



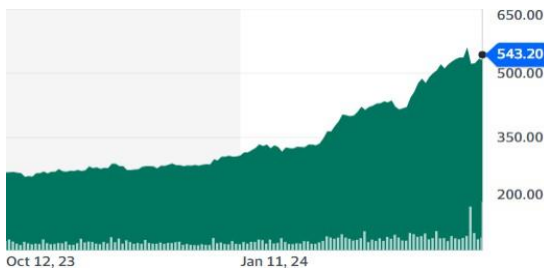
**Position: HOLD**  
**Current Price EUR 543.20**

Current Return: 102.23%  
 (Overperformed)  
**New Target: 650 EUR**

**KEY FIGURES 2023**

	2023	2022	2021	
<b>SALES/EARNINGS</b>				
Sales	€ million	7,176	6,410	5,658
Of which generated abroad	%	76.0	70.5	65.9
Operating result <sup>1,2</sup>	€ million	918	769	594
Operating margin <sup>3</sup>	%	12.8	12.0	10.5
EBIT pre PPA	€ million	968	747	-
EBIT <sup>4</sup>	€ million	897	738	608
EBIT margin <sup>5</sup>	%	12.5	11.5	10.8
EBIT <sup>6</sup>	€ million	815	718	582
Earnings from continuing operations <sup>6</sup>	€ million	630	534	432
Earnings from discontinued operations <sup>6</sup>	€ million	(44)	6	(100)
Earnings after taxes <sup>6</sup>	€ million	586	540	332
Return on capital employed (ROCE) <sup>6,7</sup>	%	19.9	21.4	19.5
<b>CASH FLOW</b>				
Cash flow from operating activities	€ million	743	174	(349)
Cash flow from investments	€ million	(398)	(349)	(175)
Operating free cash flow	€ million	344	(175)	(151)
Of which continuing operations <sup>8</sup>	€ million	356	(151)	(24)
Of which discontinued operations <sup>8</sup>	€ million	(12)	(24)	
<b>STATEMENT OF FINANCIAL POSITION (12/31)</b>				
Equity <sup>9</sup>	€ million	3,643	3,090	
Total assets <sup>9</sup>	€ million	11,707	8,096	
Equity ratio <sup>9</sup>	%	31.1	38.2	
Cash and cash equivalents	€ million	850	545	
Total assets less cash and cash equivalents <sup>9</sup>	€ million	10,858	7,551	
Net financial debt (-)/Net liquidity (+) <sup>9</sup>	€ million	(1,063)	(426)	
Basic earnings per share from continuing operations <sup>10</sup>	€	13.34	10.80	
Basic earnings per share <sup>10</sup>	€	12.32	10.94	
Diluted earnings per share from continuing operations <sup>10</sup>	€	13.02	10.80	
Diluted earnings per share <sup>10</sup>	€	12.07	10.94	
Basic earnings per share pre PPA effects from continuing operations	€	14.65	10.90	
Dividend per share	€	5.70	4.30	
Dividend payout ratio	%	38.9	39.2	

All data sourced from Rheinmetall Annual Report of 2023



**Half Year Update**

**Extraordinary Excellence**

Our investment was right on time to benefit from the record-breaking growth of the European defense industry, reflected in the equally historical high prices of the stocks. Even amongst all these growing stocks, Rheinmetall has demonstrated its competitive advantages with its efficient and cost-saving production line, an

exception in the generally inefficient and bureaucratically burdened defense companies. This is reflected in its uninterrupted growth trend since the end of the pandemic. The company has published its Annual Report for the last financial year in this quarter. All key figures of earnings and cash flow grew, albeit only EBIT results were able to beat the market consensus. Despite this, we expect this growth trend to continue for at least 5 years as rearmament efforts continue in Europe, supercharging a defense boom.

The return of major armed conflict in the Middle East has further accelerated this trend and expanded the room for growth. However, the very overperformance of the stock represents a risk, hence our advice to reverse our position to hold. This is not motivated by any ongoing macroeconomic concerns: As mentioned in our first pitch, the defense sector is special in the fact that it is utterly independent of consumer sentiment. However, the extreme increase in the share price has created significant concerns regarding overpricing. To begin with, both trailing and forward multiples nearly doubled to 47.48 and 28.82 respectively, with a similar increase in EV/Rev and EV/EBITDA multiples at 3.68 and 23.29. This creates room for speculation-driven trading and bubble risk, which is why we recommend caution and to not expose our portfolio to excessive risk. Subsequently, we have decided to choose a conservative target price.

Note that we are following a risk-averse strategy, meaning that further risks may be taken to pursue more profits if desirable.

**Developments of Note Rheinmetall: Secures Japanese UGV Contract**

Rheinmetall has won a multimillion-dollar contract from the Japanese Ministry of Defense for the delivery of autonomous Unmanned Ground Vehicles (UGVs), specifically the Mission Master SP in 04/08/2024. These compact, fully electric UGVs are set for delivery in early 2025. The contract includes training, ongoing support, and parts, with Marubeni Aerospace as the prime contractor.

## **German Arms Upgrades**

The German government plans to spend up to 7 billion euros on defense upgrades, including two additional F126 frigates and nearly 900 Fuchs armored transporters. The 4 billion euro contract for the armored transporters will be fulfilled by Rheinmetall, with deliveries scheduled to begin in 2025. The reported details may include speculative elements and are not yet verified.

## **Australia-Germany Deal**

Rheinmetall has announced a new agreement with the Australian government to produce 123 Boxer Heavy Weapon Carrier vehicles, with the majority destined for Germany. Additionally, Rheinmetall disclosed a 2.7 billion-€ contract with the German government from March, aimed at supplying Scherer Waffenträger Infanterie vehicles to the German armed forces starting in 2025.

## **Updates to SWOT: More Diversification**

On 05/04/2024 Rheinmetall announced the construction of a new hybrid plant in southern Hungary for a total investment of €63 million. The site will primarily manufacture products for the Automotive business unit, including

electrical components such as nanostructure capacitors, as well as products for the use of hydrogen in mobility and energy generation. This strategy aligns with the growing demand for zero-emission vehicles and could offer new growth opportunities for the company in the long term.

## **Technological Developments**

Rheinmetall continues to be at the top for technological advancements in the defense market. Rheinmetall's announced the partnership with Marubeni Aerospace will focus on developing a vehicle driven by an AI-powered navigation system that can be installed on any vehicle. In addition, the company is investing in new projects to improve the production of missile defense systems. This strategy ensures Rheinmetall's continuing competitiveness in global markets.

## **US elections**

The possibility of Donald Trump being re-elected this year could be an opportunity for the company: His threatening anti-NATO stance can drive European leaders to further increase autonomous defence spending, leading to increased demand for weapons systems from Rheinmetall.

## **War in Ukraine**

Russia has seized the initiative this winter, positioning itself to rout Ukraine's ground forces, weakened by the end of US military aid. This is a double-edged development, as Ukraine is Rheinmetall's second biggest market but its defeat can also lead Europe, especially Poland, to further increase defense spending.