

# Aerospace & Defence Update

## 4Q23 US aftermarket reads positive for our coverage

Industry Overview

### 4Q23 US aftermarket reads positive for our coverage

US aftermarket peers have reported 4Q23 results, and this week we analyse the read across for our European coverage. US names reported on average c.20% aftermarket growth in 4Q23, which reads positively for our EU coverage and could suggest upside risk to our 4Q23 estimates. We model c.17% and 16% for Safran and MTU respectively for 4Q. For 2024 US peers guided for low to mid-teens aftermarket growth. We believe this will be driven by HSD growth on pricing, MSD+ on volume and LSD on scope.

### US aftermarket could suggest upside risk to our 4Q23 ests

Aftermarket growth has seen a sequential deceleration, with GE, P&W and Honeywell delivering 4Q23 aftermarket growth of 20%, 18% and 19%, vs 44%, 21% and 22% in 3Q23 resp. We also model a sequential deceleration on Safran and MTU, as we expect Safran and MTU 4Q23 aftermarket growth of 17% and 16%, vs 39% and 18% in 3Q23 respectively. To us, US 4Q23 aftermarket growth reads positively for EU peers and could suggest upside risk to our MTU and Safran ests. For Rolls, we model 2H23 EFH growth of c.29%, supported by the reopening of China and the strong WB recovery seen through 2H23.

### Expect 2024 aftermarket growth of mid-teens (at least)

GE guided for AM growth in the mid-teens, P&W commented on the call it expects growth in the low teens while Honeywell guided for double digit AM growth. [This is in line with our 2024 aftermarket growth worldwide estimate of c.15.5%](#) (see report). For Safran we see aftermarket growth of c.14% in 2024E and believe high work scopes could bring upside to our ests. For MTU we see c.16% AM growth in 2024E. We believe that the increased SVs arising from the GTF inspection program will pull forward revenues and costs ([revenue recognized when costs are incurred under IFRS 15](#)) (see link) driving strong growth. For Rolls, we see EFH growing c.13% YoY, and believe Rolls may guide for EFH >95% vs 2019 levels ([see note](#)). We could see upside to all of these estimates, given the production freeze at Boeing will put continued upside pressure on aftermarket pricing and scope in 2024.

### Scope main debate of aftermarket growth in 2024

Pricing is expected in the HSD range for 2024 while volume is expected in the MSD range (we model c.5.5% growth in volumes in 2024E). For scope we model 3% growth in 2024E and the GTF inspections are expected to add a significant level of disruption on the MRO network but could also bring higher than anticipated work-scopes for MTU and RTX. Also, GE commented at the 4Q23 heavier than usual scope work and guided for work scope improvements. To us, scope remains the main debate of aftermarket growth and could provide upside risk to our estimates.

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Equity  
Europe  
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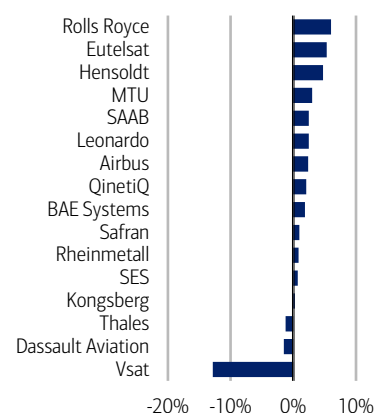
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### Exhibit 1: Sector weekly performance rel FTEU 300

Weekly stock performance



Source: Eikon (prices as of 08<sup>th</sup> Feb, 2024)  
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## 4Q23 US aftermarket reads +ve for our coverage

US aftermarket peers have already reported 4Q23 results, and this week we analyse the read across for our European coverage. US names reported on average c.20% aftermarket growth in 4Q23, which reads positively for our EU coverage and could suggest upside risk to our 4Q23 ests. We model c.17% and 16% for Safran and MTU respectively. For 2024 US peers guided for low to mid-teens aftermarket growth. We believe this will be driven by HSD growth on pricing, MSD+ on volume and LSD on scope.

### US aftermarket could suggest upside risk to our 4Q23 ests

[As we anticipated](#) (see our report) a sequential deceleration has taken place and GE, P&W and Honeywell delivered 4Q23 aftermarket growth of 20%, 18% and 19%, vs 44%, 21% and 22% in 3Q23 resp. We also model a sequential deceleration on Safran and MTU, as we expect Safran and MTU 4Q23 aftermarket growth of 17% and 16%, vs 39% and 18% in 3Q23 resp. To us, US 4Q23 aftermarket growth reads good for EU peers and could suggest upside risk to our MTU and Safran ests. For Rolls, we model 2H23 EFH growth of c.29%, supported by the reopening of China and the strong WB recovery seen through 2H23.

### Expect 2024 aftermarket growth in the mid-teens

GE guided for AM growth in the mid-teens, P&W commented on the call it expects AM growth in the low teens while Honeywell guided for double digit AM growth. [This is in line with our 2024 aftermarket growth worldwide estimate of c.15.5%](#) (see report). For Safran we see AM growth of c.14% in 2024E and believe high work scopes could bring upside to our ests. For MTU we see c.16% AM growth in 2024E. We believe that the increased SVs arising from the GTF inspection program will pull forward higher maintenance and costs (see: revenue recognized when costs are incurred under IFRS 15) driving higher AM growth. For Rolls, we see EFH growing c.13% YoY, and believe Rolls may guide for EFH >95% vs 2019 levels. (See report). Our BofA AM tracker suggests 4Q23E worldwide AM growth of c.20% (with our 4Q23 AM assumptions on Safran, Rolls and MTU) and c.28% AM growth in 2023E

We assume an average aftermarket growth of c.15% across our coverage universe, led by MTU aftermarket growth exhibiting c.16%.

#### Exhibit 2: Aftermarket YoY growth across our coverage

We see the highest aftermarket growth on MTU driven by increasing shop visits due to the GTF inspections

	2024E		2025E	
	BofA est	VA Cons	BofA est	VA Cons
Safran	14.3%	16.4%	11.1%	11.3%
MTU	16.0%	N.A	15.1%	N.A
Rolls Royce	12.5%	14.8%	11.4%	7.4%
Avg. aftermarket growth	14.2%	15.6%	12.5%	6.2%

Source: BofA Global Research estimates

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We believe MTU aftermarket will be one of the key debates around aftermarket going into 2024. As we have previously discussed the increasing GTF inspections will drive higher spare consumptions, supporting MTU aftermarket growth 2024-26E. This is the primary driver of MTU leading aftermarket growth across our coverage in 2024E (neither Safran nor Rolls are exposed to the GTF).

### Aftermarket sensitivity to pricing and scope

Our base case for 2024 (15.5%) assumes c.5.5% volume growth (Exhibit 2). Also, we assume 7% because of Safran and GE commentary around pricing and 3% on scope. We present below sensitivity to pricing and scope assuming a fixed volume growth rate of 5.5%. As pricing has been already confirmed, we believe upside risk could come from higher than anticipated recovery on scope.

**Exhibit 3: 2024 YoY aftermarket total growth sensitivity to pricing and scope**

We expect 2024 aftermarket growth at c.15.5%

		2023 YoY Aftermarket Total growth sensitivity to pricing & scope						
		Scope vs 2023						
		0.8%	1.5%	2.3%	3.0%	3.8%	4.5%	5.3%
Pricing vs 2023	4.0%	8.5%	9.6%	10.7%	11.8%	12.9%	14.0%	15.2%
	5.0%	9.7%	10.8%	12.0%	13.1%	14.2%	15.3%	16.4%
	6.0%	11.0%	12.1%	13.2%	14.3%	15.4%	16.5%	17.6%
	7.0%	12.2%	13.3%	14.4%	15.5%	16.7%	17.8%	18.9%
	8.0%	13.5%	14.6%	15.7%	16.8%	17.9%	19.0%	20.1%
	9.0%	14.7%	15.8%	16.9%	18.0%	19.1%	20.2%	21.4%
	10.0%	15.9%	17.0%	18.2%	19.3%	20.4%	21.5%	22.6%

Source: BofA Global Research estimates

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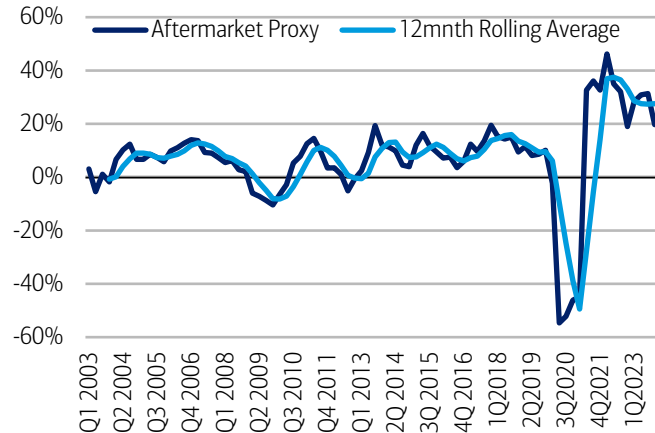
The GTF inspections are expected to add a significant level of disruption on the MRO network but could also bring higher than anticipated work-scopes. Also, GE and SAF commented at the 4Q23 and 3Q23 respectively heavier than usual scope work. We model 3% scope growth in 2024. However, we believe shop visits have been improving sequentially through 2023, and this could further accelerate going into 2024 driven by the GTF issues. This, in our view, could bring scope estimates to levels >3%.

**BofA aftermarket proxy suggests c.28% growth in 2023**

Our aftermarket proxy suggests 2023 aftermarket has delivered c.28% growth, and c.20% in 4Q23. Importantly, 2023 aftermarket revenues were significantly above 2019 aftermarket revenues (c.6%, Exhibit 5).

