

Aerospace & Defence Update

EU new defence strategy aims to support EU industrial base

Industry Overview

Expect a floor in defence procurement among EU members

The European Union (EU) is expected to present a new strategy in the coming weeks with the aim of changing the way the EU sources defence procurement by 2035. The goal is to make as much as 50% of the defence systems & procurement purchases from within the EU. The strategy will aim to ensure that critical supplies can be immediately ramped up and it will also set a minimum floor to procure defence equipment amongst members. If enacted, this could provide more visibility for the defence industry in Europe, and support development of the EU defence industrial base and demand which we see overall as positive for the EU defence companies.

More reliable supply and higher financing among members

The new defence strategy will aim to reverse trends in buying military systems from non-EU suppliers. The aim would be for between one third and one half of the EU defence market being represented by intra EU trade by 2035. Mechanisms to ensure that critical supplies can be immediately ramped up in the event of a shortage are also part of the new proposal. The strategy will also aim to boost industry access to finance and EU funding programs, which we see as a positive for the EU industrial base.

Creation of the Defence Industrial Readiness Board

The EU will propose the creation of a new body to coordinate investments called the Defence Industrial Readiness Board to improve cooperation between member states and the commission. The EU will also propose identifying flagship projects such as cyber shield or an integrated European air missile defence system. The development of sensors that allow the bloc to detect, analyse and respond to threats in space and the protection critical infrastructure are also part of the agenda when it comes to potential flagship projects and could be large opportunities for the EU defence industry.

Procurement in Europe has historically been challenging

There have been many examples of cross European procurement in the defence industry such as the A400M which have been challenged programmes for the OEMs. There have also been examples where it works well such as the Euro drone. Overall, we think it would be positive to see a focus on developing the European industrial base, but we anticipate the companies in Europe will be focused on cost plus contracting & inflation/escalation to protect themselves from fixed price contract risk mid-term.

04 March 2024

Equity
Europe
Aerospace & Defence

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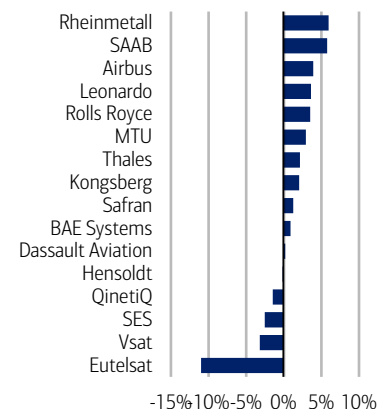
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Exhibit 1: Sector weekly performance rel FTEU 300

Weekly stock performance



Source: Eikon (prices as of 29th Feb, 2024)

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Timestamp: 04 March 2024 12:30AM EST

Weekly news round up

Exhibit 2: Global Aerospace and Defence Weekly Newsflow

Major news from the last week in the Global Aerospace & Defence Industry

Weekly newsflow**Source**

Aircraft lessor AerCap sees engine issues persisting through the decade: The world's largest aircraft lessor AerCap does not see the supply of engine parts catching up with demand by 2030, its chief executive said on Friday, a situation that will prolong aircraft manufacturers' struggles amid labour and parts shortages. AerCap Chief Executive Aengus Kelly said that while issues around the manufacturing of airframes will be more easily resolved, the finite supply of parts to build and repair engines will make it much harder to turn around. "The manufacturers of those parts way back up the supply chain that do the castings are not going to increase that significantly anytime this decade as far as I understand. So I think we will see the engine issues persist through the decade," Kelly told an analysts' call.

[Reuters](#)

Hensoldt expects 2024 boost from European rearmament: German defence electronics maker Hensoldt forecast higher 2024 sales and orders on Friday, as the wars in Ukraine and the Middle East boost military spending. Its shares were down 6% by 1440 GMT however, with analysts pointing to a miss in annual orders and profit-taking after shares soared around 30% this year. The company reported a 5% rise in orders last year to 2.09 billion euros, while analysts had expected 2.2 billion, according to a company-provided consensus. The partly state-owned company sees revenue of around 2 billion euros this year, above the 1.85 billion reported for 2023, and "significantly faster" growth in orders, without specifying the number.

[Reuters](#)

Spirit says it is unable to estimate impact of 737 MAX 9 incident: Fuselage maker Spirit AeroSystems said it was unable to reasonably estimate the financial impact of an incident last month that led to a temporary grounding of Boeing 737 MAX 9 planes and a production cap on the planemaker. Spirit, in a regulatory filing, flagged the impact as part of its risk factors and provided a general warning that production levels for the 737 MAX or other aircraft programs could be reduced beyond current expectations. Spirit said in the filing that 45% of its revenue had come from the 737 program in 2023 and added changes in production schedules could impact its ability to comply with contractual obligations as well as its liquidity position and financial condition. The company said this month it would invest in autonomous technology to limit any defects in its production of 737 fuselages.

[Reuters](#)

Ryanair may have to cut summer flights due to further Boeing delays: Ryanair will receive even fewer Boeing aircraft by the end of June than previously expected, CEO Michael O'Leary said on Friday, potentially causing the budget carrier to cut its summer schedule at the busiest time of the year. The Dublin-based airline is the first in Europe to warn of disruption due a deepening crisis at Boeing, which has been mired in a regulatory audit and has been prohibited from ramping up 737 MAX production since the Jan. 5 mid-air panel blowout of a new Alaska Airlines MAX 9. Ryanair was due to receive 57 Boeing MAX 8200 planes by end-April, but just over a week ago Boeing told the airline it would receive around 50 aircraft by end-June, O'Leary said. That could now change. "We don't really know how many aircraft we're going to get from Boeing," O'Leary told a media briefing. "We're pretty sure we're going to get 30 to 40. We're reasonably confident we're between 40 and 45. And now we are far less confident we're going to get between 45 and 50." In a statement to Reuters, Boeing confirmed it had told some airlines that deliveries could be delayed. It said its delivery schedules were "dynamic" as it would take the time needed to ensure its planes are of "high quality" and meet all regulatory standards. "We deeply regret the impact this is having on our valued customer Ryanair," Boeing said. "We're working to address their concerns and taking action on a comprehensive plan to strengthen 737 quality and delivery performance."

[Reuters](#)

China's COMAC to showcase C919, ARJ21 jets in 5 Southeast Asian countries: Chinese state-owned planemaker COMAC will conduct flying displays of its C919 and ARJ21 jets in five Southeast Asian countries, it said on Tuesday, as it looks to lay the groundwork for future international sales. Over the next two weeks, the C919 and ARJ21 jets will conduct showcase flights in Vietnam, Laos, Cambodia, Malaysia and Indonesia, the Shanghai-headquartered aircraft manufacturer said in a statement. "The primary purpose of these flights is to ... showcase the aircrafts' good performance and lay the groundwork for future market expansion in Southeast Asia," the company added.

[Reuters](#)

Airbus to win larger portion of American Airlines narrowbody order, sources say: American Airlines is nearing a deal for about 100 narrowbody jets split between Airbus and Boeing with the European planemaker likely to win a slightly higher number of orders, two people familiar with the talks told Reuters on Tuesday. A deal for Airbus A321 and Boeing 737 MAX 8 jets could be announced as early as next week in conjunction with a March 4 investor meeting, the sources said. American had sought to place a new order for planes for deliveries in 2027 and beyond. CFO Devon May told Reuters last month the carrier was talking to Boeing, Airbus and Embraer for the new order, but was mindful of Boeing's ongoing issues. "We absolutely take current events into consideration as we're going through our analysis of this order," May said in the interview last month. The final mix of aircraft is still in flux, with the U.S. carrier also considering whether to include Boeing's forthcoming 737 MAX 10 as part of the deal following certification delays. American declined to provide specifics on the deal, referring to May's previous comments on the negotiations. Airbus declined to comment. Boeing deferred comment to American Airlines.

[Reuters](#)

Allegiant expects fewer aircraft from Boeing as US planemaker faces quality issues: Low-cost U.S. carrier Allegiant expects fewer aircraft deliveries from Boeing this year, its president told Reuters, as the planemaker grapples with the fallout of a frightening incident last month when a cabin panel tore off of a 737 MAX 9 jet mid-flight. The Las Vegas-based airline was scheduled to receive 24 MAX planes in 2024, but Allegiant President Greg Anderson said it is working on the assumption that it will receive closer to 12 aircraft this year. "We are in regular dialogue with Boeing on this," he said in an interview on Tuesday. "We can manage through it as long as we have an orderly delivery cadence from Boeing." Allegiant plans to boost capacity by 2% to 6% in 2024 from a year ago, and the reactivation of older jets means the delays "shouldn't impact our capacity plans," he said. Boeing's problems, however, have left its customers in a spot.

