

Company Note

Avio

2023: A Year of Transition

Short-term negative impact from gas prices but opportunities ahead for the defence business and the growing strategic role of the space industry for European countries. All medium-term development and production programmes were confirmed.

Recent events

Avio's 1H22 results were broadly in line with our estimates at the top line, adj. EBITDA and EBIT levels. The 1H top line rose by 4.9% yoy, driven by the development activity (+59.9% yoy), which more than offset the decline in the production activity (-15.4% yoy). The 1H22 consolidated reported EBITDA declined to EUR 3.2M vs. EUR 8.1M in 1H21, mainly due to the increase in gas prices since 4Q21. At 30 June, net cash decreased to EUR 40.9M as expected. The order backlog at 30 June decreased to EUR 848M vs. EUR 877M at end-2021 (EUR 819M at 31 March 2022); the 1H22 order inflow amounted to approx. EUR 105M. At the beginning of September, the group announced the acquisition of Temis, thus in-sourcing core competencies in the field of avionics and internalising some supplier costs linked to the Vega programme and to the development of new advanced avionics systems, also in connection with NRRP programmes.

Outlook and estimates

The group confirmed its previous 2022 guidance for order backlog (EUR 870-920M) and revenues (EUR 330-350M) with the likely acceleration in the development activity and the defence business broadly offsetting the impact of the AR6 maiden flight delay. Management revised down its 2022 guidance for reported EBITDA of EUR 17-25M vs. EUR 24-30M previously and net income in the EUR -2/+3M range vs. EUR 5-10M previously, mainly due to the increase in gas prices. The medium-term development programmes and production targets for the new P120/P160 engines were confirmed. Based on the announced results and outlook we revised downwards our 2022E-23E recurring EBITDA estimates by 21% and 21.3% respectively while leaving broadly unchanged our 2024E-26E forecasts assuming a profitability recovery driven by the ramp-up of the P120 production and a gradual normalization of energy costs.

Valuation

Based on our updated 2022E-26E forecasts and current market multiples, the average between our peers' comparison and DCF **returns a TP at EUR 11.5/sh** (vs. EUR 13.2/sh.). Given the positive mid-term space industry outlook, the rich order backlog and development projects' pipeline as well as the successful Vega C maiden flight and the growing strategic importance for Europe to develop its own space industry, we believe that the stock could represent a defensive play in the current geopolitical scenario. In our view, such positives could offset the more contingent cost inflation threat in the medium term. We believe that at current levels the stock looks undervalued. **Given the 25% price upside our rating changes to BUY (from ADD).**

Equity

MID CORPORATE

3 October 2022: 13:14 CET

Date and time of production

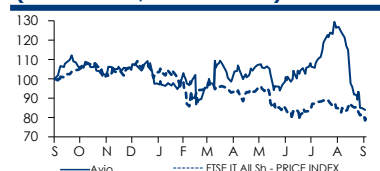
BUY
(from ADD)

Target Price: EUR 11.5
(from EUR 13.2)

Italy/Aerospace & Defence
Update

MTA-STAR

Price Performance
(RIC: AVI.MI, BB: AVIO IM)



Avio - Key Data

Price date (market close)	30/09/2022
Target price (EUR)	11.5
Target upside (%)	25.14
Market price (EUR)	9.19
Market cap (EUR M)	242.24
52Wk range (EUR)	14.1/9.1

Price performance %	1M	3M	12M
Absolute	-33.2	-16.5	-15.5
Rel. to FTSE IT All Sh	-29.9	-13.3	6.0

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	311.6	340.7	383.5
EBITDA	30.01	21.60	26.00
EBIT	8.86	1.52	1.82
Net income	8.48	0.78	1.03
EPS (EUR)	0.32	0.22	0.14
Net debt/-cash	-57.72	-36.48	-31.84
Adj P/E (x)	37.9	41.9	64.9
EV/EBITDA (x)	9.1	10.0	8.5
EV/EBIT (x)	30.8	NM	NM
Div ord yield (%)	1.5	0.2	0.2