**Exhibit 4: BofA proprietary aftermarket proxy**

Our aftermarket proxy tracked c.28% aftermarket worldwide growth in 2023

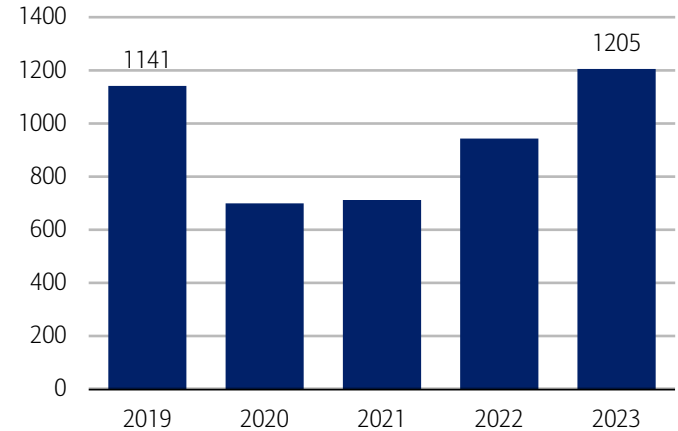


Source: BofA Global Research estimates

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**Exhibit 5: Aftermarket worldwide revenue proxy 2019 - 2023**

2023 aftermarket revenues were already above 2019 levels



Source: BofA Global Research estimates

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# Weekly news round up

## Exhibit 6: Global Aerospace and Defence Weekly Newsflow

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

### Weekly newsflow

Source

**Britain awards Thales \$2.4 bln Royal Navy contract:** Britain handed a 1.85 billion pound (\$2.36 billion) contract to French electronic defence company Thales on Friday to maintain the sonar and sensors on Royal Navy ships and submarines over the next 15 years. The deal will see Thales use artificial intelligence, data management and virtual reality to predict faults and cut repair times, boosting the number of days ships are available to operate at sea, the Ministry of Defence said. "In a time of global instability, it is imperative we minimise the time our ships and submarines are out for maintenance," Defence Secretary Grant Shapps said following a visit to Devonport Naval Base in southwest England. Britain's Royal Navy is currently working with the U.S. Navy in the Gulf region in an effort to protect international shipping in the Red Sea from an upsurge in attacks by Houthis forces based in Yemen. Thales services the sensors and sonars used by Royal Navy ships and submarines, ensuring they can hear underneath the water and other electronic warfare equipment can function. Britain said the fresh contract would support 300 existing jobs and add a further 150 new jobs.

[Reuters](#)

**Germany's Rheinmetall faces probe over Spanish acquisition:** Spanish watchdog CNMC said it will conduct disciplinary proceedings against German defence firm Rheinmetall as the company may have provided incomplete and misleading information during the takeover of Exal Systems. Rheinmetall had no immediate comment. Spain's Comision Nacional de los Mercados y la Competencia had initially approved the 1.2 bn euro (\$1.29 bn) acquisition of Spanish defence contractor Exal Systems by Rheinmetall in Feb-23. Rheinmetall took over Exal Systems from finance investor Rhone Capital. In its statement, CNMC said it would take a maximum of 3 months for the investigation and a possible resolution.

[Reuters](#)

**Airbus confirms 30 January deliveries, posts 31 orders:** Europe's Airbus confirmed on Wednesday it had delivered 30 jets in January, up 50% from the same month last year, and reported 31 new orders. Airbus formally booked a recent order from Delta Air Lines for 20 A350-1000 jets and firmed up a provisional Dubai Airshow order from Ethiopian Airlines for 11 A350-900 aircraft. Reuters reported the Jan. 30 deliveries on Monday.

[Reuters](#)

**Thai Airways orders 45 Boeing 787s plus options -sources:** Thai Airways has placed a firm order for 45 Boeing 787 jets, with options potentially boosting the size of the deal to around 80 aircraft as it serves rising international travel demand, industry sources said. The deal, to be formally unveiled later this month, is already reflected in Boeing's published order backlog as a contract for 45 planes with an undisclosed customer, they said. Boeing declined comment.

[Reuters](#)

**Babcock says it is still on track for growth:** British defence company Babcock said on Wednesday its expectations for another year of growth were unchanged and it continued to build momentum to achieve its medium-term guidance, helped by the global threat environment. Ahead of an investor day at its Devonport base where it maintains and repairs Britain's submarines and warships, Babcock said it was on track to meet forecasts for organic revenue growth, underlying operating margin expansion and positive cash flow in the current year. The group, whose biggest customer is Britain but which also has contracts with Australia, France and Poland, also said it was confident of meeting guidance for underlying operating margins of at least 8% in the next three to five years. CEO David Lockwood's turnaround plan for the company has coincided with the Ukraine war, which has driven demand for Babcock's military kit such as naval ships and weapons handling systems.

[Reuters](#)

**FAA audit could result in changes to 737 production schedule, Boeing exec says:** A top Boeing executive urged suppliers to maintain the pace of the current 737 production schedule, but acknowledged that an ongoing FAA audit of the company's 737 MAX production line could force changes to the schedule. Boeing reaffirmed its 737 master schedule in a Jan. 22 email to its suppliers following the Jan. 5 mid-air cabin panel blowout on a MAX 9, Reuters previously reported. The supplier master schedule, which lays out the expectation for when suppliers should be at a given production rate, calls for a production rate for the 737s of 42 per month, starting this month. However, the FAA capped Boeing's 737 production line at its current rate of 38 aircraft per month while the regulator investigates Boeing's manufacturing practices -- a situation which could leave Boeing lagging behind its supply chain, depending on how long the limit on production lasts. "I would ask all of you to bear with us," Boeing supply chain head Hssane Mounir said at an aerospace supplier conference outside Seattle, adding that the planemaker understands suppliers have had to hire workers and make investments ahead of the planned ramp-up. "We will work with you on an individual basis in terms of what you need to do, whether that is building inventory, whether that is your business requirements," he said.

[Reuters](#)

**Ryanair CEO: Boeing quality is a concern, further delays possible:** Ryanair is concerned by shortcomings identified by U.S. regulators in a report into the Alaska Airlines 737 MAX 9 accident, and increased regulatory supervision is set to "slow things down" at Boeing, CEO Michael O'Leary said. Ryanair, Europe's largest airline by passenger numbers and one of Boeing's main customers, has ordered over 350 MAX jets in recent years, but has no MAX 9 aircraft. "I think we're concerned because it highlights, you know, poor production quality with Boeing... but we don't think it affects our Boeing 737 fleet or the MAX 8 that we operate," CEO Michael O'Leary told Reuters. He said the last 12 aircraft Ryanair received in October-December showed quality improvements from earlier in the year, "but Boeing have clearly more to do". "But there's no doubt that the increased supervision by the FAA (Federal Aviation Administration) in Seattle will slow things down. We're just not sure yet whether it will affect our deliveries between now and the end of June," he added. Boeing is "taking action on a comprehensive plan to improve our quality and delivery performance" in the aftermath of the Alaska Airlines incident and after a supplier discovered mis-drilled holes on some fuselages, a spokesperson said. "Ryanair is a valued customer and we are working closely with them to address their concerns," the spokesperson said.

[Reuters](#)

**Aircraft lessor DAE expects further Boeing delays:** A production cap and recent incidents with Boeing's 737 MAX aircraft will "undoubtedly" impede the planemaker's ability to catch up on already delayed delivery commitments, lessor Dubai Aerospace Enterprise (DAE) Capital said on Wednesday. The Federal Aviation Administration (FAA) has ordered Boeing to cap 737 production at the current rate of 38 jets a month for an undefined period while it addresses quality lapses, deferring the increases needed to meet rising demand for new jets. A production cap and recent incidents with Boeing's 737 MAX aircraft will "undoubtedly" impede the planemaker's ability to catch up on already delayed delivery commitments, lessor DAE Capital said on Wednesday. The FAA has ordered Boeing to cap 737 production at the current rate of 38 jets a month for an undefined period while it addresses quality lapses, deferring the increases needed to meet rising demand for new jets. "Now, despite this noise, we are confident that Boeing will right the ship in a way that provides the assurance to both our airline customers and us, the leasing customers, that we are indeed buying a quality product from a quality organisation." A spokesperson for Boeing did not immediately respond to a request for comment. DAE, one of the world's top 10 lessors with a 500-strong fleet of owned, managed or ordered aircraft, agreed to buy 64 Boeing 737 MAX jets last August that were scheduled for delivery between 2023 and 2026.

[Reuters](#)

**Saab raises sales growth target as Q4 profit rises:** Swedish defence equipment maker Saab raised its medium-term sales growth target on Friday as demand increases, and reported a rise in fourth-quarter operating profit. Saab has seen a surge in orders in the last two years as many countries scramble to bolster defences amid rising global tension, sending its share price up some 250% since Russia's full-scale invasion of Ukraine in February of 2022. It raised its medium-term annual target for organic sales growth to around 15% from a previous goal of 10%, which it gave a year ago, for the period 2023-2027. It also said it expected its organic sales to grow by between 12%-16% in 2024. In 2023, the organic growth was 22.6%. Operating profit for the October to December quarter rose to 1.42 billion Swedish crowns (\$135.60 million) from a year-earlier 1.31 billion.