[Reuters](#)

Italy's Leonardo beats full-year orders, cash flow and debt targets: Italy's Leonardo achieved positive and "promising" results last year, its chief executive said on Thursday, after the defence and aerospace conglomerate beat its 2023 targets for orders, cash flow and debt. The group also met its revenue and core profitability goals. "In general results are good mostly due to actions taken in recent years, (they are) promising in view of the industrial plan, but there is a lot of space for improvement," CEO Roberto Cingolani said in a post-results call. Orders were up 3.8% year-on-year in 2023 to 17.9 billion euros (\$19.34 billion), lifted by European electronics and a significant helicopter sale in Poland. The group had guided for about 17 billion euros. Leonardo's net debt was down more than 23% compared to the same period in 2022 to 2.3 billion euros, a reduction helped by the sale in November of a minority stake of about 8% in its DRS unit. EBITA was up 5.8% year-on-year to 1.29 billion euros - in the centre of its guidance range. Shares in Leonardo have risen more than 33% since the beginning of the year, at a time when military budgets are increasing, boosted by the war in Ukraine.

[Reuters](#)

Italy's Leonardo, Germany's Hensoldt in joint venture talks: Leonardo and Germany's Hensoldt are discussing a possible joint-venture, the chief executive of the Italian defence group said on Thursday. "We are now restarting the analysis of a joint-venture. We are discussing with (Hensoldt's) new management what we can do together, the table is open," Roberto Cingolani told a post-results call. He added that he had met the head of Hensoldt a few weeks ago and that he hoped to have some "news in the coming months". Leonardo, a shareholder in the German military sensor maker, did not take part in its capital increase in December, diluting its previous 25% stake. The decision fuelled speculation of a lack of interest in collaboration between the two groups. Cingolani said Leonardo had never opposed the recapitalisation and the German government, which holds a 25% stake in Hensoldt, had appreciated the Italian group's transparent position.

[Reuters](#)

Exhibit 2: Global Aerospace and Defence Weekly Newsflow

Major news from the last week in the Global Aerospace & Defence Industry

Weekly newsflow**Source**

Boeing needs to make changes, Emirates president says: American planemaker Boeing to make changes, Emirates President Tim Clark said on Thursday, as it faces regulatory scrutiny following the blowout of a panel on one of the airline's MAX 9 jets during a flight on Jan. 5. "They really need to do this. Whether this means a change in the governance model, I don't know. When you change the governance model, it invariably involves changing the people around the old governance model," Clark told journalists in London. He repeated comments that Boeing is in a "last-chance saloon" and that there would be no tolerance for further issues from the planemaker.

[Reuters](#)

Emirates President: won't buy Rolls-Royce engines until we know they work: Emirates Airlines will not buy Rolls-Royce's Trent XWB-97 jet engines until it is convinced that they are durable, Emirates President Tim Clark said. After previous concerns from Clark, Rolls-Royce had said last year that it was taking steps to improve the durability of the engines.

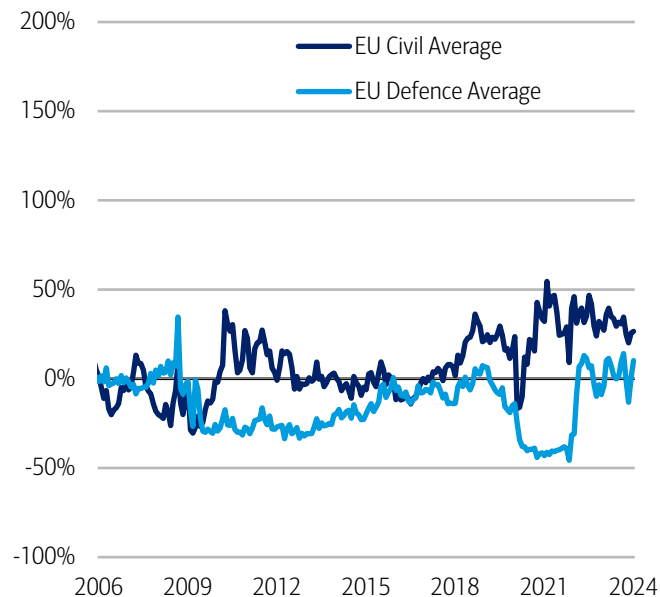
[Reuters](#)

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Global A&D Valuations

Exhibit 3: EU Civil & Defence 12mnth fwd. PE rel SXNP (industrials).

EU Civil is currently trading at 26.6% premium to SXNP, and defence is trading at 10.1% premium to index (29/02/2024)

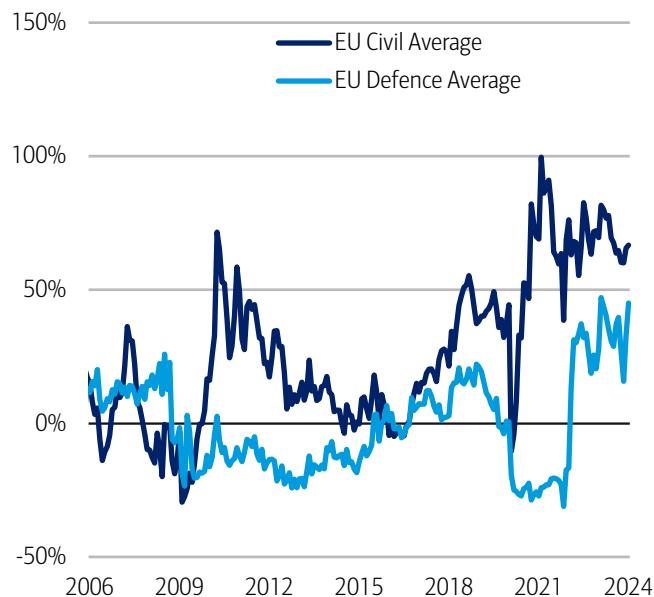


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

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Exhibit 4: EU Civil & Defence 12mnth fwd. PE rel SXXP (market).

EU Civil is currently trading at a 66.7% premium to SXXP, and defence is trading at 45% premium to SXXP (29/02/2024)

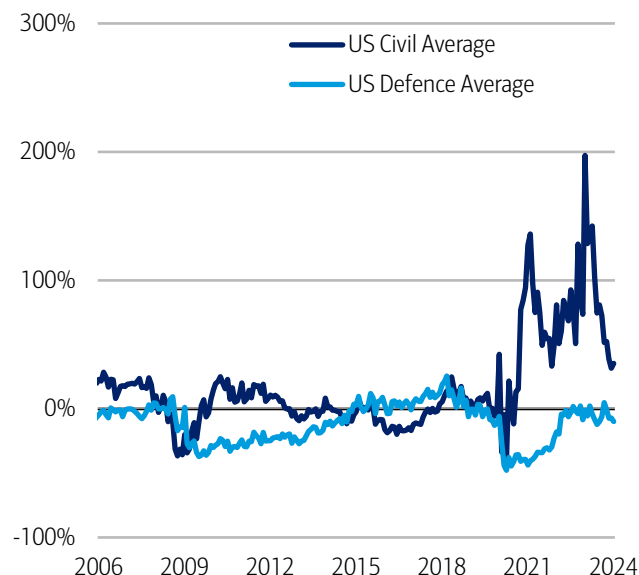


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

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Exhibit 5: US Civil & Defence 12mnth fwd. PE rel S&P500 Industrials.

US Civil is currently trading at a 35.4% premium to index, and defence is trading at a 9.8% discount (29/02/2024)



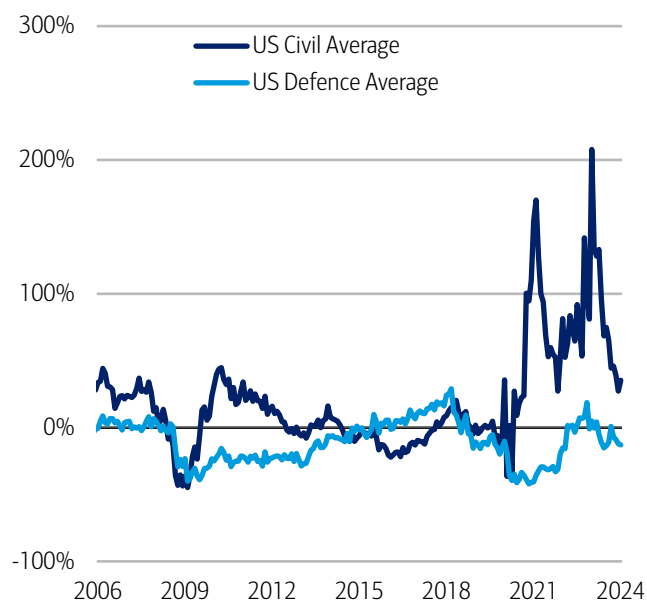
Source: BofA Global Research estimates

US Civil: Boeing, CAE, Crane Co, Hexcel, Triumph Textron. US Defence: General Dynamics, L3, Lockheed Martin, Moog, Northrop Grumman

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Exhibit 6: US Civil & Defence 12mnth fwd. PE rel S&P500.

