# FACC

Aerospace and defence

3 November 2021

## New growth opportunities as market recovers

**FACC is a market leader in lightweight composite materials for the aerospace industry and is well placed to benefit as the civil aircraft market recovers. The company is focused on delivering improved margins as volumes ramp back up across its product segments, supported by strong positions on leading new aircraft programmes and its clear technological edge. In addition, FACC is to develop the growing new market potentials such as unmanned air mobility and space where applying its technologies can add value to the development of new products.**

### Lightweight solutions in commercial aerospace

FACC was established in Austria and has operated as a niche specialist in the supply of carbon composite structures to the aircraft industry for more than 30 years. It was taken over by the Chinese aerospace group AVIC in 2009 and was the subject of an IPO in 2014. Prior to the pandemic the group had been building brand image and credibility allowing it to gain market share. FACC has continuously invested in technology and the automation of its manufacturing production capacity. The sharp contraction of commercial aircraft production caused by the pandemic has enabled a reassessment of the whole development and manufacturing system.

### Reset for commercial aircraft market recovery

In the face of the sharp drop in commercial aircraft manufacturing schedules following the collapse in air travel due to the pandemic, management accelerated and expanded a proposed efficiency programme to right-size the businesses for the lower levels of activity anticipated in the next few years. The actions implemented in H220 led to a stringent restructuring programme. These included a reduction in fixed overhead costs, a 20% reduction in headcount, changes to processes and operational structures including merging engineering activities, and the consolidation of divisional management for Aerostructures and Nacelles. As markets improve and volumes recover, with growth strengthening from FY22 the operational leverage should allow margins to reach double-digit levels for both Aerostructures and Nacelles. Interiors has a mid-single digit EBIT margin target as it transfers production to a lower-cost facility in Croatia starting in FY22.

### Valuation: Potential for higher medium-term returns

FACC hopes revenues will recover to pre-pandemic levels of €750m by FY25 with a mid-term EBIT margin target of c 8.5% delivering a strong improvement in EPS and cash generation. The Strategy 2030 roadmap is being rolled out and seeks to augment the strong existing positions while growing the new revenue segments.

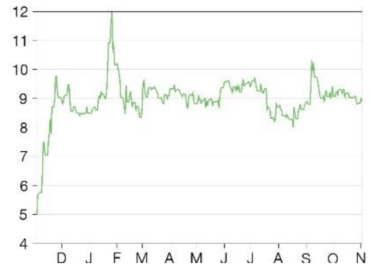
**Consensus estimates**

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/19* | 653.1 | 13.7 | 0.24 | 0.00 | 37.1 | 0.0 |
| 12/20 | 526.9 | (81.5) | (1.68) | 0.00 | N/A | 0.0 |
| 12/21e | 505.2 | (1.6) | (0.04) | 0.03 | N/A | 0.3 |
| 12/22e | 595.3 | 13.5 | 0.24 | 0.06 | 37.1 | 0.7 |

Source: FACC, Refinitiv. Note: *Short FY of 10 months due to change in year end.

| | |
|---|---|
| **Price** | **€8.9** |
| **Market cap** | **€408m** |

**Share price graph**




**Share details**

| | |
|---|---|
| Code | FACC |
| Shares in issue | 45.8m |
| Net debt at 30 June 2021 | €225.2m |

**Business description**

FACC is a Tier 1 supplier to the aerospace industry, 55.5% owned by AVIC of China. It manufactures composite structural components for Aerostructures (35% of H121 sales), Cabin Interiors (43%) and Engines & Nacelles (22%). FACC employs 2,467 people across 13 sites internationally.

**Bull**

- Restructuring positions all three divisions for margin recovery to improved levels.
- Market volumes expected to be back to pre-pandemic levels by FY25.
- Potential development of new revenue streams in 'new space' and air-based urban mobility.

**Bear**

- Potential for further pandemic disruption to recovery in air transport markets.
- Required to ramp up volumes on primarily new projects where risks are higher and margin levels are lower due to learning curve inefficiencies.
- Fewer major new commercial aircraft programmes expected over the next decade.

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