[Reuters](#)

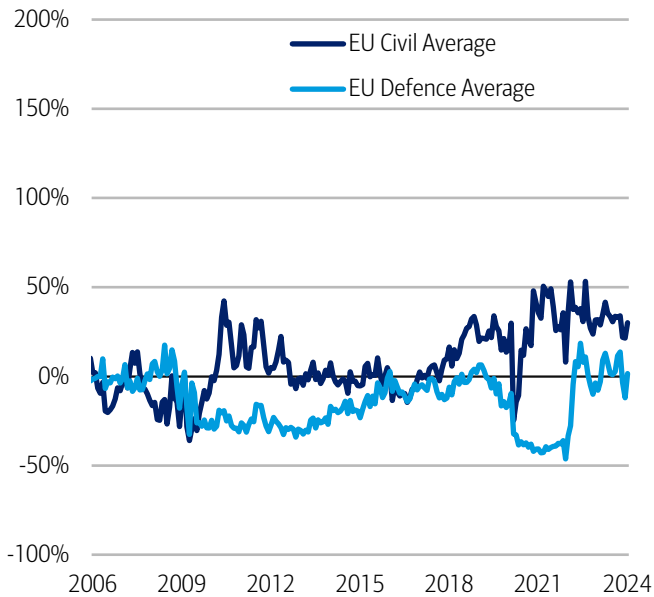
**Bombardier free cash flow forecast short of expectations, shares fall:** Canada's Bombardier on Thursday forecast 2024 free cash flow, a metric watched closely by investors, that was below analysts' estimates and its shares tumbled more than 13%. The Montreal-based planemaker said it expected free cash flow of \$100 million to \$400 million for the year, falling well short of the \$552 million, on average, expected by analysts, according to LSEG data. The company did forecast stronger 2024 revenue as private jet deliveries rise. The company expects to see margin expansion in 2024 and 2025, and predicted revenue this year of \$8.4 billion to \$8.6 billion, above analysts' expectations of \$8.27 billion, according to LSEG data. Bombardier stock dropped 13.2% to C\$45 a share in midday Toronto trading. Bombardier CEO Eric Martel said that while the supply chain has improved, the company had to slow some production to allow suppliers to get back on track. "Some of the significant suppliers, I would say, are still in a catch-up mode, but we have less issues," Martel said. Bombardier expects to deliver between 150 and 155 jets this year, compared with 138 last year. The company reported a lower fourth-quarter adjusted net income of \$135 million, down from \$205 million a year earlier, amid lingering supply snags. On a per share basis, adjusted profit was \$1.37, one cent below Wall Street expectations.

[Reuters](#)

# Global A&D Valuations

## Exhibit 7: EU Civil & Defence 12mth fwd. PE rel SXNP (industrials).

EU Civil is currently trading at 30% premium to SXNP, and defence is trading at 1.5% premium to index (08/02/2024)

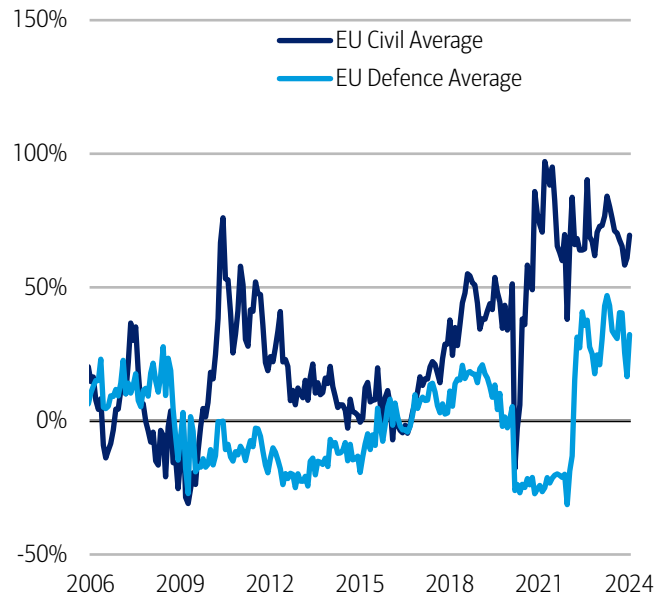


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

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## Exhibit 8: EU Civil & Defence 12mth fwd. PE rel SXXP (market).

EU Civil is currently trading at a 69.5% premium to SXXP, and defence is trading at 32.3% premium to SXXP (08/02/2024)

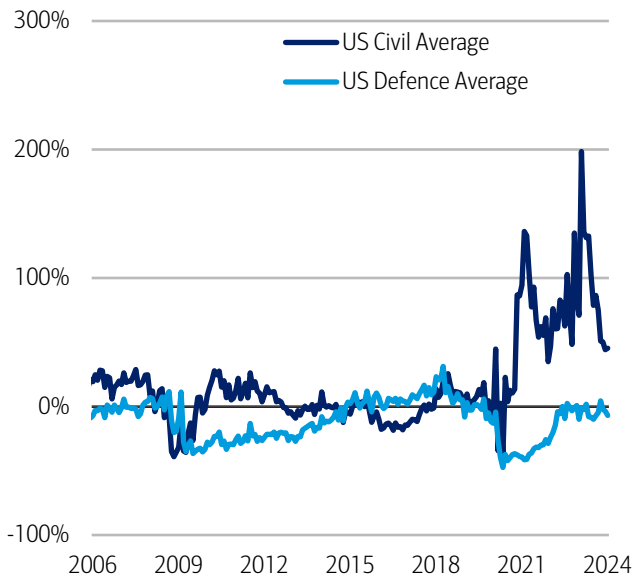


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

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## Exhibit 9: US Civil & Defence 12mth fwd. PE rel S&P500 Industrials.

US Civil is currently trading at a 45.4% premium to index, and defence is trading at a 6.9% discount (08/02/2024)



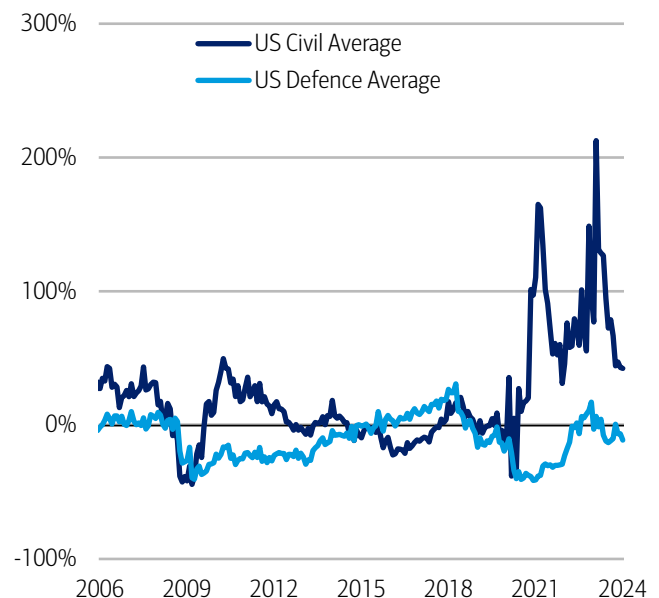
Source: BofA Global Research estimates

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

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## Exhibit 10: US Civil & Defence 12mth fwd. PE rel S&P500.

US Civil is currently trading at a 42.4% premium to index, and defence is trading at a 11.2% discount (08/02/2024)



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 0.8% decrease with Civil OE names seeing 0.9% decrease, civil aftermarket names seeing 0.1% decrease and defence names seeing 0.6% decrease. The major estimate increase was Kongsberg (+2.4%) and decrease was Hensoldt (-4.3%) during last month.

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

### Exhibit 11: EPS Revision to- 08<sup>th</sup> 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	-0.9%	-1.9%	-2.2%	-11.6%
BAE Systems	-0.3%	0.2%	4.5%	9.0%
Dassault	-3.2%	-2.4%	2.9%	16.7%
Hensoldt	-4.3%	-7.4%	-7.4%	-11.9%
Kongsberg	2.4%	3.8%	6.4%	20.5%
Leonardo	-2.4%	-3.7%	-1.0%	-7.5%
MTU	0.0%	0.6%	-1.2%	5.7%
QinetiQ	0.2%	-0.1%	0.1%	0.9%
Rheinmetall	-0.1%	3.1%	5.3%	11.1%
Rolls-Royce	1.5%	13.9%	66.8%	105.9%
SAAB	0.2%	5.4%	12.2%	30.2%
Safran	-0.3%	-1.1%	4.0%	5.9%
Thales	-0.6%	-4.7%	-4.3%	-1.8%
EU Civil OE	-0.9%	-1.9%	-2.2%	-11.6%
EU Civil Aftermarket	-0.1%	-0.3%	1.4%	5.8%
EU Defence Average	-0.6%	-0.4%	2.0%	6.3%
EU Sector Average	-0.8%	-0.7%	1.6%	5.6%

Source: DataStream

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### Exhibit 12: 12mth FWD PE to- 08<sup>th</sup> Feb, 2024

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

	1M	3M	6M	1Y
Airbus	4.7%	15.1%	4.5%	17.4%
BAE Systems	12.6%	8.7%	19.5%	21.5%
Dassault	-1.6%	-9.2%	-15.4%	-19.9%
Hensoldt	27.2%	4.0%	-12.9%	13.1%
Kongsberg	16.9%	4.8%	7.0%	2.1%
Leonardo	20.4%	14.0%	30.4%	77.7%
MTU	17.3%	25.4%	-8.2%	-20.8%
QinetiQ	17.3%	5.3%	0.5%	-5.3%
Rheinmetall	13.3%	12.4%	6.9%	3.0%
Rolls-Royce	0.5%	23.0%	9.3%	-15.7%
SAAB	22.0%	9.0%	-1.5%	11.7%
Safran	3.2%	10.5%	9.0%	4.1%
Thales	-2.9%	-3.8%	-4.1%	4.2%
EU Civil OE	4.7%	15.1%	4.5%	17.4%
EU Civil Aftermarket	7.0%	19.6%	3.4%	-10.8%
EU Defence Average	14.8%	5.5%	8.0%	23.7%
Sector Average	12.5%	8.0%	3.0%	9.1%

Source: DataStream

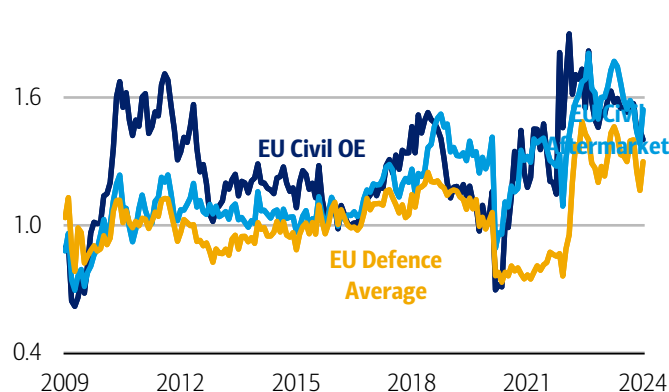
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# Global PE Trends