US Civil is currently trading at a 35.4% premium to index, and defence is trading at a 12.9% discount (29/02/2024)



Source: BofA Global Research estimates

US Civil: Boeing, CAE, Crane Co, Hexcel, Triumph Textron. US Defence: General Dynamics, L3, Lockheed Martin, Moog, Northrop Grumman

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Where numbers are moving

Sector FY24 EPS over the last month saw 0.7% increase with Civil OE names seeing 2.3% decrease, civil aftermarket names seeing 1.3% increase and defence names seeing 1.3% increase. The major estimate increase was Rolls-Royce (+11.9%) and decrease was Hensoldt (-4.1%) during last month.

We will continue to monitor the consensus EPS data on a weekly basis.

Exhibit 7: EPS Revision to- 29th Feb, 2024

EPS revisions have been overall positive as the re-opening consolidates and the first positives of increasing defence budgets are felt

	1M	3M	6M	1Y
Airbus	-2.3%	-2.6%	-3.2%	-9.3%
BAE Systems	0.3%	0.0%	2.0%	8.0%
Dassault	-1.7%	-2.1%	-1.1%	20.2%
Hensoldt	-4.1%	-10.0%	-12.0%	-13.4%
Kongsberg	3.2%	2.9%	7.9%	20.0%
Leonardo	0.3%	-1.1%	-1.1%	-3.1%
MTU	-1.0%	-0.5%	0.6%	3.8%
QinetiQ	0.2%	-0.4%	0.1%	1.3%
Rheinmetall	4.1%	5.3%	9.1%	12.4%
Rolls-Royce	11.9%	22.8%	43.9%	137.8%
SAAB	7.0%	9.4%	15.8%	33.8%
Safran	3.6%	2.7%	5.0%	10.4%
Thales	-0.8%	-2.8%	-5.0%	-2.0%
EU Civil OE	-2.3%	-2.6%	-3.2%	-9.3%
EU Civil Aftermarket	1.3%	1.1%	2.8%	7.1%
EU Defence Average	1.3%	0.4%	2.1%	7.1%
EU Sector Average	0.7%	0.1%	1.5%	6.8%

Source: DataStream

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Exhibit 8: 12mth FWD PE to- 29th Feb, 2024

Civil Aerospace has re-rated as the re-opening has consolidated

	1M	3M	6M	1Y
Airbus	0.4%	8.8%	6.7%	9.1%
BAE Systems	5.0%	14.3%	16.3%	24.1%
Dassault	4.9%	-3.1%	1.1%	-18.8%
Hensoldt	24.2%	33.3%	14.3%	15.8%
Kongsberg	23.9%	34.4%	32.3%	19.6%
Leonardo	15.0%	35.0%	42.9%	78.9%
MTU	4.8%	14.3%	-2.1%	-17.1%
QinetiQ	9.4%	3.0%	13.2%	-4.2%
Rheinmetall	23.8%	34.3%	30.6%	21.2%
Rolls-Royce	6.1%	16.3%	9.2%	-13.2%
SAAB	10.0%	27.9%	16.9%	5.6%
Safran	9.5%	13.9%	13.0%	8.4%
Thales	-0.1%	0.7%	5.1%	0.6%
EU Civil OE	0.4%	8.8%	6.7%	9.1%
EU Civil Aftermarket	6.8%	14.8%	6.7%	-7.3%
EU Defence Average	13.6%	23.6%	22.2%	27.8%
Sector Average	10.9%	18.1%	15.9%	11.9%

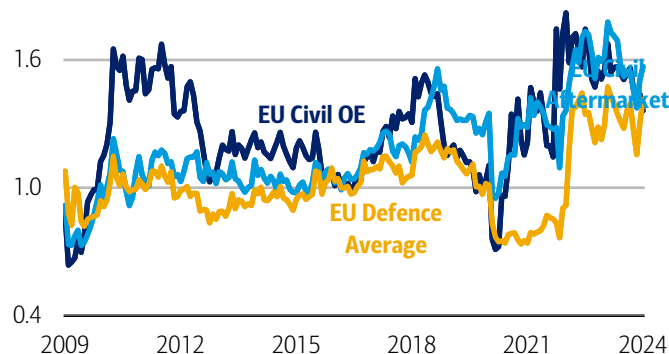
Source: DataStream

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Global PE Trends

Exhibit 9: EU A&D Sector Valuations -relative 12mth FWD PE

Defence has re-rated since February 2022

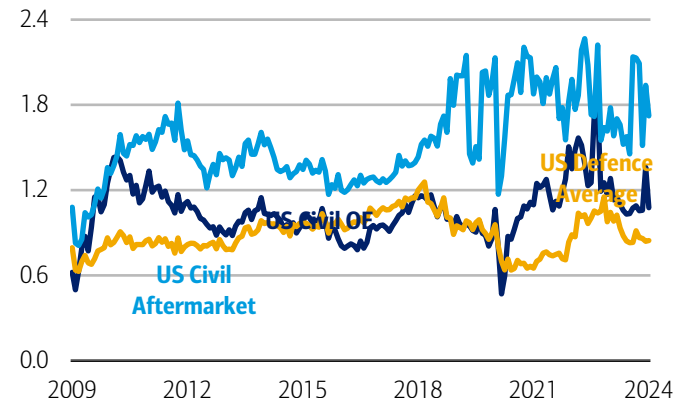


Source: DataStream

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Exhibit 10: US A&D Sector Valuations -relative 12mth FWD PE

US names have not re-rated that much since February 2022 vs EU

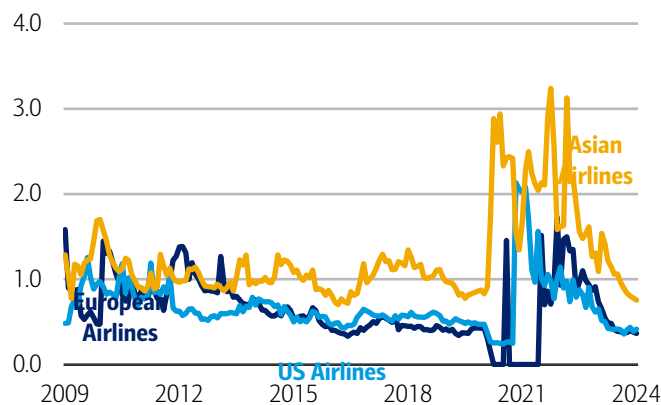


Source: DataStream

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Exhibit 11: Global Airlines Valuations -relative 12mth FWD PE

Airlines have de-rated since 2021 as consensus have been raising numbers due to air traffic recovery

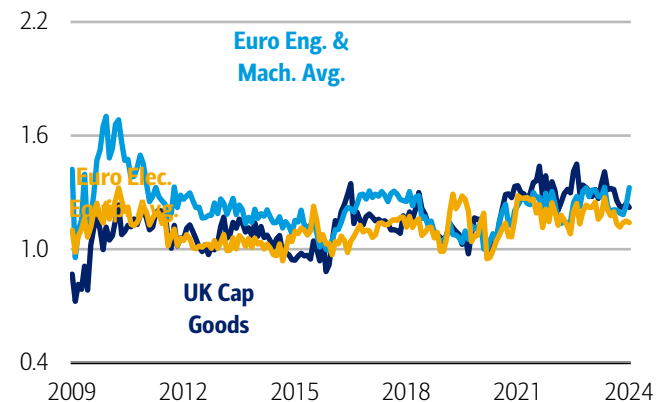


Source: DataStream

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Exhibit 12: EU Industrials Sector Valuations -relative 12mth FWD PE

European and UK Capital Goods started to re-rate since 2H20

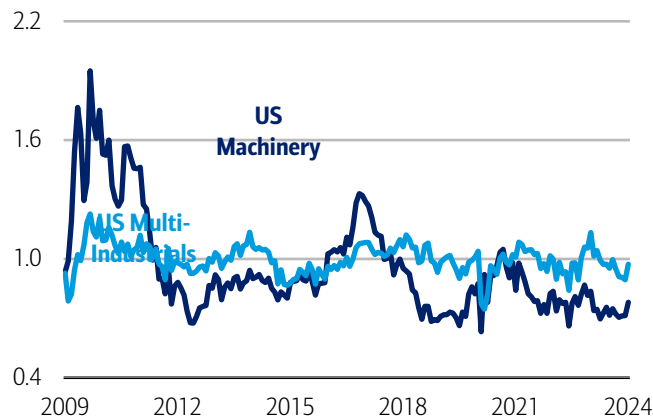


Source: DataStream

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Exhibit 13: US Industrials Sector Valuations -relative 12mth FWD PE

US Industrials started to re-rate since 2H20 and have remained broadly stable through 2023



