

**Rolls-Royce (RR/ LN) December 5, 2022, One-to-One Video Call (Last Visit Oct 4, 2021, Buy Rating)** - Stock Price GBP 0.9350, Dividend Yield NA, Market Cap GBP 7.8 Bln (as of December 6 2022)

« **Perfect Time to Visit** »

As of end of 2021, Civil Aerospace made for 41% of Rolls-Royce total Revenues, followed by Defence for 31%, Power Systems 25% and New Businesses 3%

Civil Aerospace is expected to end flat in 2022, following GBP -172 Mln Operating Loss in 2021, and should clearly be positive again in 2023 (Production is currently at 65% run-rate of 2019 level in large engines) – Staff shortage has reduced volume of flight connections around the World, on top of China closure to Intl flights and very limited activity in Domestic travel (Back in 2019, China accounted for 19% of World flying hours)

Defence will be negatively impacted by rising Capex in new programs next year, with Ebit Margin forecasted at 10% to 12% level, from 13% in 2022

Power Systems is Rolls-Royce largest growth driver long-term, with Order Intake very strong so far this year (2x Book-to-Bill), extending lead-time (Order Book in Power Systems has reached GBP 3.7 Bln, or 16 months of activity), with Supply Chain very tense in Electronics clearly an issue short-term

Regarding 2023, China Intl Flights reopening and normalization of flying schedules in North America/Europe are main growth catalysts (Company expects Air Traffic back to 2019 level in 2024)

Company Guidance is to reach 8% Operating Margin by 2025, from Loss in 2021, and turn positive in Free Cash-Flow in 2022 (focus is to return to Investment Grade rating)

200 Civil Engines should be delivered in 2022, from 195 in 2021 (250 expected in 2023) – New Rolls-Royce CEO (ex-BP) will start Jan 1<sup>st</sup>, 2023, with clear aim to cut costs and raise Disposals further, following latest GBP -1.3 Bln cost-reduction program and GBP -2 Bln of disposals done

**WHAT'S NEW ?** We forecast 1'100 Engine Shop Visits in 2023, from 1'000 in 2022 and 950 in 2021 – **WHAT'S DIFFERENT ?** 70% of Rolls-Royce shareholders are from the USA, not really interested in ESG topics, helping Company to prevent ESG bashing in comparison with peers Safran and MTU (owned in majority by European investors)

Rolls-Royce is clearly ending its turn-around phase, with 2023 emerging as very exciting

**We upgrade our Rating to STRONG BUY (from Buy) and lift our Target Price to GBP 2.50 (from GBP 2)**

Pierre Essig



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