## Exhibit 13: EU A&D Sector Valuations -relative 12mnth FWD PE

Defence has re-rated since February 2022

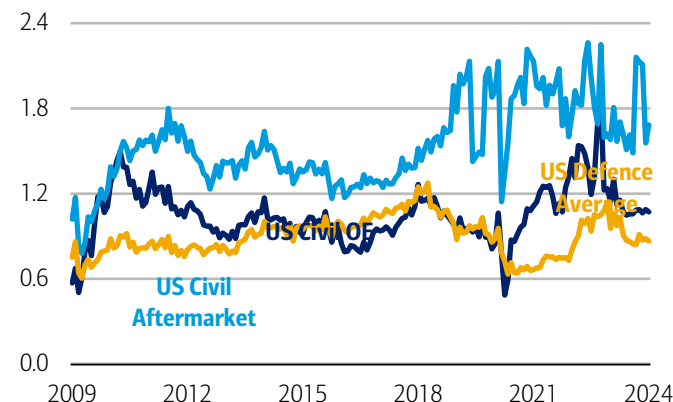


Source: DataStream

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## Exhibit 14: US A&D Sector Valuations -relative 12mnth FWD PE

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

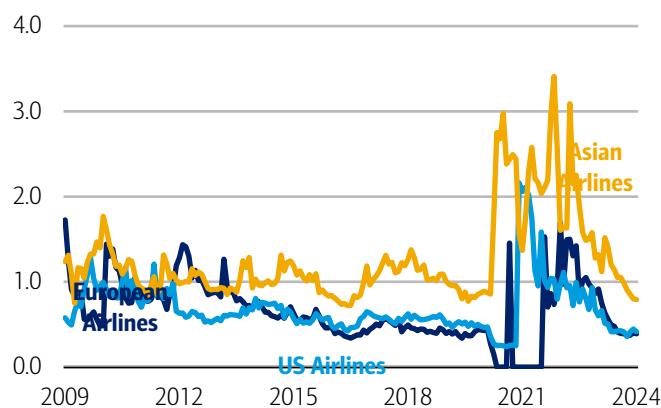


Source: DataStream

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## Exhibit 15: Global Airlines Valuations -relative 12mnth FWD PE

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

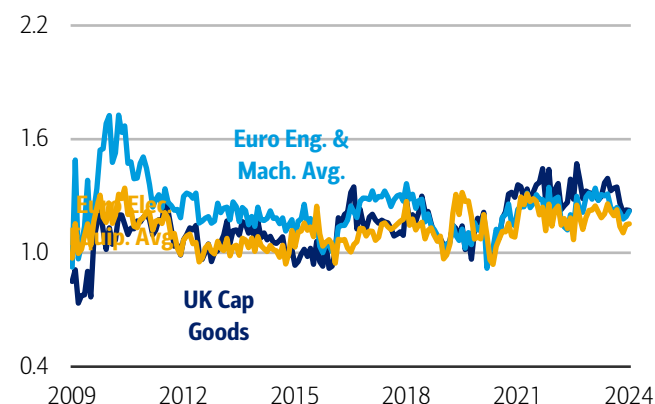


Source: DataStream

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## Exhibit 16: EU Industrials Sector Valuations -relative 12mnth FWD PE

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

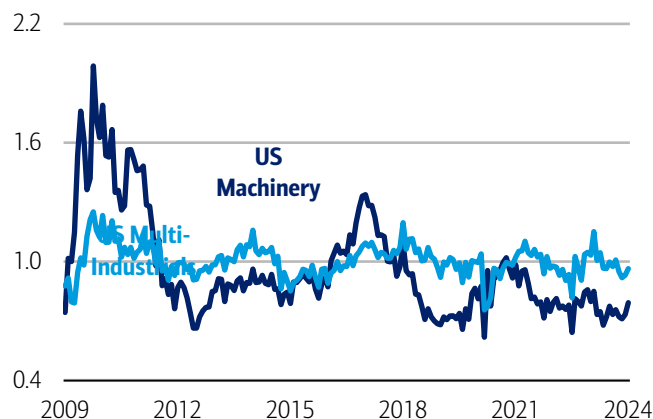


Source: DataStream

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## Exhibit 17: US Industrials Sector Valuations -relative 12mnth FWD PE

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



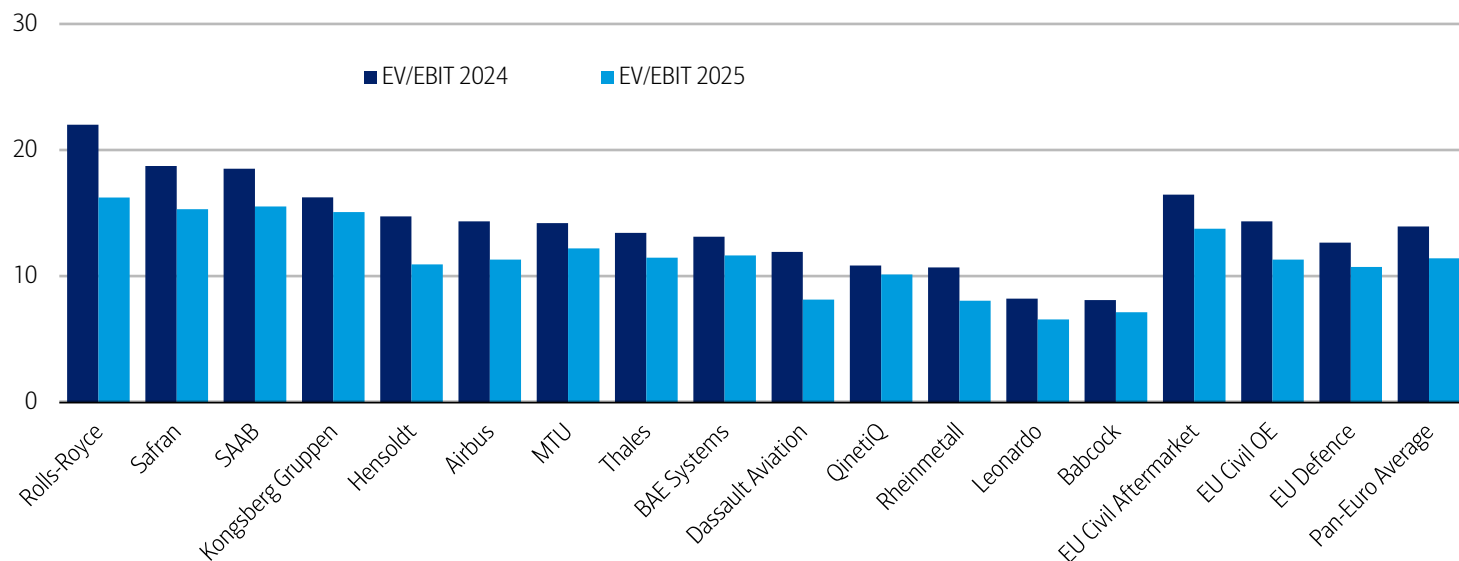
Source: DataStream

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# Valuations and PE ranges

## Exhibit 18: EV/EBIT for 2024 and 2025

2024 (Pan-Euro avg=13.93) and 2025 (Pan Euro avg =11.4) ordered in terms of 2024, most expensive to least

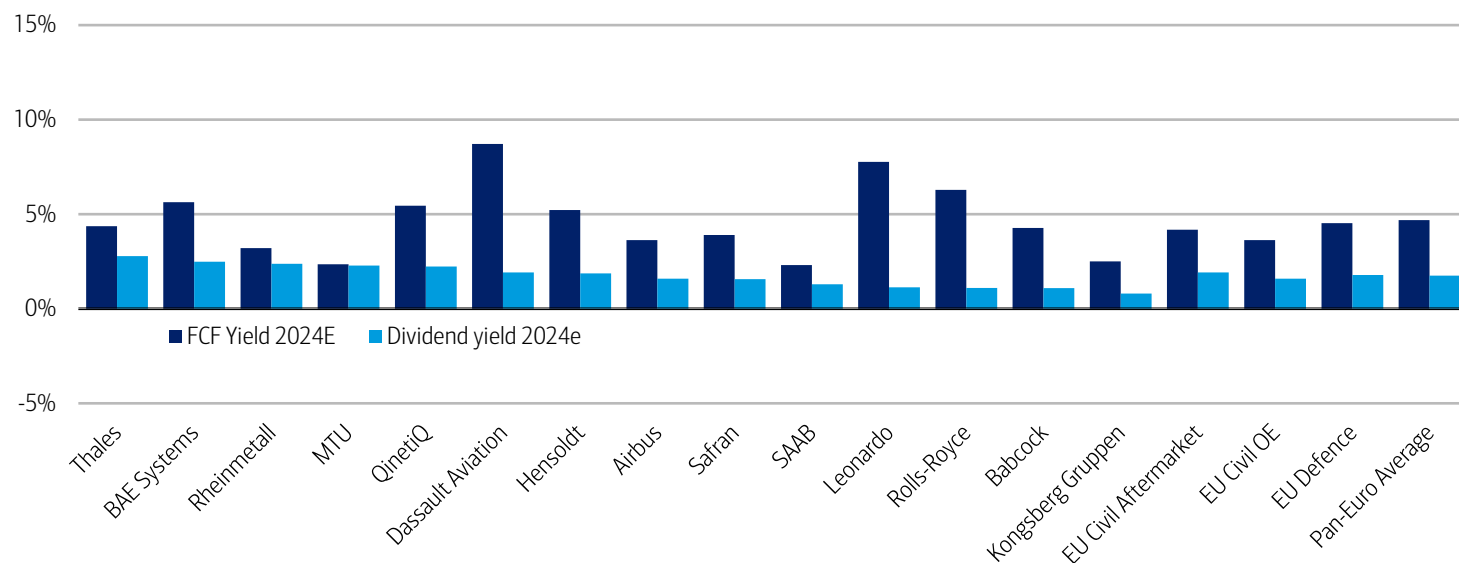


Source: BofA Global Research estimates

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## Exhibit 19: Free Cash Flow Yield % and Dividend Yield %