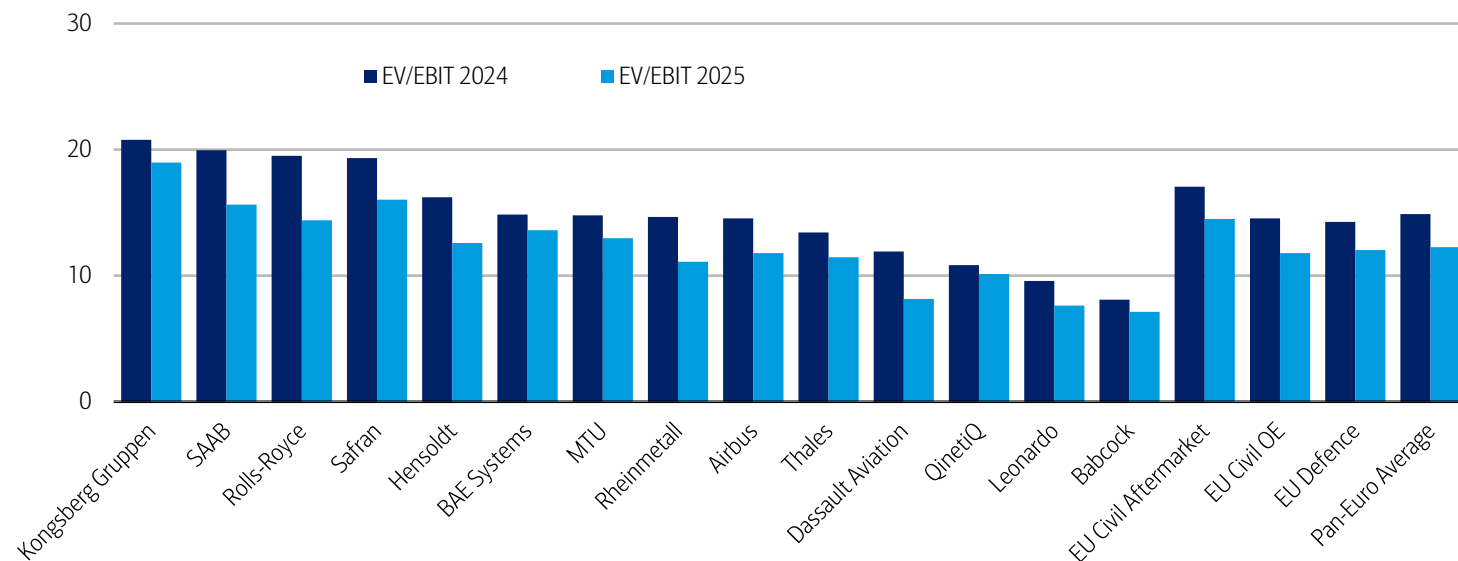
Source: DataStream

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Valuations and PE ranges

Exhibit 14: EV/EBIT for 2024 and 2025

2024 (Pan-Euro avg=14.89) and 2025 (Pan Euro avg =12.25) ordered in terms of 2024, most expensive to least

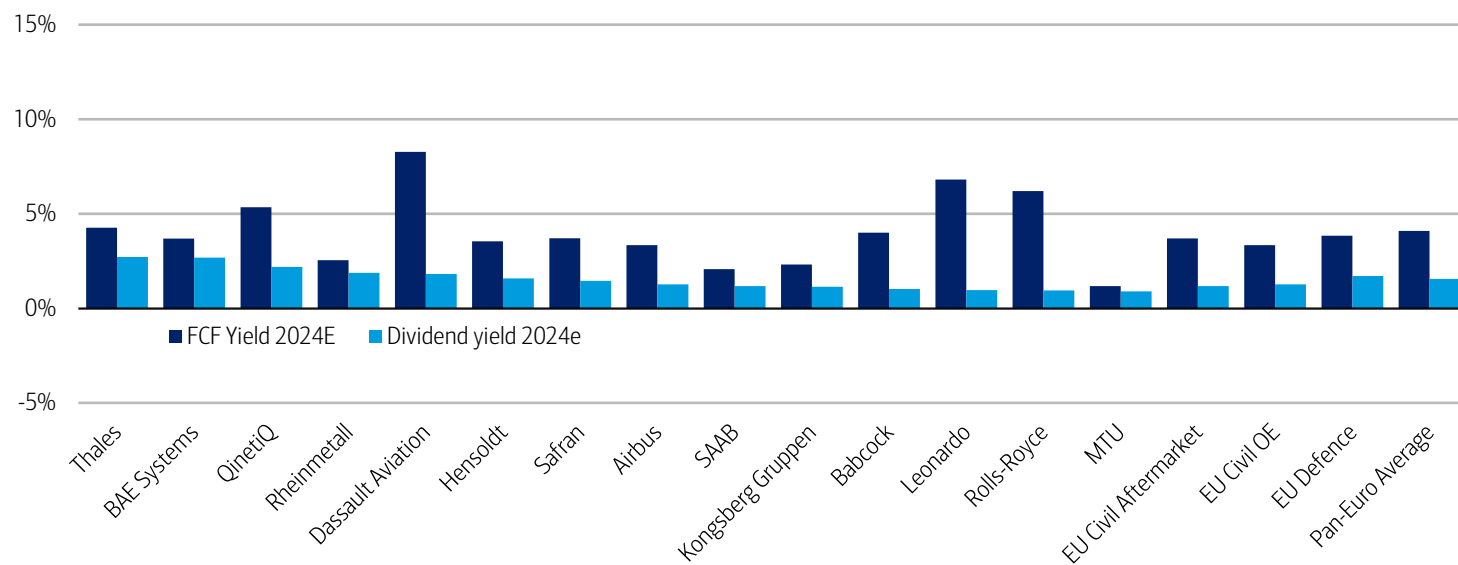


Source: BofA Global Research estimates

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Exhibit 15: Free Cash Flow Yield % and Dividend Yield %

Free cash flow Pan Euro avg= 4.09% and dividend yield avg =1.55%

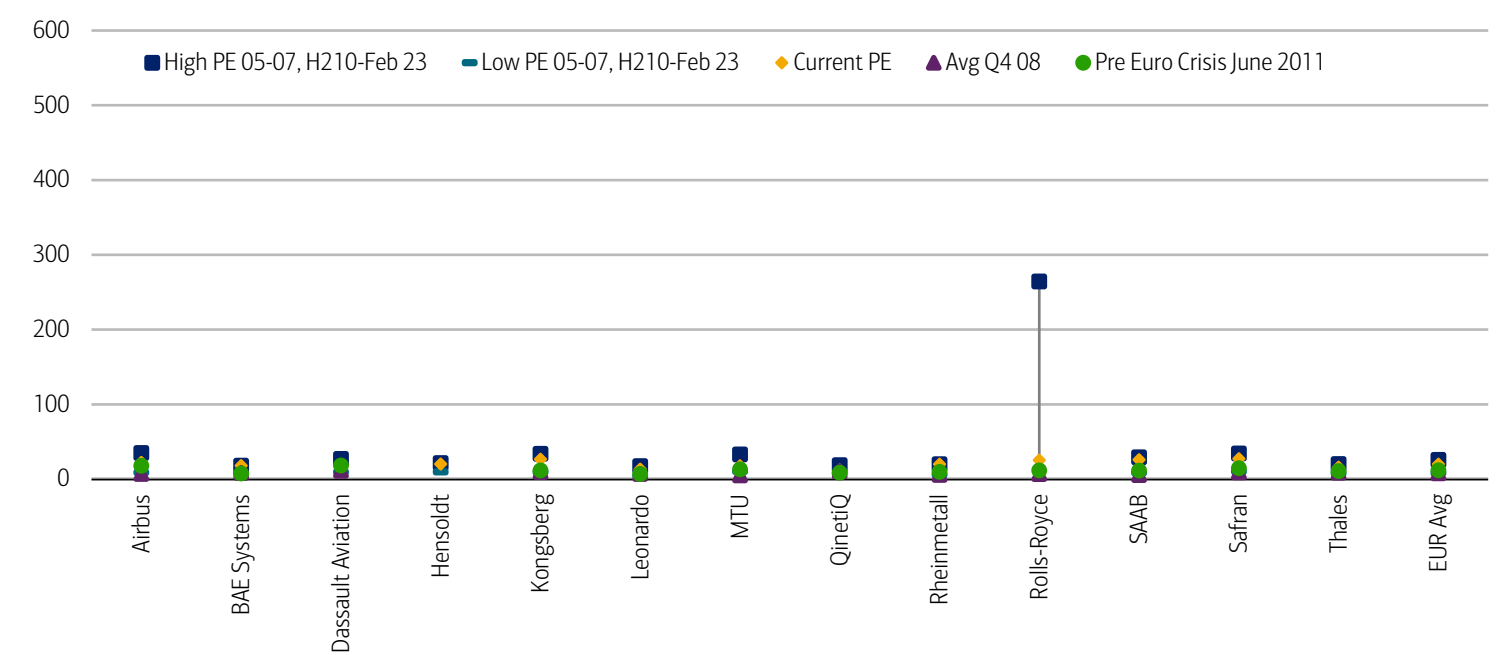


Source: BofA Global Research estimates

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Exhibit 16: European A&D Stock-PE Candle light Exhibit

Civil Aerospace companies trade at the top of their historical PE ranges due to air traffic recovery and high visibility on backlogs. Defence trades at peak of ranges due to high sector average multiples (increasing defence budgets)