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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Recent Events

1H22 results

Avio's 1H22 results were broadly in line with our estimates at the top line, adj. EBITDA and EBIT levels. The 1H22A top line rose by 4.9% yoy, driven by the development activity (+59.9% yoy) for the Space Rider System and the Vega C and Vega E (in particular its upper stage, with the new M10 motor with cryogenic oxygen and methane propellants) launchers, which more than offset the decline in the production activity (-15.4% yoy), mainly attributable to the group's focus on the Vega C maiden flight (successfully performed in July 2022), the phase-out of Ariane 5 and the postponement to 2023 of the maiden flight of Ariane 6. YTD, the group conducted two flights of the Ariane 5 launcher for satellites in geostationary orbit (on 22 June and 7 September) and successfully completed the Vega C maiden flight on 13 July. One additional Vega C launch and an additional Ariane 5 mission are planned by the end of 2022.

Avio - Revenue by Business Segment (1H20-1H22A)

EUR M	1H20A	2H20A	2020A	1H21A	2H21A	2021A	1H22A	yoy
Production	109	95	204	93	121	214	79	-15.4%
Development	58	60	118	34	62	96	55	59.9%
Total	167	155	322	128	184	312	134	4.9%

Source: Company data

The 1H22 consolidated EBITDA declined to EUR 3.2M vs. EUR 8.1M in 1H21, mainly due to the increase in gas prices since the last quarter of 2021. 1H22A non-recurrent costs amounted to approx. EUR 2.4M and were mainly related to the Vega C maiden flight. No significant issues emerged below the EBIT line except for a negative one-off tax charge on consolidated companies approx. EUR 1.5M.

Avio - 2Q/1H22A results

EUR M	2Q21A	1H21A	FY21A	2Q22A	2Q22E	2Q21C	A/E %	A/C %	yoy %	1H22A	1H22E	yoy %
Revenue (net of pass-through)	75.4	127.7	311.6	68.1	69.9	NA	-2.6	NA	-9.7	134.0	135.8	4.9
EBITDA	5.1	8.1	30.0	3.0	2.8	NA	4.8	NA	-41.6	3.2	3.0	-60.9
%	6.7	6.3	9.6	4.3	4.0	-	-	-	-	2.4	2.2	-
Adj. EBITDA	6.0	10.5	37.7	4.4	4.3	NA	0.8	NA	-27.4	5.6	5.5	-47.1
%	8.0	8.2	12.1	6.4	6.2	-	-	-	-	4.1	4.1	-
EBIT	-0.2	-2.4	8.9	-1.1	-1.4	NA	NM	NA	NM	-6.2	-6.5	NM
%	-0.3	-1.9	2.8	-1.6	-2.0	-	-	-	-	-4.6	-4.8	-
Adj. EBIT	0.8	0.0	16.6	0.3	0.1	NA	NM	NA	NM	-3.8	-4.0	NM
%	1.1	0.0	5.3	0.4	0.1	-	-	-	-	-2.8	-3.0	-
Net Income	NA	-2.4	8.5	NA	NA	NA	NA	NA	NA	-7.6	-7.5	NM

NA: not available; NM: not meaningful; A: actual; E: estimates; C: Bloomberg consensus; Source: Company data and Intesa Sanpaolo Research

At 30 June, the group's net cash decreased to EUR 40.9M vs. EUR 57.7M at 31 December 2021 (and EUR 36.6M at 30 June 2021), as the gross cash flow of the six months (EUR 1.8M according to our calculation) and the positive contribution from the NWC decline (EUR 4.5M in 1H22) also related to the advance payments received on new orders, were more than outbalanced by capital expenditure (EUR 10.4M in 1H22), the dividend distribution (EUR 4.8M) and the purchase of treasury shares for EUR 4.6M.