Free cash flow Pan Euro avg= 4.69% and dividend yield avg =1.75%



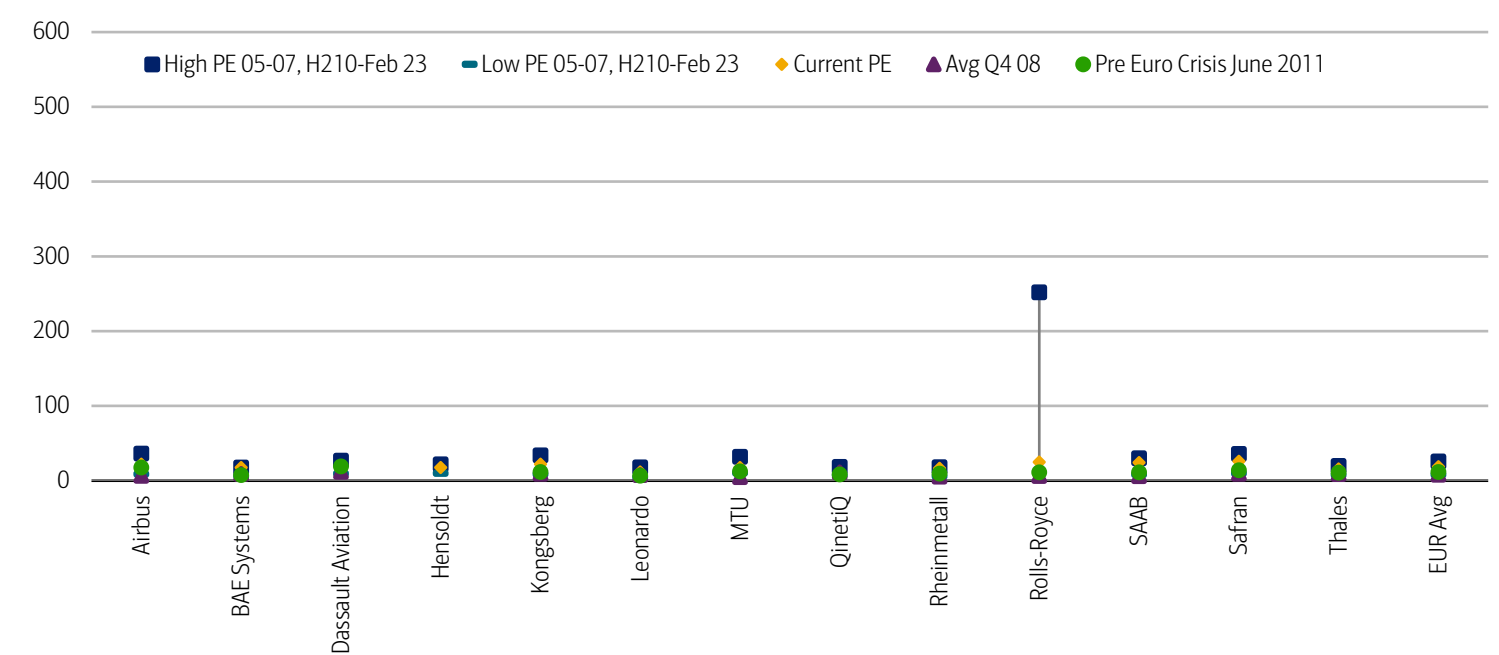
Source: BofA Global Research estimates

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Exhibit 20: 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

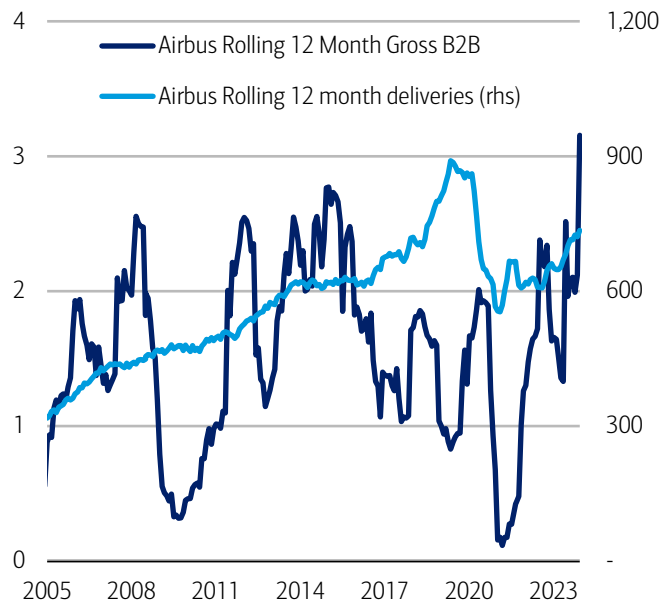
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# Global book to bill trends

## Exhibit 21: 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

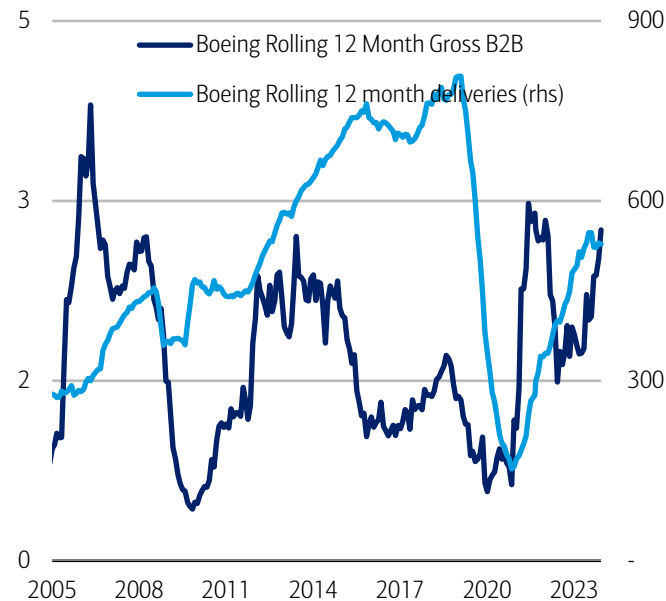


Source: BofA Global Research estimates

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## Exhibit 22: Boeing 12mth Rolling B2B and deliveries

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

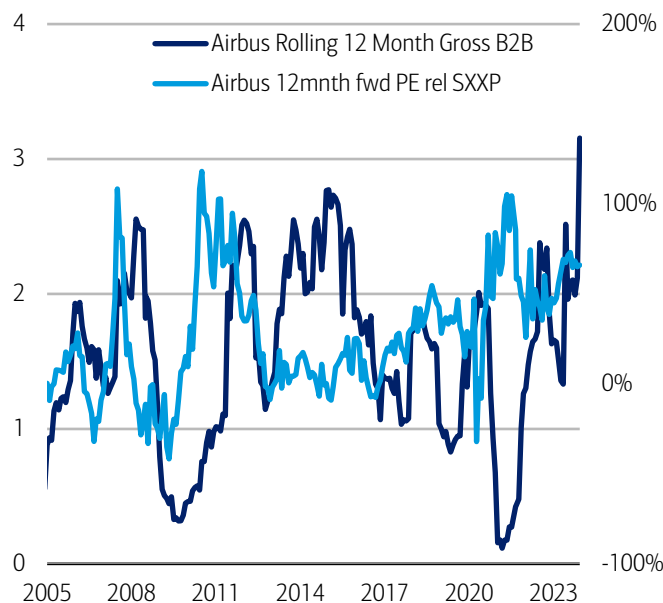


Source: BofA Global Research estimates

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## Exhibit 23: 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

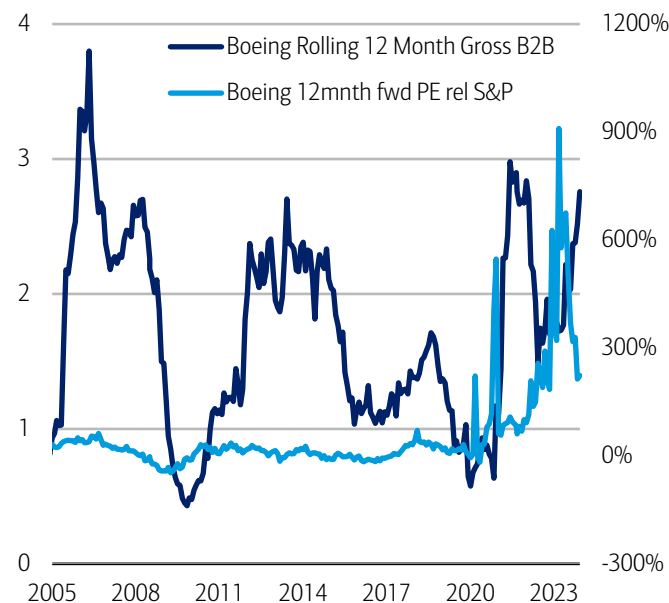


Source: BofA Global Research estimates

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## Exhibit 24: 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



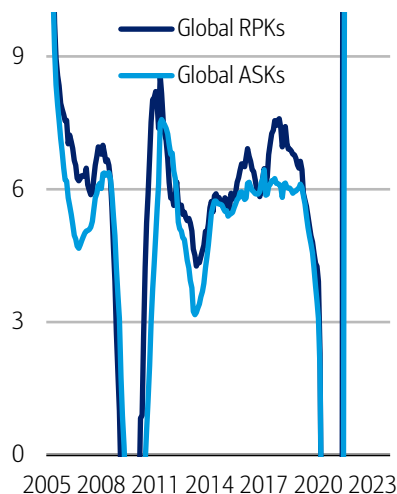
Source: BofA Global Research estimates

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# Air traffic & Capacity

## Exhibit 25: Global RPKs and ASKs (%)

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

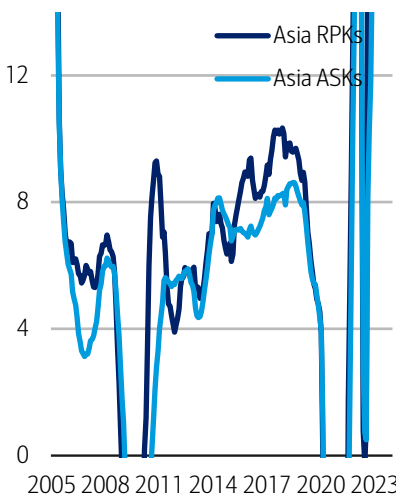


Source: IATA

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## Exhibit 26: Asia RPKs and ASKs (%)