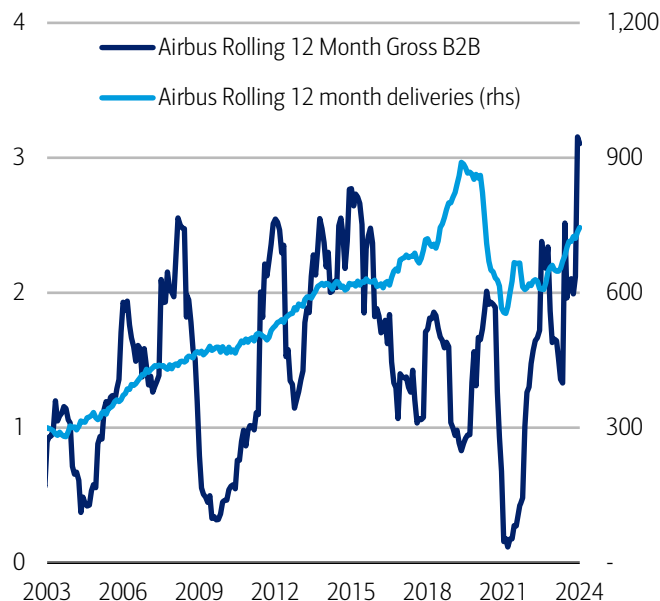
Source: BofA Global Research estimates

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Global book to bill trends

Exhibit 17: Airbus 12mth Rolling B2B and deliveries

Airbus delivered 735 aircraft in 2023 driving a step up in 12m rolling deliveries - new orders have improved significantly

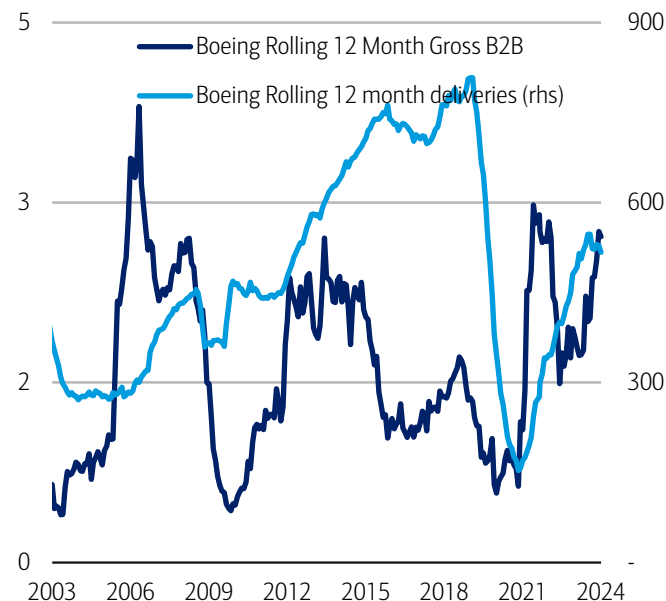


Source: BofA Global Research estimates

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Exhibit 18: Boeing 12mth Rolling B2B and deliveries

Boeing's Gross B2B and deliveries fell significantly after the 737MAX grounding in 2019

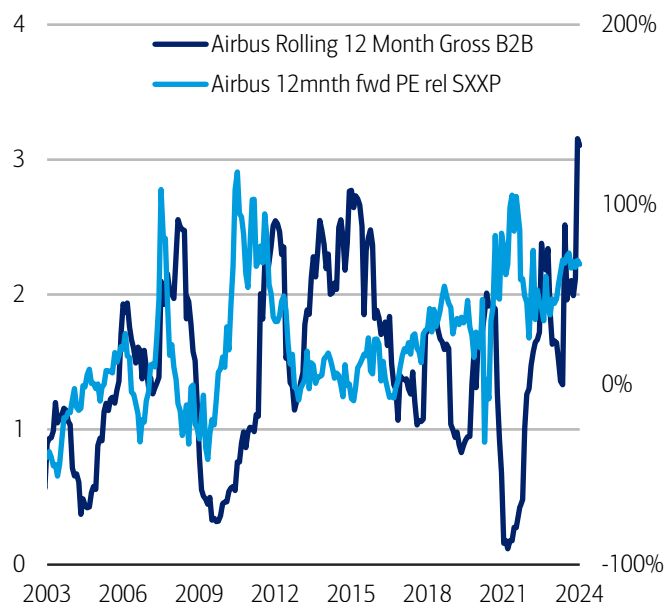


Source: BofA Global Research estimates

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Exhibit 19: Airbus 12mth Rolling B2B vs. Air 12mth fwd PE rel SXXP

Airbus trades at a premium vs SXXP due to high backlog visibility and the recovery of air traffic

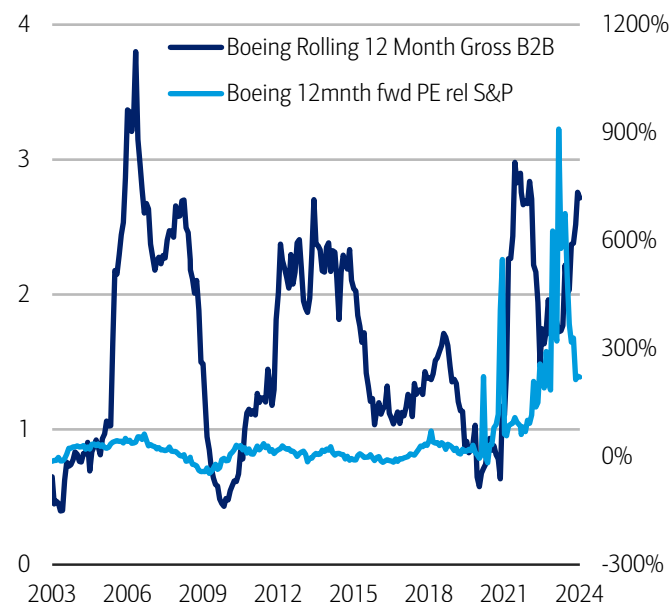


Source: BofA Global Research estimates

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Exhibit 20: Boeing 12mth Rolling B2B vs. BA 12mth fwd PE rel S&P

Boeing's 12M fwd PE multiple trades at a premium vs S&P due to a level of EPS



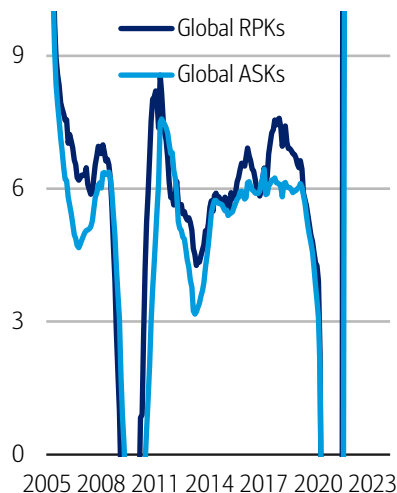
Source: BofA Global Research estimates

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Air traffic & Capacity

Exhibit 21: Global RPKs and ASKs (%)

COVID-19 drove global traffic growth to all time low levels in 2020

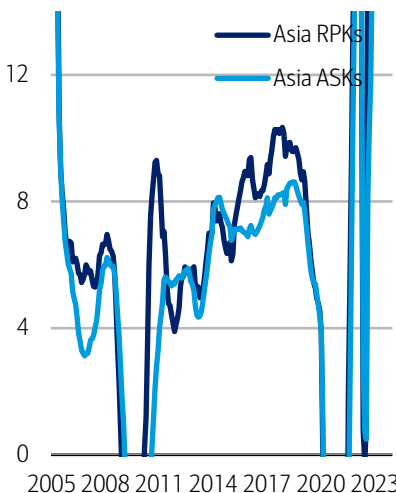


Source: IATA

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Exhibit 22: Asia RPKs and ASKs (%)

Asia-Pacific has increased significantly through 2023 as result of China re-opening

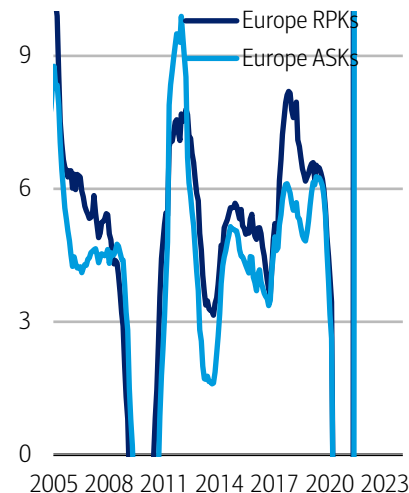


Source: IATA

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Exhibit 23: Europe RPKs and ASKs (%)

Europe started to improve from mid-2021 onwards

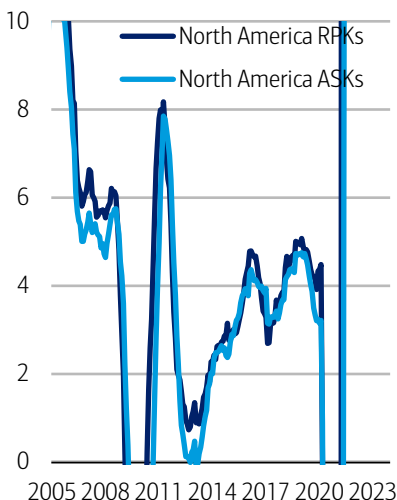


Source: IATA

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Exhibit 24: North America RPKs and ASKs (%)