The order backlog at 30 June decreased to EUR 848M vs. EUR 877M at end-2021 (EUR 819M at 31 March 2022); the 1H22 order inflow amounted to approx. EUR 105M, mainly attributable to the P120 engine, the Vega development and the tactical propulsion. Management also highlighted that the Vega C commercial activity significantly increased following the successful maiden flight of last July with 8-10 flights

well advanced in the commercial pipeline in addition to the 8 flights already signed by Arianespace. The current order backlog is equally distributed between the production and the development activities.

Temis Acquisition

At the beginning of September, the group announced the acquisition of 100% of Temis Srl, a company with significant avionics expertise and a key supplier to the Vega programme and of 5% of ART, the former parent company of Temis, in view of the interconnections between the operations and technologies of the two companies. The total price paid amounted to EUR 4.7M, out of which EUR 3M for Temis (EUR 1.75M in cash and EUR 1.75M in Avio treasury shares) and EUR 1.7M for ART. According to management, with this transaction Avio acquired crucial core competencies in the field of avionics, also internalising a significant part of supplier costs linked with the Vega programme; moreover, Temis' expertise is expected to be relevant for the development of new advanced avionics systems, also in connection with the NRRP programmes.

Earnings Outlook

The group confirmed the previously-released 2022 guidance for the order backlog (EUR 870-920M) and revenues (EUR 330-350M), while it revised downwards the 2022 guidance for reported EBITDA between EUR 17-25M vs. EUR 24-30M previously and net income in the EUR -2/+3M range vs. EUR 5-10M previously, due to persisting high gas prices. Based on the current GME year-end gas price projections, the management expects additional energy costs to impact 2H22 EBITDA for an amount in the EUR 4-5M range, which was factored into the new guidance. The company also said that thanks to the partnership signed with Cogenio/EnelX (December 2021) for the Termica Colleferro thermoelectric generation plant management, it secured the regular supply of power energy for its manufacturing activity and expects energy costs for the group to remain broadly stable in 2023 vs. 2022.

For revenue, the company specified that in 2023 the run rate of the P120 engine should remain stable vs. 2022 (approx. 12-15 units according to our forecast) waiting for more visibility on the timing of the Ariane 6 maiden flight, which was postponed to 2023 (from end-2022 previously) for reasons not dependent on Avio; an acceleration towards the path to reach a target of 30-35/year at regime by 2025-2026, was therefore delayed to 2024. In the meantime, management expects to compensate the lower than previously planned production revenue with an increased level of development activity, which should be granted by the announced award of PNRR funds (approx. EUR 400M from ESA and ASI) to be transformed into new contracts in the coming months) and by the next ministerial conference scheduled in November 2022. Main development activity should see the ramp-up of new projects for Vega E, Space Rider, Vega C+ and liquid propulsion. Moreover, an acceleration is expected in the defence business as further orders of boosters for Aster 30 are expected to flow in the coming months/years and considering the contract for the development of the propulsion of a new tactical missile, the Teseo Mk/2E for the Italian Navy.

For the medium term, management highlighted some important top-line drivers for the group: 1) ESA secured Avio a minimum EU institutional demand by 2025 onwards, on a 3-year rolling period, of 4 launches per year for Ariane 6 and 2 launches per year for Vega C. ESA expectations are for a European institutional launch demand of 5.5 equivalent-Ariane 62 launches and 3.8 equivalent-Vega C launches over the 2025-27 period, and of 4.3 equivalent-Ariane 62 launches and 4 equivalent-Vega C launches over the 2028-30 period. Therefore, it is not excluded that additional institutional demand could be added on top of the minimum already granted; 2) the world total mass at launch per year is expected to double by 2030: this does not translate directly into a proportional increase in the number of flights, but it should help offset the downwards price pressure related to the increasing competition; 3) the NRRP and complementary funds for 2022-26 amount to a total of EUR 2.3Bn, out of which approximately EUR 1.0Bn is for Earth Observation projects, which includes the Italian satellite constellation whose missions will be carried out with Vega launchers, and approximately EUR 300M are for the "Space Factory", which includes the construction of a high-thrust methane engine, a technology already being developed by Avio.

