since the early 2000s through the Vega, Vega C and Vega E programmes to develop next generation propulsion technologies and launch system architectures. With these contracts, two key development programmes are now starting, the first, funded with Eu217.5mn at completion, is devoted to the development by 2026 of an in-flight demonstrator of new technologies and architectures for a two-stage-to-orbit liquid propulsion small launcher powered by green LOX-methane engines. The second, funded with Eu120mn at completion, is devoted to the development of a new LOX-methane green engine with High Thrust to be tested on the ground by 2026 for qualification. On both of these development streams Avio will be able to leverage past experience on cryogenic LOX-methane propulsion. LOX-methane technologies, given

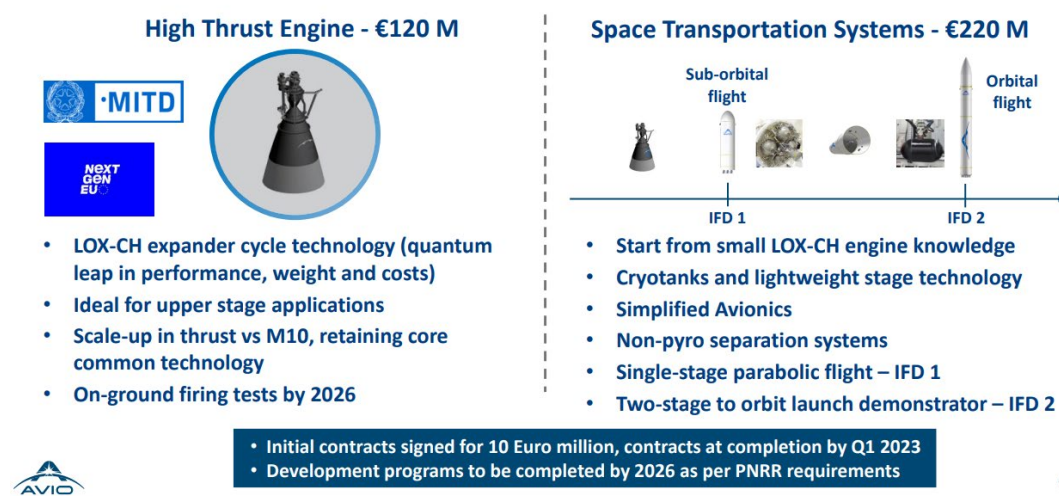
their clean-combustion characteristics, are ideally suited for potential re-usability and allow extensive use of single-material/single-part 3D printed manufacturing. **Initial orders** to cover the next few months of work **were signed for a total value of around 11M€**. The goal of the two projects is to prepare the ground for next-generation space transportation systems beyond Vega E, based on green liquid propulsion (potentially reusable) technology. The projects will be led by Avio as a Prime Contractor in light of its vast past experience as system developer and will be supported by an Italian industrial supply chain as well as by Italian research centres and universities.

NRRP opportunities



Source: Company presentation

NRRP contracts already awarded to Avio



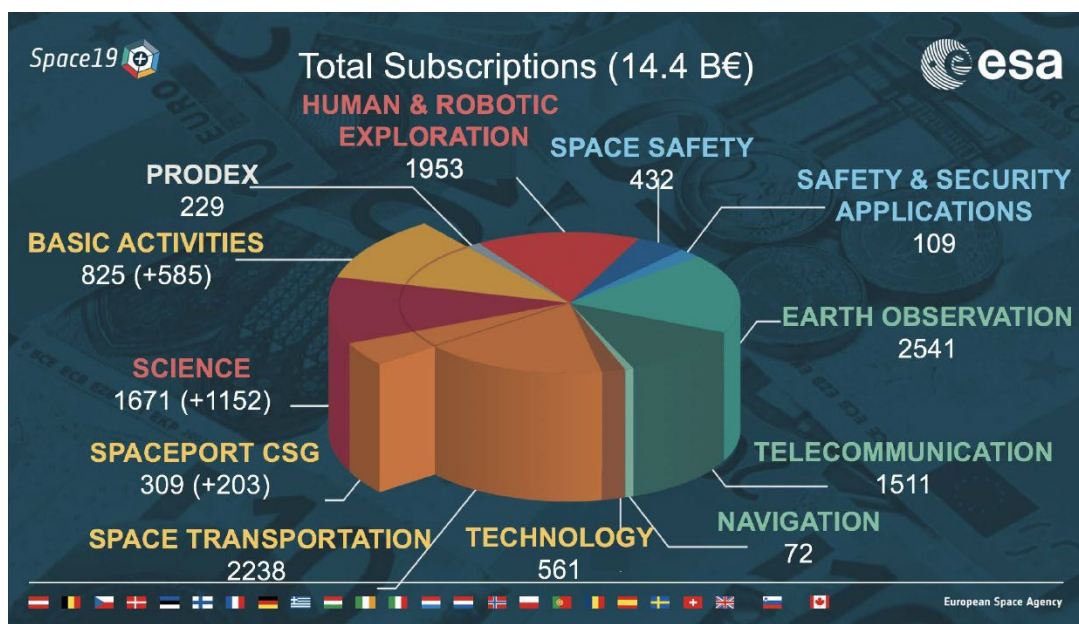
Source: Company presentation

ESA ministerial conference

In the last months of 2022, the ministerial conference of ESA member countries will be held, which will allocate funds for research and development activities in the European space sector for the following three years. We believe that Avio will once again benefit from an important amount of new orders relating to the development of new products and technologies (Vega E, Space Rider ...), for an amount that could be similar to the one awarded 3 years ago, therefore around Eu500mn.