NA has higher domestic mix than Europe

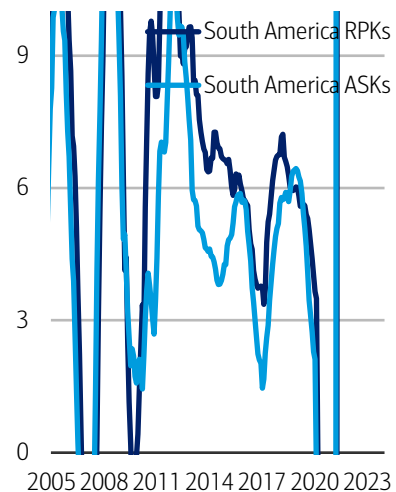


Source: IATA

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Exhibit 25: South America RPKs and ASKs (%)

South America relies heavily on intracontinental travel

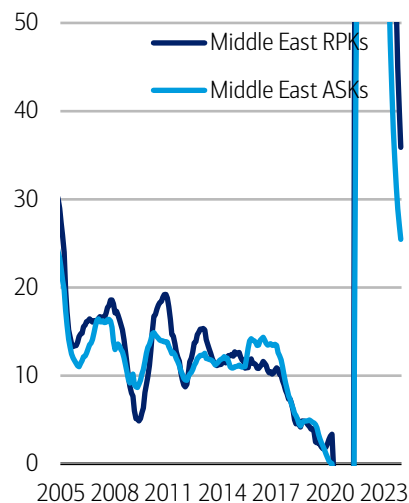


Source: IATA

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Exhibit 26: Middle East RPKs and ASKs (%)

Middle East relies heavily on international long-haul traffic through major airport hubs



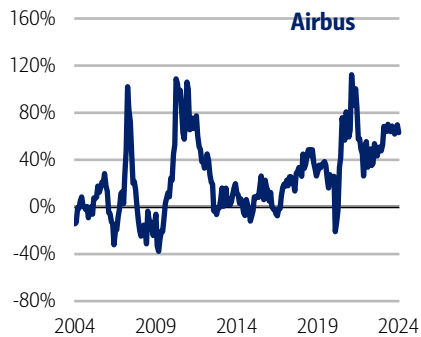
Source: IATA

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Relative stock valuations

Exhibit 27: Airbus 12 mnth fwd PE rel SXXP

Airbus has re-rated due to high backlog visibility

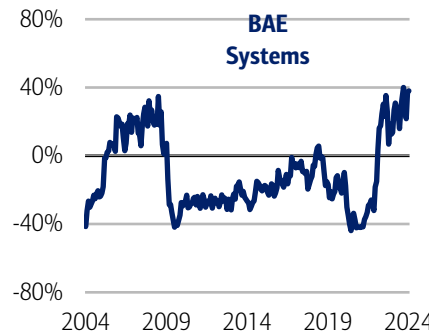


Source: DataStream

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Exhibit 28: BAE 12 mnth fwd PE rel SXXP

BAE has re-rated since Feb 2022 due to increasing defence budgets

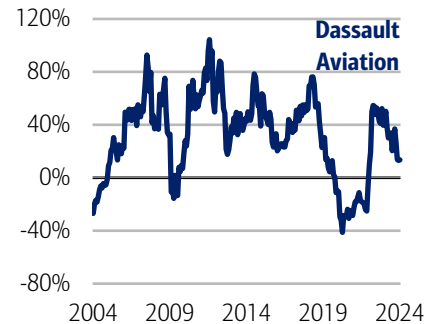


Source: DataStream

BofA GLOBAL RESEARCH

Exhibit 29: Dassault 12 mnth fwd PE rel SXXP

Dassault has de-rated heavily on business jet market weakness and GTF concerns

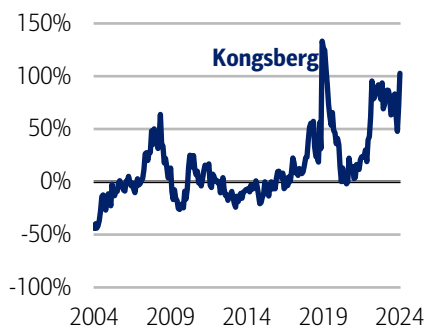


Source: DataStream

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Exhibit 30: Kongsberg 12 mnth fwd PE rel SXXP

Kongsberg has re-rated since Feb 2022

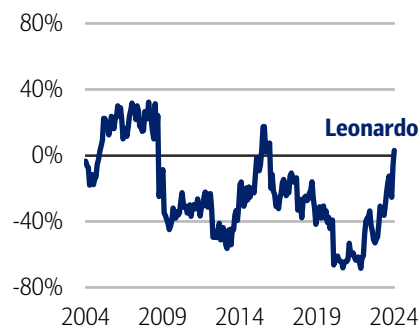


Source: DataStream

BofA GLOBAL RESEARCH

Exhibit 31: Leonardo 12 mnth fwd PE rel SXXP

Leonardo has re-rated significantly since Feb 22

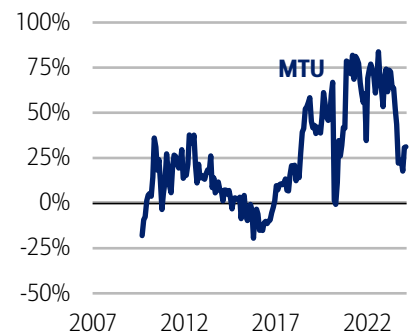


Source: DataStream

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Exhibit 32: MTU 12 mnth fwd PE rel SXXP

MTU has de-rated due to GTF concerns

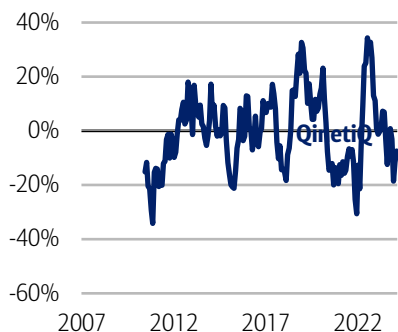


Source: DataStream

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Exhibit 33: QinetiQ 12 mnth fwd PE rel SXXP

QinetiQ is the only defence name that has de-rated since Feb 22 due to concerns around margins and cap allocation

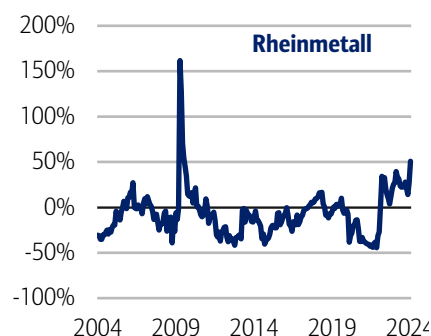


Source: DataStream

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Exhibit 34: Rheinmetall 12 mnth fwd PE rel SXXP

Rheinmetall has re-rated since Feb 2022 due to strong growth on Ammo

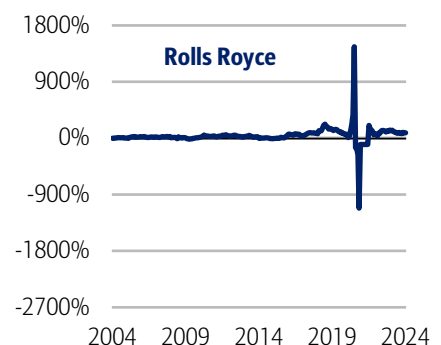


Source: DataStream

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Exhibit 35: Rolls Royce 12 mnth fwd PE rel SXXP

RR's valuation has re-rated due to strong WB recovery and a turnaround plan

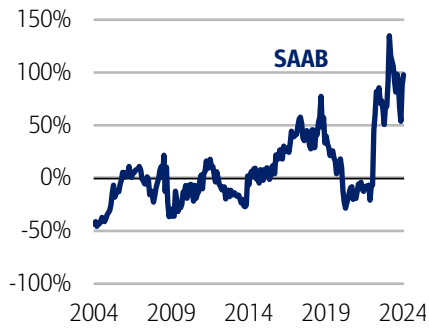


Source: DataStream

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Exhibit 36: SAAB 12 mnth fwd PE rel SXXP

SAAB has re-rated since Feb 22 due to strong growth outlook and Sweden potentially entering NATO

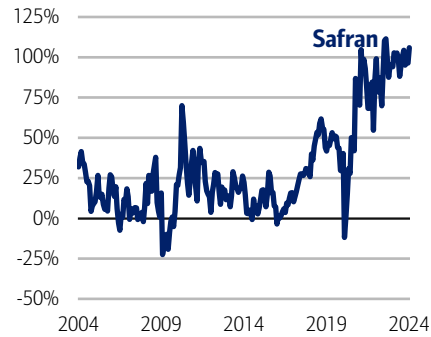


Source: DataStream

BofA GLOBAL RESEARCH

Exhibit 37: Safran 12 mnth fwd PE rel SXXP

Safran has re-rated since 2020 lows due to strong aftermarket growth and overall narrowbody recovery