We believe that the first half of 2022 confirmed that the group is on track to reach its medium-long term business development strategy. However, in the short term (2022-2023), higher gas prices are impacting by more than previously estimated on the group's operating profitability.

2022 guidance for the order backlog and revenues confirmed while reported EBITDA guidance revised downwards

Medium term top-line drivers

We therefore revised our 2022E-26E forecasts as shown in the table below:

Avio - 2022E-26E estimates revision

	2022E			2023E			2024E			2025E			2026E		
	New	Old	chg %	New	Old	chg %	New	Old	chg %	New	Old	chg %	New	Old	chg %
Sales	340.7	339.8	0.3	383.5	383.5	0.0	435.3	435.3	0.0	481.4	481.4	0.0	513.5	513.5	0.0
EBITDA	21.6	28.7	-24.7	26.0	33.8	-23.2	38.3	38.8	-1.2	45.7	45.5	0.5	51.3	50.9	0.9
% margin	6.3	8.4		6.8	8.8		8.8	8.9		9.5	9.4		10.0	9.9	
Adj. EBITDA	26.6	33.7	-21.0	29.0	36.8	-21.3	40.8	41.3	-1.2	48.2	48.0	0.5	53.8	53.4	0.8
% margin	7.8	9.9		7.6	9.6		9.4	9.5		10.0	10.0		10.5	10.4	
EBIT	1.5	7.9	-80.8	1.8	9.0	-79.9	13.5	13.4	0.6	20.0	19.7	1.7	25.5	25.0	2.0
% margin	0.4	2.3		0.5	2.4		3.1	3.1		4.2	4.1		5.0	4.9	
PBT	1.3	7.7	-83.3	1.7	8.9	-80.9	13.4	13.3	0.6	19.9	19.6	1.7	25.4	24.9	2.0
Net Income	0.8	7.2	-89.1	1.0	7.5	-86.3	11.5	11.4	0.6	17.4	17.1	1.7	22.4	21.9	2.1

Source: Intesa Sanpaolo Research estimates

Valuation

In our valuation, we use both a peers' comparison to obtain a more market related and short-term view of the company's valuation and a DCF model that, given the long-term projects pertaining to the space industry and the company's growing disclosure on its medium-term plans and targets, should allow us to factor into our valuation the expected outcome of the strategic actions that management is planning to implement in the 2022-26 period. We therefore set our target price based on both a market multiples analysis and a DCF model.

Peers' comparison

The valuation of space companies is not an easy task, as most of them are not listed or are loss-making/start-up companies. Looking at our selected sample, we note that space operations usually only represent a portion of the activities operated by the main aerospace and defence players, or alternatively are run in joint venture between different players. Aerojet Rocketdyne, a space propulsion specialist, is probably more similar than others to Avio, even if it is much bigger. For this reason, we would look cautiously at the information provided by the peers' comparison, which is nonetheless useful to have a more market related view. In the table below, we show Avio's peers' market multiples.