For illustrative purposes, we report below how the important budget of the last ESA ministerial conference was allocated to the different sectors, highlighting how the launcher sector (space transportation) was considered strategic and was allocated Eu2.2bn, a 39% increase compared to the previous 3-years period.

ESA – 2019 Ministerial conference funding allocation



Source: ESA

Substitution of Soyuz launches with Ariane and Vega

In response to Russia's entry into the war against Ukraine, the Russian Soyuz launcher was banned from launches from the Kourou spaceport. Although the collaboration between ESA and the Russian space agency for the exploitation of Soyuz for launches was destined to end in the coming years thanks to the entry into operation of the new Ariane 6.2, in the near future several satellites were expected to be launched again with Soyuz. In light of recent events, we cannot exclude that some of these satellites may be diverted to European launchers, leading to a further acceleration in the entry into full capacity of the new generation engines. It is difficult to understand at the moment what the potential upside is, which will also depend on the timing of the resolution of the conflict, but we believe that this is an additional opportunity that could turn into new orders for the Group.

Increase of Defence spending in Europe

Although not often mentioned, as it is a marginal business compared to that of launchers, it should be remembered that Avio is also active in the Tactical Propulsion business, i.e. the production and design of propulsion systems for missiles for defence use. Specifically, Avio supplies MBDA with the propulsion systems of the CAMM-ER and Aster 30 missiles. This business was already accelerating before the war in Ukraine began, as in 2021 Avio received various orders extension from MBDA France for the production of additional batches of boosters for the ASTER-30 anti-aircraft and anti-missile defence system for a total value of over Eu80mn (deliveries related to these additional orders are expected to cover the period 2022-30). We believe that the increase in military spending announced by various NATO countries following the outbreak of the war in Ukraine could lead to a further acceleration of this business. At this stage it is too early to make any precise assessment on the potential additional business for the company and as a precaution in our estimates we keep the top line of the Tactical propulsion business at around Eu30mn per year (Eu28mn in 2021).

UPDATE: ON 2nd August Avio announced the award of new orders from MBDA totalling more than Eu40mn. The first order is to increase the production of boosters for the Aster 30 missile system for a European and NATO member state. The second order was signed for the development, qualification and industrialisation of the initial booster propulsion system for the next-generation Teseo MK2/E anti-ship missile system for the Italian Navy. The development and qualification period for the propulsion system is consistent with the missile's development planning and the Italian Navy's requirements for the introduction of the Teseo Mk2/E into service.

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 and a peers comparison does not reflect the long term potential of the company, we continue 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. Following this, associate companies and minorities are added back into our valuation at book value.

Finally, we include 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 4.0% according to our elaboration of public data (Vega 18/20 successes, Vega C 1/1, Ariane 5 ECA 77/79).

Valuation summary

Method	Comment	Value (Eu ps)	weight
DCF	WACC 8.9%, TGR 2.0%	12.7	80%
Market Multiples	2023/24 EV/EBITDA & P/E	10.0	20%
Weighted average		12.2	
Execution risk	Vega + Vega C + Ariane 5	4.0%	
Target Price		11.7	
Current price		9.5	
Upside/Downside		28%	

Source: Intermonte SIM Estimates

Peers multiples

Peers multiples

Company name	Mkt cap (Eu mn)	EV/Sales			EV/EBITDA			EV/EBIT			PE		
		2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Avio SpA @ our est.	251	0.6 x	0.6 x	0.5 x	8.0 x	6.7 x	4.9 x	51.6 x	35.3 x	14.3 x	93.4 x	71.7 x	22.2 x
Airbus	73,573	1.1 x	0.9 x	0.8 x	8.1 x	6.5 x	5.2 x	11.7 x	9.0 x	6.8 x	18.7 x	14.3 x	11.6 x
Moog	2,427	1.0 x	1.0 x	0.9 x	8.5 x	7.4 x	6.3 x				13.5 x	12.5 x	11.6 x
OHB	540	0.6 x	0.5 x	0.5 x	6.9 x	5.8 x	5.8 x	10.5 x	8.0 x	7.6 x	15.0 x	12.0 x	9.6 x
Safran	42,652	2.3 x	1.9 x	1.7 x	12.0 x	9.6 x	8.1 x	18.0 x	13.6 x	10.8 x	26.8 x	19.8 x	16.1 x
Thales	24,436	1.4 x	1.2 x	1.1 x	9.1 x	7.7 x	6.9 x	12.8 x	10.5 x	9.3 x	15.8 x	14.4 x	13.1 x
Boeing	79,599	1.7 x	1.3 x	1.1 x	30.0 x	13.0 x	9.4 x	61.3 x	17.7 x	13.0 x		27.7 x	16.5 x
Aerojet Rocket.	3,440	1.4 x	1.3 x	1.3 x	11.8 x	10.0 x	9.5 x	15.0 x	12.6 x	12.3 x	24.8 x	20.9 x	18.0 x
Northrop G.	76,049	2.3 x	2.2 x	2.1 x	17.0 x	16.2 x	15.0 x	19.9 x	18.9 x	17.7 x	19.5 x	18.0 x	16.5 x
Median		1.7 x	1.3 x	1.3 x	10.4 x	8.7 x	8.1 x	15.0 x	12.6 x	10.8 x	18.7 x	16.2 x	14.6 x

Source: FactSet

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	AVIO		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	11.70	Previous Target (Eu):	12.70
Current Price (Eu):	9.49	Previous Price (Eu):	10.44
Date of report:	07/10/2022	Date of last report:	20/06/2022

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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)

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.

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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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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:	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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Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
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