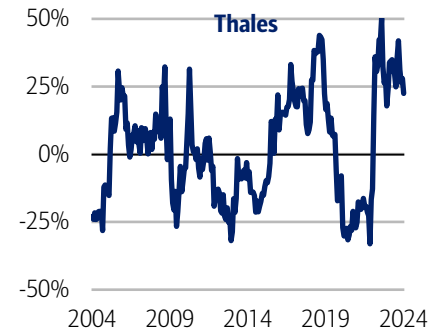


Source: DataStream

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Exhibit 38: Thales 12 mnth fwd PE rel SXXP

Thales has re-rated since Feb 2022 due to increasing defence budgets



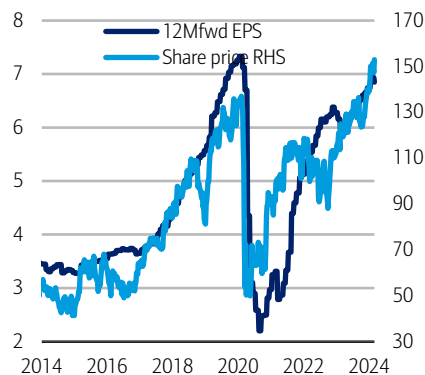
Source: DataStream

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A&D EPS Trends

Exhibit 39: Airbus EPS vs Share price

Airbus has faced positive EPS revisions as the company delivered 735 deliveries in 2023

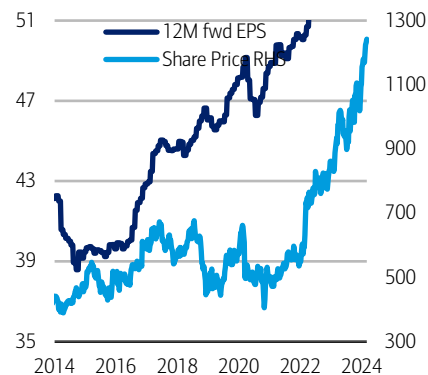


Source: DataStream

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Exhibit 40: BAE EPS vs Share price

BAE EPS expectations have grown reflecting strong growth on defence budgets

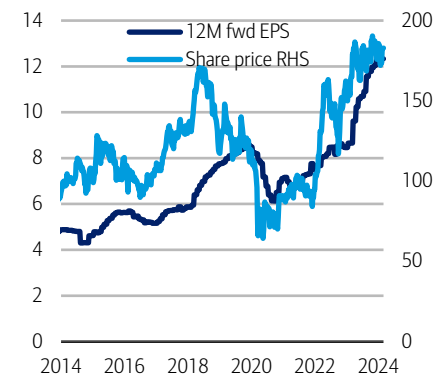


Source: DataStream

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Exhibit 41: Dassault EPS vs Share price

Dassault share price have come down due to lower than anticipated deliveries

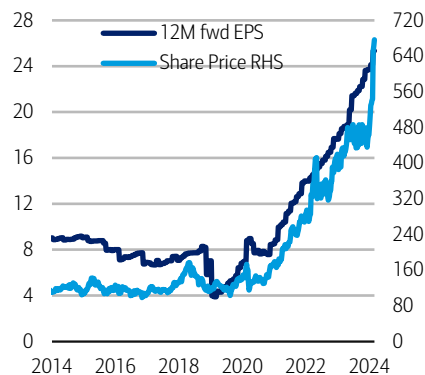


Source: DataStream

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Exhibit 42: Kongsberg EPS vs Share price

Kongsberg EPS/share price has been positively correlated since 2019

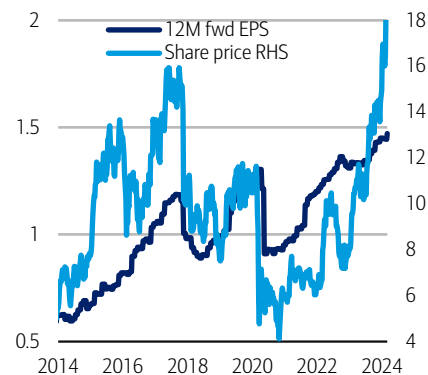


Source: DataStream

BofA GLOBAL RESEARCH

Exhibit 43: Leonardo EPS vs Share price

Leonardo EPS expectations have increased since 2020 lows

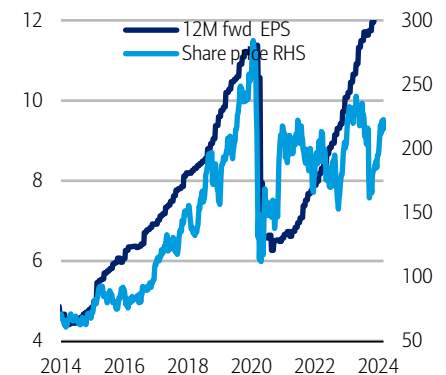


Source: DataStream

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Exhibit 44: MTU EPS vs Share price

GTF concerns weighed on MTU share price performance through 3Q23

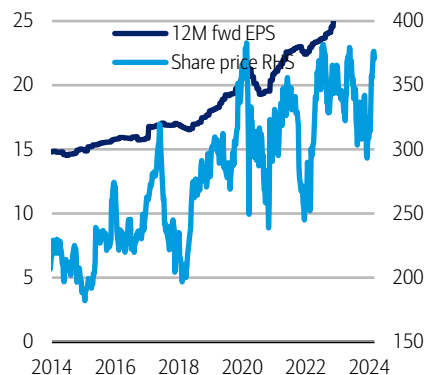


Source: DataStream

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Exhibit 45: QinetiQ EPS vs Share price

QQ EPS growth has been more limited than EU defence peers due to limited margin expansion

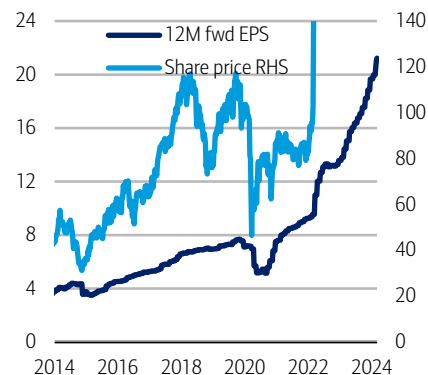


Source: DataStream

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Exhibit 46: Rheinmetall EPS vs Share price

Rheinmetall EPS expectations have increased due to strong growth outlook on Ammo

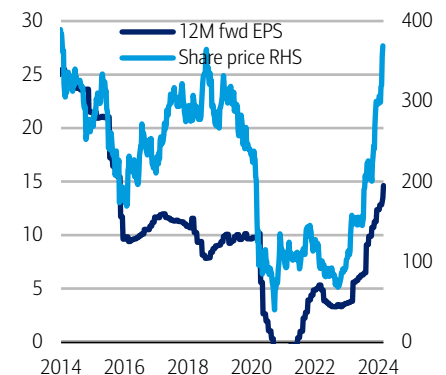


Source: DataStream

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Exhibit 47: Rolls Royce EPS vs Share price

Rolls Royce's share price started to improve since late 2022 due to the widebody recovery

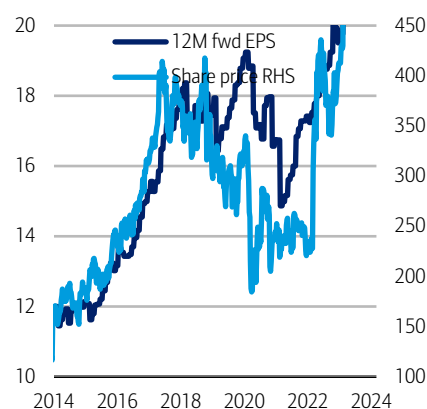


Source: DataStream

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Exhibit 48: SAAB EPS vs Share price

SAAB has seen EPS upgrades since Feb 22 due to strong growth outlook

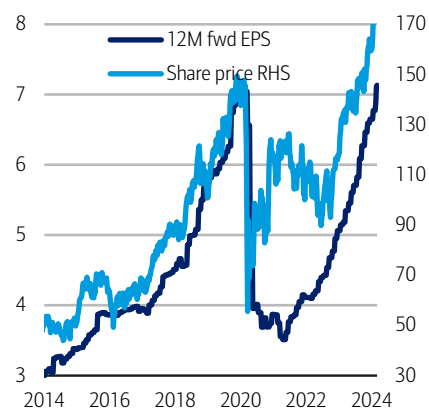


Source: DataStream

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Exhibit 49: Safran EPS vs Share price

Safran faced strongly positive earnings revisions due to strong aftermarket growth