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

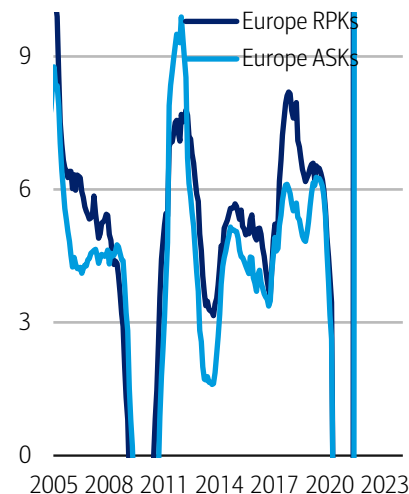


Source: IATA

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## Exhibit 27: Europe RPKs and ASKs (%)

Europe started to improve from mid-2021 onwards

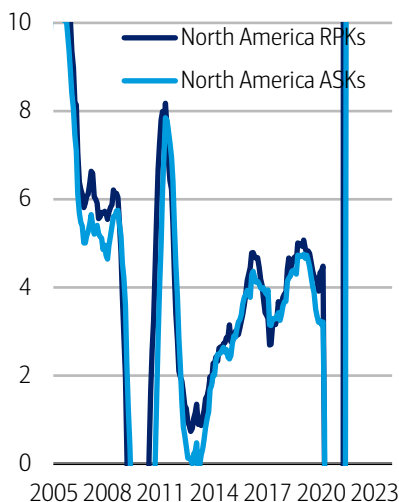


Source: IATA

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## Exhibit 28: North America RPKs and ASKs (%)

NA has higher domestic mix than Europe

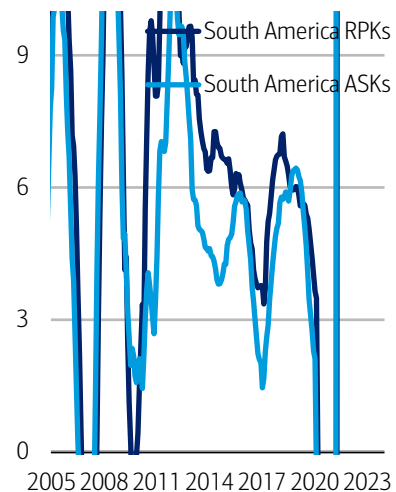


Source: IATA

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## Exhibit 29: South America RPKs and ASKs (%)

South America relies heavily on intracontinental travel

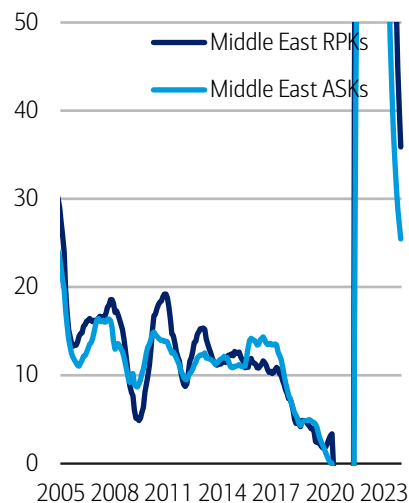


Source: IATA

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## Exhibit 30: Middle East RPKs and ASKs (%)

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



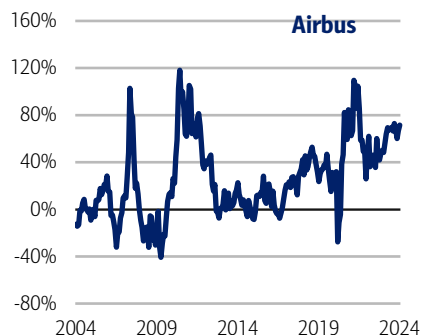
Source: IATA

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# Relative stock valuations

## Exhibit 31: Airbus 12 mnth fwd PE rel SXXP

Airbus has re-rated due to high backlog visibility

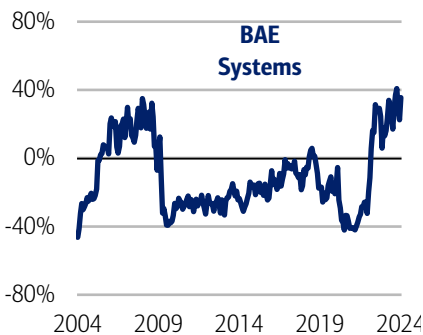


Source: DataStream

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## Exhibit 32: BAE 12 mnth fwd PE rel SXXP

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

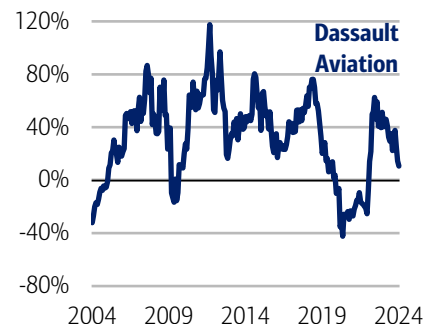


Source: DataStream

BofA GLOBAL RESEARCH

## Exhibit 33: Dassault 12 mnth fwd PE rel SXXP

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

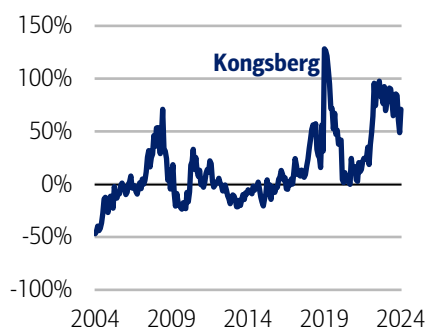


Source: DataStream

BofA GLOBAL RESEARCH

## Exhibit 34: Kongsberg 12 mnth fwd PE rel SXXP

Kongsberg has re-rated since Feb 2022

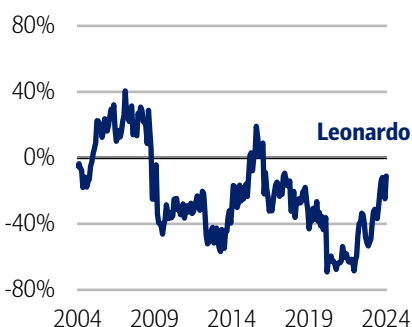


Source: DataStream

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## Exhibit 35: Leonardo 12 mnth fwd PE rel SXXP

Leonardo has re-rated significantly since Feb 22

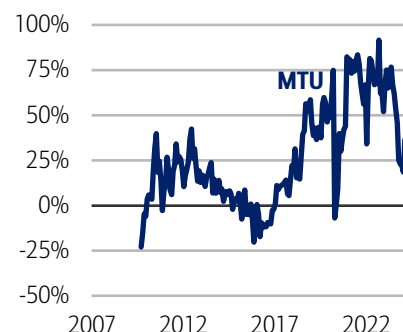


Source: DataStream

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## Exhibit 36: MTU 12 mnth fwd PE rel SXXP

MTU has de-rated due to GTF concerns

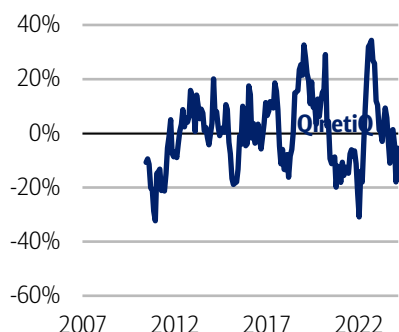


Source: DataStream

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## Exhibit 37: 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

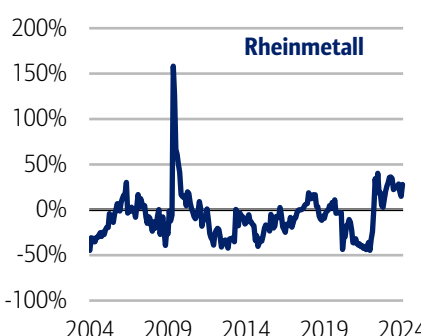


Source: DataStream

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## Exhibit 38: Rheinmetall 12 mnth fwd PE rel SXXP

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

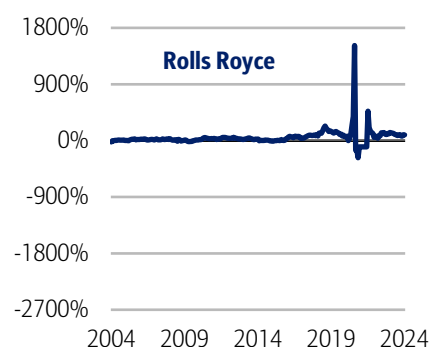


Source: DataStream

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## Exhibit 39: Rolls Royce 12 mnth fwd PE rel SXXP

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

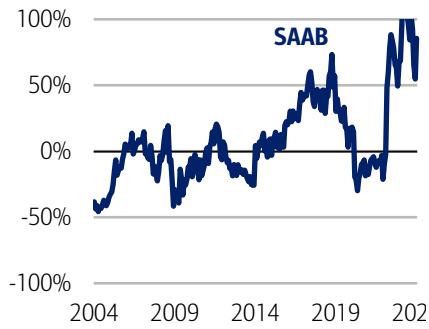


Source: DataStream

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**Exhibit 40: SAAB 12 mnth fwd PE rel SXXP**