2022E-24E peers' multiples

	Price	Curr.	Mkt. Cap.	EV/EBITDA			EV/EBIT			P/E		
x			(M)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Northrop	470.5	USD	72,789	16.7	16.9	16.0	22.5	22.2	20.7	19.0	17.3	15.9
Aerojet Rocketd.	39.7	USD	3,195	11.2	10.8	9.9	13.6	11.9	11.6	24.1	19.3	17.2
Boeing	125.3	USD	74,422	29.1	13.9	11.2	54.7	17.8	14.4		24.5	16.1
Lockheed	389.8	USD	103,354	11.5	11.3	11.1	13.4	13.3	13.1	18.0	13.8	13.5
Moog	71.3	USD	2,279	8.1	7.8	7.0	10.7	10.1	8.8	12.7	11.8	11.0
Airbus	88.1	Euro	69,821	7.5	7.0	6.0	10.9	9.6	7.7	17.7	13.6	10.8
Safran	93.0	Euro	40,037	11.0	9.6	8.3	16.5	13.4	11.0	25.4	19.0	15.2
Thales	113.6	Euro	24,083	9.2	8.7	8.1	12.6	11.6	10.5	15.7	14.4	13.2
Leonardo	7.4	Euro	4,275	4.3	4.8	4.6	6.2	6.8	6.3	6.0	5.1	4.8
Avio*	9.2	Euro	242	8.0	7.5	5.0	32.7	45.3	12.9	41.9	64.9	17.6
Median ex-Avio				11.0	9.6	8.3	13.4	11.9	11.0	17.8	14.4	13.5
Avio disc %				-27	-22	-39	145	280	17	135	350	30

Priced at market close 30 September 2022; Source: FactSet and *Intesa Sanpaolo Research estimates, multiples calculated on adj. EBITDA and adj. EBIT

As reported in the previous paragraphs, we expect that higher gas costs to significantly impact the group's profitability in 2022E and 2023E. In our forecasts, such an impact should normalise in 2024E. Considering that nor the gas price, neither possible government intervention to reduce the energy bill are in management's control and that each country has a different approach to the matter, in our peers' analysis we assigned a lower weighting to 2023E (25%) rather than to 2024E (75%) multiples. Based on this approach, applying the sample median 2023E-24E EV/EBITDA, EV/EBIT and P/E peers' multiples to our estimates for Avio, we would obtain a fair value of EUR 9.1/share (EUR 10.6/share previously), as the weighted average of the obtained values. The valuation change compared to our previous report mainly reflects the downwards revision of our 2022E-23E Avio forecasts.

While acknowledging the relevance of the peers' multiple analysis we would also note that, in the current economic and political context, its outcome is subject to a significant volatility not necessarily dependent on company-specific issues.

DCF model

We base our DCF model on our updated detailed 2022E-26E forecasts, while leaving unchanged the perpetuity growth factor at 1.5% from 2027E onwards, which in our opinion reflects the growing interest of the European countries and institutions towards the development of the space industry, which could smoothen the possible cyclicity of the production process. In addition, compared with our previous valuation, we changed our risk-free rate to 3.0% (from 1.75% previously) and our market risk premium to 6.5% (6.25% prev.). Based on the above-specified assumptions our DCF model returns a fair value for Avio at EUR 13.8/share (EUR 15.9/share previously), mainly reflecting our 2022E-26E estimates' changes, and the higher WACC (7.75% vs. 6.48% previously).

Avio - DCF valuation

EUR M	
PV of FOpCF 22E-26E	32.4
Perpetual growth rate %	2.0
Terminal Value	376.1
PV of terminal value	274.0
EV	306
Net debt(+)/cash(-)	-57.7
Equity value	364.1
Number of shares (M)	26.4
Fair value/Share (EUR)	13.8

Source: Intesa Sanpaolo Research estimates

Conclusions

Based on our updated 2022E-26E forecasts and current market multiples, the avg. between our peers' comparison and DCF valuations **returns a TP at EUR 11.5/sh (EUR 13.2/sh. previously)**. Considering the positive mid-term space industry outlook, the rich order backlog and development projects' pipeline as well as the successful Vega C maiden flight and the growing strategic importance for Europe to develop its own space industry, we believe that the stock could represent a defensive play in the current geopolitical scenario. In our view, such positives could offset the more contingent cost inflation threat in the medium term. The crucial steps ahead are, in our opinion, the Ariane 6 maiden flights, now planned in 2023. Our current forecasts assume its successful execution and if this is the case, we believe that at current levels the stock looks undervalued. **Therefore, considering the 25% price upside, we change our rating to BUY (from ADD).**