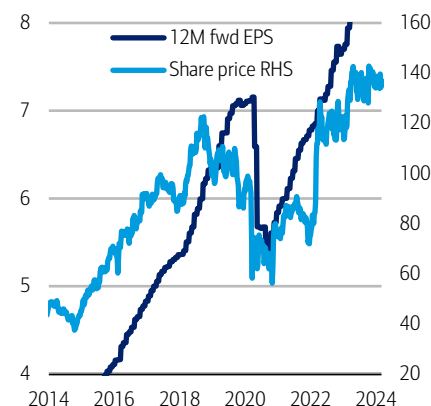


Source: DataStream

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Exhibit 50: Thales EPS vs Share price

EPS expectations have increased significantly as Thales should benefit from increasing defence budgets, primarily in Europe



Source: DataStream

BofA GLOBAL RESEARCH

A&D Compsheet

Exhibit 51: A&D Compsheet

Below we highlight our valuation peer comparison table

Europe					EV/EBITDA			EV/EBIT			PE (x)			DY			FCF yield		
	Rating	Currency	Price	Mcap (USD)	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Airbus	1 - Buy	EUR	153	129,978	11.1	9.3	7.5	14.5	11.8	9.2	22.3	17.4	12.6	1.3%	1.6%	2.2%	3.3%	5.2%	7.5%
Babcock	1 - Buy	GBP	490	3,133	5.4	4.8	4.2	8.1	7.1	6.2	12.9	11.5	9.8	1.0%	1.6%	2.7%	4.0%	5.2%	7.0%
BAE Systems	1 - Buy	GBP	1,242	47,581	11.8	10.8	10.2	14.9	13.6	12.6	18.2	15.7	13.8	2.7%	3.0%	3.3%	3.7%	4.8%	6.9%
Dassault Aviation	2 - Neutral	EUR	183	15,993	9.9	7.0	6.0	11.9	8.1	6.9	16.6	12.4	10.8	1.8%	2.4%	2.8%	8.3%	-0.4%	1.0%
Hensoldt	2 - Neutral	EUR	34	4,212	12.2	9.5	8.3	16.2	12.6	10.8	19.0	16.1	13.8	1.6%	2.2%	2.9%	3.5%	4.7%	5.3%
Kongsberg Gruppen	3 - Underperform	NOK	677	11,228	15.6	14.4	13.3	20.8	19.0	17.4	28.2	25.6	23.5	1.1%	1.3%	1.4%	2.3%	2.7%	2.9%
Leonardo	1 - Buy	EUR	20	12,299	6.0	5.0	4.3	9.6	7.6	5.7	15.6	12.4	10.6	1.0%	1.2%	1.4%	6.8%	8.4%	8.2%
MTU	2 - Neutral	EUR	222	12,269	10.0	8.9	8.0	14.8	13.0	11.0	17.9	15.9	13.9	0.9%	0.9%	1.3%	1.2%	1.8%	3.6%
QinetiQ	2 - Neutral	GBP	371	2,683	7.6	7.1	6.4	10.8	10.1	9.0	14.7	13.4	12.3	2.2%	2.3%	2.4%	5.3%	6.1%	7.0%
Rheinmetall	1 - Buy	EUR	424	19,638	10.6	8.4	6.9	14.7	11.1	8.6	19.5	15.2	12.0	1.9%	2.5%	3.3%	2.5%	3.8%	5.5%
Rolls-Royce	1 - Buy	GBP	369	39,070	11.2	8.9	7.6	19.5	14.4	10.0	18.8	14.9	11.3	0.9%	1.3%	1.7%	6.2%	7.8%	10.1%
SAAB	1 - Buy	SEK	816	10,530	12.3	10.1	8.5	19.9	15.6	11.6	27.5	22.0	18.3	1.2%	1.5%	1.8%	2.1%	2.2%	2.8%
Safran	1 - Buy	EUR	194	89,555	14.3	12.1	10.4	19.3	16.0	13.4	27.5	21.4	17.6	1.5%	1.9%	2.3%	3.7%	4.7%	5.8%
Thales	2 - Neutral	EUR	137	30,865	9.4	8.3	8.6	13.4	11.5	10.2	14.7	12.6	11.4	2.7%	3.2%	3.5%	4.3%	5.4%	0.0%
EU Civil Aftermarket					12.1	10.5	9.2	17.1	14.5	12.2	22.7	18.7	15.8	1.2%	1.4%	1.8%	3.7%	4.8%	6.5%
EU Civil OE					11.1	9.3	7.5	14.5	11.8	9.2	22.3	17.4	12.6	1.3%	1.6%	2.2%	3.3%	5.2%	7.5%
EU Defence					10.1	8.7	7.9	14.3	12.0	10.2	18.9	16.1	13.9	1.7%	2.1%	2.5%	3.8%	4.8%	5.1%
Pan-Euro Average					10.5	8.9	7.9	14.9	12.3	10.2	19.5	16.2	13.7	1.6%	1.9%	2.4%	4.1%	4.5%	5.3%

Non Europe					EV/EBITDA			EV/EBIT			PE (x)			DY			FCF yield		
	Rating	Currency	Price	Mcap (USD)	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Boeing	2 - Neutral	USD	204	124,297	31.3	17.0	13.2	49.1	21.3	15.8	291.0	31.1	22.9	0.0%	0.0%	0.0%	3.4%	5.0%	6.4%
Embraer	1 - Buy	USD	19	3,580	7.9	6.2	4.9	12.3	9.0	6.8	13.0	10.0	8.1	0.0%	0.0%	0.0%	9.1%	11.2%	13.1%
General Dynamics	1 - Buy	USD	273	74,865	14.6	13.2	12.0	17.1	15.3	13.7	18.9	16.8	15.0	2.1%	2.3%	2.4%	5.3%	6.1%	6.6%
HEICO	1 - Buy	USD	193	23,599	28.1	24.5	21.1	34.0	29.5	25.0	56.1	47.2	38.3	0.1%	0.1%	0.1%	1.8%	2.3%	3.0%
Hexcel Corp	2 - Neutral	USD	74	6,284	17.6	15.5	14.0	26.6	22.2	19.4	33.1	27.6	23.3	0.8%	0.8%	0.8%	3.3%	3.7%	4.3%
Huntington Ing Industries	3 - Underperform	USD	292	11,545	14.4	12.8	11.4	19.1	16.9	15.1	18.1	16.0	14.1	1.9%	2.1%	2.3%	5.6%	6.2%	6.3%
L3Harris	2 - Neutral	USD	212	40,238	14.9	12.8	11.8	17.0	15.5	14.2	16.8	14.7	13.4	2.7%	2.8%	2.9%	5.5%	6.5%	6.9%
Lockheed Martin	2 - Neutral	USD	428	103,481	12.8	12.0	11.8	14.0	13.7	13.4	16.3	14.8	14.5	3.0%	3.2%	3.5%	6.2%	6.6%	7.0%
Mercury Systems	3 - Underperform	USD	30	1,773	144.0	75.3	63.7	62.5	52.2	43.9	149.4	28.4	20.6	0.0%	0.0%	0.0%	1.7%	4.4%	5.8%
Northrop Grumman	1 - Buy	USD	461	69,169	13.9	12.6	11.8	18.6	16.7	15.5	18.7	16.6	15.3	1.7%	1.9%	2.1%	3.6%	4.8%	6.0%
Raytheon	2 - Neutral	USD	90	118,977	10.8	15.6		15.9	15.6	15.1	16.6	14.6	13.4	2.8%	3.0%	3.2%	4.8%	5.8%	7.0%
Spirit Aerosystems	3 - Underperform	USD	29	3,319	7.3	6.0	5.3	11.4	8.3	7.0	14.7	8.7	7.1	0.0%	0.0%	0.0%	5.8%	6.4%	13.8%
Textron	2 - Neutral	USD	89	17,178	10.9	10.1	9.4	14.5	13.1	12.1	16.0	13.8	12.4	0.1%	0.1%	0.1%	6.1%	6.8%	8.1%
TransDigm Ltd	1 - Buy	USD	1,178	65,490	22.0	19.0	18.0	23.7	20.4	19.2	37.4	30.0	27.8	0.0%	0.0%	0.0%	2.3%	3.2%	3.5%
Triumph Group	1 - Buy	USD	14	1,068	13.5	10.9	9.4	18.6	13.3	11.2	30.9	17.2	11.1	0.0%	0.0%	0.0%	4.8%	5.8%	8.6%
US Civil Aftermarket					22.0	19.0	18.0	23.7	20.4	19.2	37.4	30.0	27.8	0.0%	0.0%	0.0%	2.3%	3.2%	3.5%
US Civil OE					16.8	12.1	10.5	25.4	16.2	13.6	88.7	20.3	16.4	0.2%	0.2%	0.2%	4.6%	5.5%	8.1%
US Defence					13.0	13.2	11.7	16.9	15.7	14.8	17.4	15.5	14.3	2.4%	2.6%	2.8%	5.0%	5.9%	6.6%
US Average					24.3	17.6	15.6	23.6	18.9	16.5	49.8	20.5	17.1	1.0%	1.1%	1.2%	4.6%	5.6%	7.1%

Source: BofA Global Research estimates

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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