Leonardo S.p.a: A Strategic Investment in European Defense

Stock Information

Company Name: Leonardo S.p.a
Ticker Symbol: LDO.MI
Exchange: BIT
Industry/Sector: Aerospace and Defense
Dividend Yield: 1.14%

Business Overview

Leonardo S.p.a. is a prominent global player in the Aerospace, Defense and Security industries, listed on the Italian Stock Exchange under the ticker LDO.MI. The company is based in Rome, Italy, and has transformed into a European and global champion in strategic high-tech industries. The company employs approximately 51,000 employees globally, operating in over 150 countries, Leonardo S.p.A. is a vital part of the European industrial ecosystem, with longstanding partnerships with governments, military and civil institutions, space agencies and major industrial players. In recent years, Leonardo has made a shift to an integrated business model, quoted as the “One Company”, reorganizing its operational divisions and improving overall efficiency. This update has improved its competitiveness in helicopter, electronic defense systems, aerospace solutions and command & control platforms.

It must be noted that Leonardo faces intense competition at both the European and global levels in the aerospace and defense markets. Rheinmetall AG and Rolls-Royce Holdings represent two of the more important competitors.

Rheinmetall is a German company with a core competency in land defense systems including armored vehicles, munitions and related military enablers. While it has a strong suite of solutions relating to land warfare, it does not have the same level of capability in aerospace, helicopters and cyber defense – areas where Leonardo has extensive involvement. Leonardo's depth of product range allows it to provide integrated operational capabilities across the air, land, sea, and space domains.

Rolls-Royce is a UK-based business and is one of the global leaders in aircraft engine design, development and manufacture particularly for commercial and military aviation systems. However, the company's focus is narrower in comparison to Leonardo, as it operates only in the propulsion system space and is primarily a supplier for larger defense programs. Leonardo's breadth of capabilities and experience provide it with greater strategic influence over its international projects.

Of course, it is the more specialized competitors such as Rheinmetall and Rolls-Royce, and their business segmentation, which make Leonardo's more diversified business model and ability to provide turnkey arrangements (i.e. options for all aspects of operational capability) more attractive and certainly more resilient, not forgetting also its position as a key player in a number of joint European initiatives such as the GCAP and Eurofighter.

Recently, the Italian company has had a significant opportunity with the 'ReArm Europe' rearmament plan. In response to escalating global tensions and the war in Ukraine, the EU agreed to enhance its defense autonomy, and they are going to do this with a historic investment of up to 800 billion euros by 2030. As part of this plan, the EU mandates that a minimum 65% of military procurement must come from European suppliers, which is a major tailwind for Leonardo.

Its industrial plan for 2025–2029 aims to take advantage of this situation. It has a target of 7% average annual revenue growth and EBITDA growth of 13.1%. The company estimates an upside of $6.6 billion of directly Defense related public spending. Noteworthy examples include its joint venture with Rheinmetall in armored vehicles and its involvement in the fighter programs for GCAP.

Financial Performance

Table 1. Leonardo KPIs from the last 5 fiscal years

KPIs	2020 FY	2021 FY	2022 FY	2023 FY	2024 FY
Revenue (€B)	13.40	14.10	15.00	15.70	17.76
Net Income (€B)	0.24	0.61	0.93	0.95	1.07
EPS (€)	0.42	1.06	1.65	1.69	1.87
Gross Margin (%)	26.90%	28.20%	29.00%	29.30%	29.80%
Operating Margin (%)	5.20%	7.40%	8.10%	8.50%	8.93%
Net Margin (%)	1.80%	4.30%	6.20%	6.00%	6.05%
ROE (%)	3.10%	8.40%	11.70%	12.00%	12.30%
ROA (%)	1.10%	2.60%	3.50%	3.60%	3.70%
Debt-to-Equity	0.57	0.50	0.48	0.47	0.46

Revenues grew from €13.4 billion in 2020 to €17.76 billion in 2024, a compounded annual growth rate (CAGR) of approximately 5.2%. Net income has more than doubled during this time as a consequence of improved margin and cost controls afforded under the "One Company" initiative.
Additionally, Leonardo has remained profitable throughout the COVID-19 crisis and has continued to invest in research and development to position itself to meet demand after the pandemic. The debt profile for the company has also vastly improved, as evidenced by a consistent trend of decreasing net-debt-to-EBITDA ratios. Overall, Leonardo's balance sheet is one of the healthiest in the European family of defense contractors.

Valuation Metrics

Table 2. Market Comparables

Name	P/E LTM	TEV/EBITDA LTM
Leonardo	23	10.3
Rolls-Royce	19	14.3
Rheinmetall	61.7	29.5
Median	**23.00**	**14.30**
Average	**34.57**	**18.03**

Leonardo is currently trading at valuation multiples that suggest investor confidence in its growth potential. The price-earnings (P/E) ratio is 23, which is slightly above the industry average, and the EV/EBITDA ratio is 10.3. This shows that the market expects solid long-term performance driven by innovation and a firm position. Leonardo has demonstrated vigorous growth in both revenue and profitability during the last five years, fueled by a transforming business culture and a focus on core defense technologies. Leonardo’s P/E valuation premium is supported by its strong pipeline of contracts, technological leadership in radar and avionics, and expanding presence in the cyber and space — all sectors with high barriers to entry and long-term growth prospects.

Risks

While Leonardo has a strong position, there are several risks that must be noted. These include:
Geopolitics: There is an upside to global tensions (demand for defense) but there is also the risk to operations (interruption of supply chains) and continuity of international operations.
Government Budgets: The defense business is government budget dependent, which can change with political tides.
Execution Risk: The performance potential of business case scenarios can hinge on the execution of projects/major international programs (for example, GCAP cancellation/delays impact near term profitability).
Technological Risks: The pace of change for AI and digitally autonomous systems, and escalation of cyber warfare, whilst profound will require ongoing innovation from Leonardo to maintain their competitive edge.
Currency Risks: Exchange rates can have an impact on the revenue from international contracts.

Conclusion

Leonardo is increasingly well-positioned to take advantage of the upside from the renewed strategic focus on Defense and technological sovereignty in Europe. The company has sound fundamentals, a strong market position, and a set of cooperative partnerships that allow it to be positioned as one of the more attractive industrial assets in Europe. Its dividend yield of 1.14% is modest, which reflects its reinvestment strategy to create long-term value from investments in AI, Space and Digital defense systems. Leonardo is a combination of solid fundamentals and positive macro dynamics that make it a compelling long-term investment opportunity in a strategic sector. We give Leonardo a BUY rating.