TP at EUR 11.5/sh; BUY (from Add)

Avio – Key Data

Rating BUY	Target price (EUR/sh) Ord 11.5		Mkt price (EUR/sh) Ord 9.19		Sector Aerospace & Defence	
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E	2024E
No. ordinary shares (M)	26.36	26.36	26.36	26.36	26.36	26.36
Total no. of shares (M)	26.36	26.36	26.36	26.36	26.36	26.36
Market cap (EUR M)	330.02	358.99	321.53	242.24	242.24	242.24
Adj. EPS	0.99	0.54	0.32	0.22	0.14	0.52
CFPS	1.6	1.3	1.1	0.81	1.0	1.4
BVPS	11.2	11.5	11.5	11.4	11.4	11.8
Dividend ord	0	0.29	0.18	0.01	0.02	0.22
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Revenues	368.7	322.0	311.6	340.7	383.5	435.3
EBITDA	42.59	34.98	30.01	21.60	26.00	38.31
EBIT	26.52	15.88	8.86	1.52	1.82	13.47
Pre-tax income	26.97	15.41	8.62	1.28	1.70	13.35
Net income	26.19	14.12	8.48	0.78	1.03	11.52
Adj. net income	26.19	14.12	8.48	5.78	3.73	13.77
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net income before minorities	27.0	14.9	9.1	1.3	1.5	12.0
Depreciation and provisions	16.1	19.1	21.2	20.1	25.8	24.8
Others/Uses of funds	-2.5	-12.3	-11.5	-3.5	0	0
Change in working capital	9.6	17.7	20.0	1.5	4.0	7.0
Operating cash flow	50.1	39.3	38.8	19.4	31.4	43.8
Capital expenditure	-29.8	-34.6	-33.7	-34.0	-34.0	-30.0
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0	0
Free cash flow	20.4	4.7	5.1	-14.6	-2.6	13.8
Dividends	-11.6	0	-7.3	-4.7	-0.4	-0.5
Equity changes & Non-op items	0	0	0	0	0	0
Net cash flow	8.8	4.7	-2.2	-19.2	-3.0	13.3
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net capital employed	245.9	249.4	448.4	457.8	460.5	455.6
of which associates	0	0	0	0	0	0
Net debt/-cash	-57.9	-62.6	-57.7	-36.5	-31.8	-45.2
Minorities	7.8	8.5	9.2	9.7	10.2	10.7
Net equity	296.1	303.5	304.4	300.5	301.2	312.2
Minorities value	7.8	8.5	9.2	9.7	10.2	10.7
Enterprise value	279.9	304.9	273.0	215.4	220.6	207.7
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E	2024E
Adj. P/E	12.6	25.4	37.9	41.9	64.9	17.6
P/CFPS	7.7	10.6	10.6	11.3	8.8	6.6
P/BVPS	1.1	1.2	1.1	0.81	0.80	0.78
Payout (%)	0	53	55	50	50	50
Dividend yield (% ord)	0	2.1	1.5	0.2	0.2	2.4
FCF yield (%)	6.2	1.3	1.6	-6.0	-1.1	5.7
EV/sales	0.76	0.95	0.88	0.63	0.58	0.48
EV/EBITDA	6.6	8.7	9.1	10.0	8.5	5.4
EV/EBIT	10.6	19.2	30.8	NM	NM	15.4
EV/CE	1.1	1.2	0.61	0.47	0.48	0.46
D/EBITDA	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
D/EBIT	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA margin	11.6	10.9	9.6	6.3	6.8	8.8
EBIT margin	7.2	4.9	2.8	0.4	0.5	3.1
Tax rate	NM	3.5	NM	NM	10.0	10.0
Net income margin	7.1	4.4	2.7	0.2	0.3	2.6
ROCE	10.8	6.4	2.0	0.3	0.4	3.0
ROE	9.0	4.7	2.8	0.3	0.3	3.8
Interest cover	-58.7	33.6	37.4	6.4	15.8	117.1
Debt/equity ratio	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Growth (%)		2020A	2021A	2022E	2023E	2024E
Sales		-12.6	-3.2	9.3	12.6	13.5
EBITDA		-17.9	-14.2	-28.0	20.4	47.3
EBIT		-40.1	-44.2	-82.9	19.8	NM
Pre-tax income		-42.9	-44.1	-85.2	33.0	NM
Net income		-46.1	-40.0	-90.8	32.4	NM
Adj. net income		-46.1	-40.0	-31.8	-35.4	NM