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

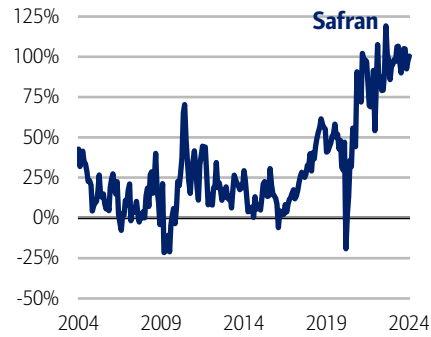


Source: DataStream

BofA GLOBAL RESEARCH

**Exhibit 41: Safran 12 mnth fwd PE rel SXXP**

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

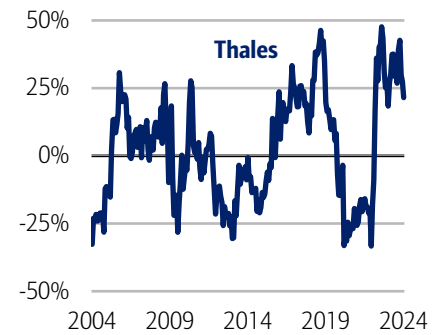


Source: DataStream

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**Exhibit 42: Thales 12 mnth fwd PE rel SXXP**

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



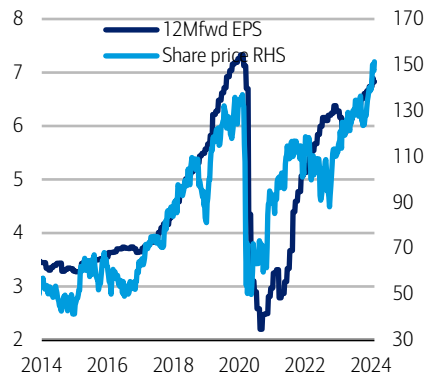
Source: DataStream

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# A&D EPS Trends

## Exhibit 43: Airbus EPS vs Share price

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

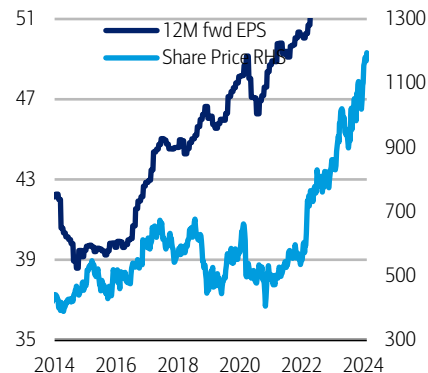


Source: DataStream

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## Exhibit 44: BAE EPS vs Share price

BAE EPS expectations have grown reflecting strong growth on defence budgets

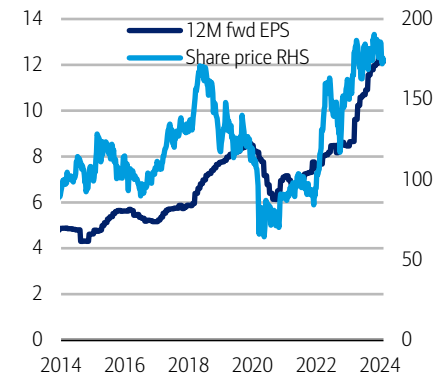


Source: DataStream

BofA GLOBAL RESEARCH

## Exhibit 45: Dassault EPS vs Share price

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

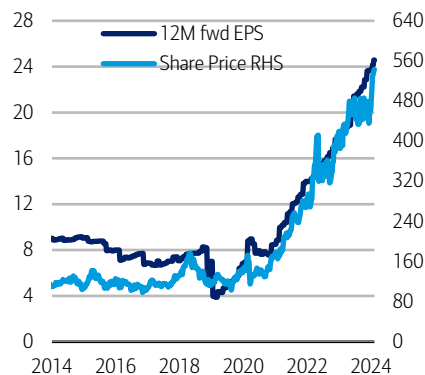


Source: DataStream

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## Exhibit 46: Kongsberg EPS vs Share price

Kongsberg EPS/share price has been positively correlated since 2019

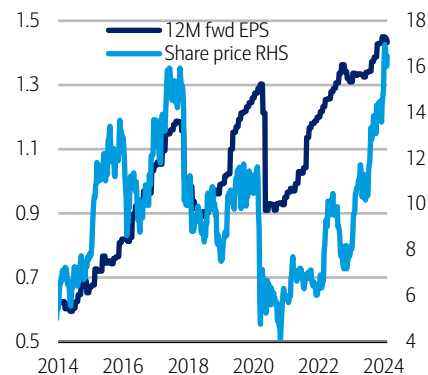


Source: DataStream

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## Exhibit 47: Leonardo EPS vs Share price

Leonardo EPS expectations have increased since 2020 lows

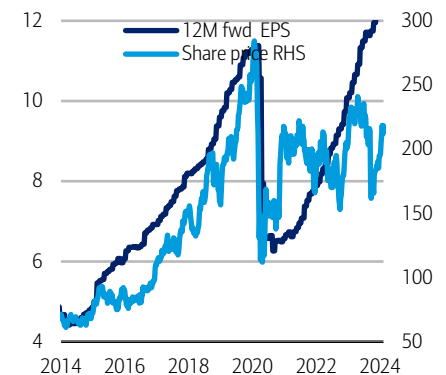


Source: DataStream

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## Exhibit 48: MTU EPS vs Share price

GTF concerns weighed on MTU share price performance through 3Q23

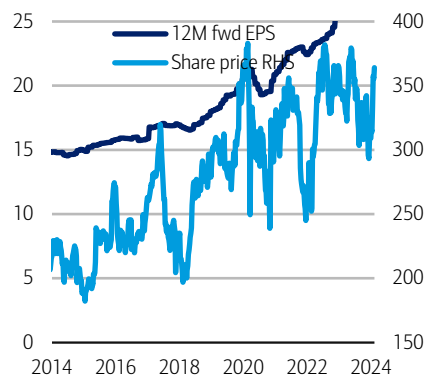


Source: DataStream

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## Exhibit 49: QinetiQ EPS vs Share price

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

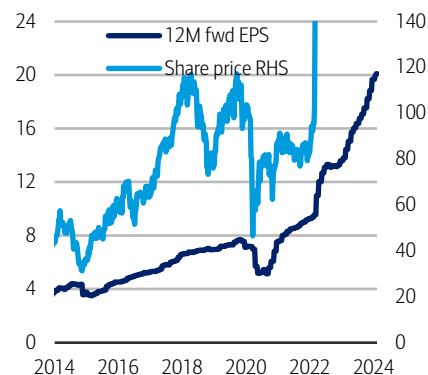


Source: DataStream

BofA GLOBAL RESEARCH

## Exhibit 50: Rheinmetall EPS vs Share price

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

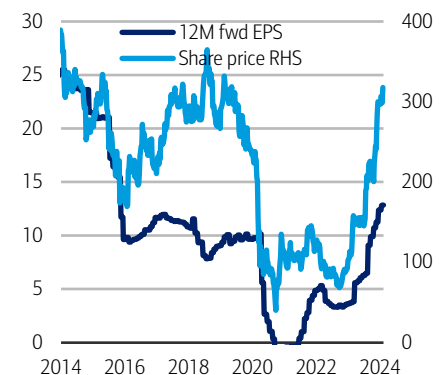


Source: DataStream

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## Exhibit 51: Rolls Royce EPS vs Share price

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

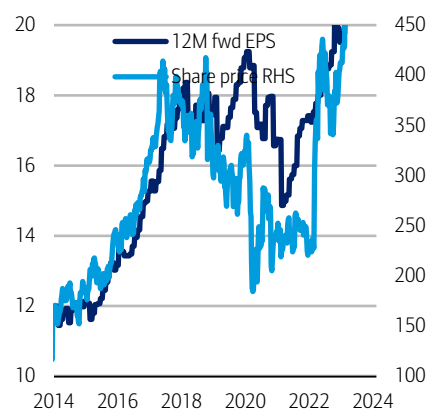


Source: DataStream

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**Exhibit 52: SAAB EPS vs Share price**

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

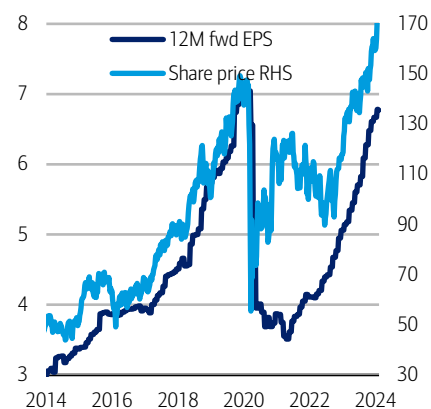


Source: DataStream

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**Exhibit 53: Safran EPS vs Share price**

Safran faced strongly positive earnings revisions due to strong aftermarket growth

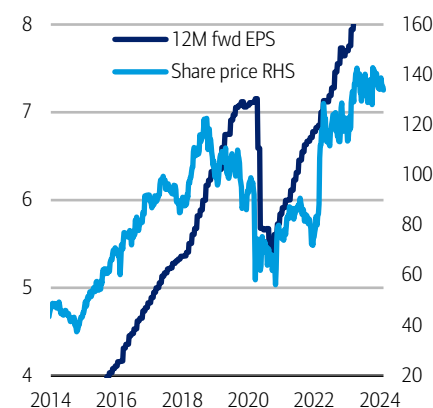


Source: DataStream

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**Exhibit 54: 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 55: A&D Compsheet