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Company Snapshot

Company Description

Avio is a leading international group engaged in the construction and development of space launchers and solid and liquid propulsion systems for space travel. The experience and know-how built up over more than 50 years puts Avio at the cutting-edge of the space launcher sector, solid, liquid and cryogenic propulsion and tactical propulsion. Avio operates in Italy, France and France Guyana with 5 facilities, employing approx. 850 highly-qualified personnel, of which approx. 30% involved in research and development. Avio is a prime contractor for the Vega programme and a sub-contractor for the Ariane programme, both financed by the European Space Agency ("ESA"), placing Italy among the limited number of countries capable of producing a complete spacecraft.

Key data

Mkt price (EUR)	9.19	Free float (%)	58.5
No. of shares	26.36	Major shr	Leonardo
52Wk range (EUR)	14.1/9.1	(%)	25.9
Reuters	AVI.MI	Bloomberg	AVIO IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-33.2	-1M	-29.9
-3M	-16.5	-3M	-13.3
-12M	-15.5	-12M	6.0

Key Risks

Company specific risks:

- Rising pricing pressure competition from main competitors, both in the Ariane and Vega programmes in the long run;
- Persisting high gas prices

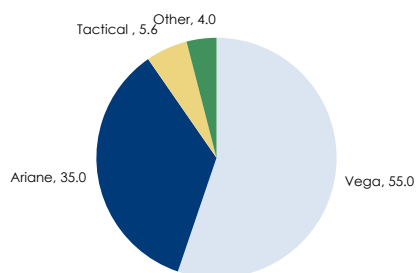
Sector generic risks:

- Potential disruption to revenue prospects related to launch failures;

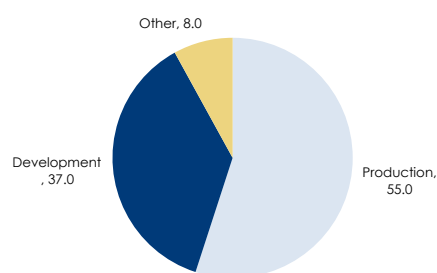
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2022C	2023E	2023C	2024E	2024C
Sales	311.6	340.7	343.4	383.5	393.3	435.3	403.2
EBITDA	30.01	21.60	20.00	26.00	35.09	38.31	43.15
EBIT	8.86	1.52	7.00	1.82	12.42	13.47	26.00
Pre-tax income	8.62	1.28	1.50	1.70	11.90	13.35	24.00
Net income	8.48	0.78	0.00	1.03	11.45	11.52	21.90
EPS (€)	0.32	0.22	0.25	0.14	0.46	0.52	0.94

Sales breakdown by product (%)



Sales breakdown by activity (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 30/09/2022)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
12-Sep-22	Under Review	Under Review	10.6
13-Apr-22	ADD	13.2	11.8
08-Oct-21	ADD	13.7	11.6

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at July 2022)**

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	58	25	17	0	0
of which Intesa Sanpaolo's Clients (%)**	84	44	57	0	0

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

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- Intesa Sanpaolo acts as Specialist relative to securities issued by Avio

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