Below we highlight our valuation peer comparison table

Europe	Rating	Currency	Price	Mcap (USD)	EV/EBITDA			EV/EBIT			PE (x)			DY			FCF yield		
					2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Airbus	1 - Buy	EUR	151	127,911	11.1	9.2	7.6	14.3	11.3	9.2	22.0	16.5	12.2	1.6%	2.1%	2.9%	3.6%	5.6%	7.8%
Babcock	1 - Buy	GBP	459	2,927	5.4	4.8	4.2	8.1	7.1	6.2	12.1	10.7	9.2	1.1%	1.7%	2.8%	4.3%	5.5%	7.5%
BAE Systems	1 - Buy	GBP	1,195	45,735	10.3	9.1	8.6	13.1	11.6	10.9	16.5	14.1	12.5	2.5%	2.6%	2.7%	5.6%	6.6%	7.7%
Dassault Aviation	2 - Neutral	EUR	174	15,096	9.9	7.0	6.0	11.9	8.1	6.9	15.7	11.7	10.3	1.9%	2.6%	2.9%	8.7%	-0.4%	1.0%
Hensoldt	2 - Neutral	EUR	30	3,682	11.1	8.4	7.3	14.7	10.9	9.3	17.8	14.8	12.8	1.9%	2.7%	3.1%	5.2%	6.2%	7.3%
Kongsberg Gruppen	3 - Underperform	NOK	543	8,988	12.7	11.6	10.5	16.2	15.1	13.7	23.0	21.2	19.3	0.8%	0.9%	1.0%	2.5%	3.1%	4.1%
Leonardo	1 - Buy	EUR	16	10,191	5.1	4.3	3.4	8.2	6.6	4.6	13.3	10.7	9.1	1.1%	1.4%	1.6%	7.8%	9.6%	14.3%
MTU	2 - Neutral	EUR	218	11,982	9.7	8.6	7.7	14.2	12.2	10.4	16.8	14.5	12.7	2.3%	2.3%	2.7%	2.4%	2.4%	3.4%
QinetiQ	2 - Neutral	GBP	364	2,626	7.6	7.1	6.4	10.8	10.1	9.0	14.5	13.2	12.0	2.2%	2.4%	2.5%	5.4%	6.2%	7.2%
Rheinmetall	1 - Buy	EUR	332	15,297	7.7	6.1	5.0	10.7	8.0	6.2	15.4	11.9	9.4	2.4%	3.2%	4.2%	3.2%	4.4%	7.6%
Rolls-Royce	1 - Buy	GBP	318	33,512	11.4	9.3	7.9	22.0	16.2	10.8	22.7	17.9	13.2	1.1%	1.5%	2.0%	6.3%	7.7%	10.4%
SAAB	1 - Buy	SEK	695	8,837	11.2	9.7	8.6	18.5	15.5	11.9	24.9	21.3	18.7	1.3%	1.5%	1.7%	2.3%	2.4%	3.1%
Safran	1 - Buy	EUR	175	80,658	13.7	11.4	9.8	18.7	15.3	12.8	25.6	20.0	16.8	1.6%	2.0%	2.4%	3.9%	5.0%	6.0%
Thales	2 - Neutral	EUR	134	29,990	9.4	8.3	8.6	13.4	11.5	10.2	14.4	12.3	11.1	2.8%	3.3%	3.6%	4.4%	5.5%	0.0%
EU Civil Aftermarket					11.7	10.0	8.8	16.5	13.8	11.6	21.2	17.2	14.7	1.9%	2.2%	2.5%	4.2%	5.0%	6.6%
EU Civil OE					11.1	9.2	7.6	14.3	11.3	9.2	22.0	16.5	12.2	1.6%	2.1%	2.9%	3.6%	5.6%	7.8%
EU Defence					8.9	7.7	6.9	12.7	10.7	9.1	16.9	14.5	12.7	1.8%	2.2%	2.6%	4.5%	5.5%	6.5%
Pan-Euro Average					9.7	8.2	7.3	13.9	11.4	9.4	18.2	15.1	12.8	1.8%	2.2%	2.6%	4.7%	5.0%	6.2%

Non Europe	Rating	Currency	Price	Mcap (USD)	EV/EBITDA			EV/EBIT			PE (x)			DY			FCF yield		
					2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Boeing	2 - Neutral	USD	209	127,652	32.0	17.3	13.5	50.1	21.7	16.2	298.9	31.9	23.5	0.0%	0.0%	0.0%	3.3%	4.9%	6.2%
Embraer	1 - Buy	USD	18	3,231	7.3	5.7	4.5	11.4	8.3	6.3	11.7	9.0	7.3	0.0%	0.0%	0.0%	10.1%	12.4%	14.5%
General Dynamics	1 - Buy	USD	269	73,701	14.4	13.0	11.8	16.8	15.1	13.6	18.6	16.5	14.7	2.1%	2.3%	2.5%	5.4%	6.2%	6.7%
HEICO	1 - Buy	USD	187	22,539	27.0	23.6	20.2	32.7	28.4	24.0	54.1	45.5	37.0	0.1%	0.1%	0.1%	1.9%	2.3%	3.1%
Hexcel Corp	2 - Neutral	USD	72	6,034	16.2	14.3	12.9	23.5	19.9	17.4	30.4	24.7	21.0	0.7%	0.7%	0.7%	3.3%	4.0%	4.7%
Huntington Ing Industries	3 - Underperform	USD	272	10,774	12.9	11.7	10.6	16.8	14.9	13.3	16.1	14.2	12.6	2.0%	2.2%	2.5%	5.8%	6.5%	7.4%
L3Harris	2 - Neutral	USD	209	39,671	14.8	12.7	11.7	16.9	15.3	14.0	16.6	14.5	13.2	2.7%	2.8%	3.0%	5.5%	6.5%	6.9%
Lockheed Martin	2 - Neutral	USD	427	103,182	12.8	11.9	11.8	13.9	13.6	13.4	16.3	14.8	14.5	3.0%	3.3%	3.5%	6.2%	6.6%	7.0%
Mercury Systems	3 - Underperform	USD	26	1,557	67.8	64.6	61.1	61.3	51.2	43.1	21.0	18.0	16.4	0.0%	0.0%	0.0%	1.6%	4.8%	5.5%
Northrop Grumman	1 - Buy	USD	451	67,699	13.4	12.2	11.6	17.9	16.1	15.1	19.0	16.7	15.7	1.8%	2.0%	2.2%	3.8%	5.5%	6.8%
Raytheon	2 - Neutral	USD	91	120,794	11.0	15.8		16.0	15.8	15.3	16.9	14.8	13.6	2.7%	2.9%	3.1%	4.7%	5.8%	6.9%
Spirit Aerosystems	3 - Underperform	USD	28	3,281	7.2	6.0	5.3	11.3	8.3	6.9	14.5	8.6	7.0	0.0%	0.0%	0.0%	5.9%	6.5%	14.0%
Textron	2 - Neutral	USD	88	17,168	10.9	10.1	9.4	14.5	13.0	12.1	15.8	13.6	12.2	0.1%	0.1%	0.1%	6.2%	6.9%	8.3%
TransDigm Ltd	1 - Buy	USD	1,129	62,756	21.2	18.4	17.4	22.8	19.7	18.6	34.9	28.5	25.5	0.0%	0.0%	0.0%	2.7%	3.4%	3.8%
Triumph Group	1 - Buy	USD	15	1,154	13.9	11.3	9.7	19.1	13.6	11.5	33.4	18.5	12.0	0.0%	0.0%	0.0%	4.4%	5.4%	8.0%
US Civil Aftermarket					21.2	18.4	17.4	22.8	19.7	18.6	34.9	28.5	25.5	0.0%	0.0%	0.0%	2.7%	3.4%	3.8%
US Civil OE					16.6	11.9	10.3	24.8	15.7	13.2	89.9	19.7	15.9	0.2%	0.2%	0.2%	4.7%	5.6%	8.3%
US Defence					12.5	12.9	11.3	16.2	15.1	14.3	17.0	15.1	14.1	2.4%	2.6%	2.8%	5.1%	6.1%	7.0%
US Average					18.9	16.6	15.1	23.0	18.3	16.1	41.2	19.3	16.4	1.0%	1.1%	1.2%	4.7%	5.8%	7.3%

Source: BofA Global Research estimates

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# A&D Calendar

## Exhibit 56: A&D Calendar

Calendar of events for A&D companies

Date	Subject	Event
12 Jul 23	Kongsberg	1H23 results
20 Jul 23	QinetiQ	QinetiQ AGM
20 Jul 23	SAAB	1H23 results
21 Jul 23	Thales	1H23 results
26 Jul 23	Airbus	1H23 results
26 Jul 23	MTU	1H23 results
27 Jul 23	Safran	1H23 results
28 Jul 23	Eutelsat	FY23 results
28 Jul 23	Hensoldt	1H23 results
28 Jul 23	Leonardo	1H23 results
02 Aug 23	BAE Systems	1H23 results
03 Aug 23	Rolls-Royce	1H23 results
03 Aug 23	SES	1H23 results
08 Aug 23	Yahsat	1H23 results
09 Aug 23	Vestas	1H23 results
10 Aug 23	Rheinmetall	1H23 results
14 Aug 23	Nordex	1H23 results
15 Aug 23	Montana Aerospace	1H23 results
08 Sep 23	Avio	1H23 results
26 Oct 23	Eutelsat	1Q24 results
26 Oct 23	SAAB	9M23 results
27 Oct 23	Kongsberg	9M23 results
27 Oct 23	MTU	9M23 results
27 Oct 23	Safran	9M23 results
31 Oct 23	Thales	9M23 results
02 Nov 23	SES	9M23 results
06 Nov 23	Avio	9M23 results
07 Nov 23	Leonardo	9M23 results
08 Nov 23	Airbus	9M23 results
08 Nov 23	Vestas	9M23 results
09 Nov 23	Hensoldt	9M23 results
09 Nov 23	Rheinmetall	9M23 results
11 Nov 23	Nordex	9M23 results
14 Nov 23	Montana Aerospace	9M23 results
23 Nov 23	Eutelsat	Shareholders annual meeting

Source: Company report

BofA GLOBAL RESEARCH

## Jargon buster

AM: Aftermarket

EFHL: Engine Flying Hours

ests: Estimates

GE: General Electric

GTF: Geared Turbofan

HSD: High-single-digit

LSD: Low-single-digit

MRO: Maintenance, repair and overhaul

MSD: Mid-single-digit

OEM: original equipment manufacturer

P&W: Pratt & Whitney

SVs: Shop Visits

WB: Widebody



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> 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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