Prometheus Capital

RheinMetall (RHM.DE)
Buy: €2168.12 (18.46%)

EU TMT

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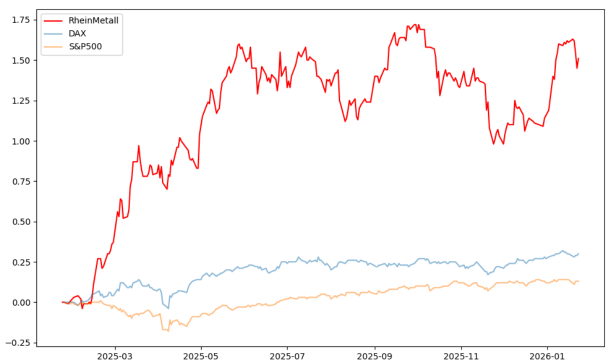
Basic Information

Last Closing Price	€1830.00
Target Price	€2168.12
+/- potential	18.46%
Ticker	RHM.DE
GICS Sector	Industrials & Tech
GICS Sub-Industry	Defence

1 Year Cumulative returns

1Y returns: RHM.DE vs S&P500 vs DAX



Market Cap	€87,586.89M
Basic Shares O/S	45.88M
52-Wk High	€2,008.5
52-Wk Low	€688

€ million	FY 21	FY22	FY23	FY24
Gross profit	3030	3379	3937	5059
EBITDA	867	1000	1234	1767
EBIT	613	750	926	1364
Net Income	291	474	535	717

Source: *Rheinmetall annual statements*

Key Executives

Armin Papperger	CEO
Klaus Neumann	CFO
Dr Vera Saal	CHRO
René Gansauge	COO

Investment Thesis

We believe the market underestimates Rheinmetall's rapid expansion that will drive up the sales, while simultaneously increasing or keeping the net margins. It also overestimates Rheinmetall's credit risk due to its high debt and Moody's rating. As a result, Rheinmetall's growth and profitability potential are not fully reflected in current valuations. which according to our valuation should be €2168.12 per share.

Valuation

We are valuing Rheinmetall (RHM.DE) relying solely on intrinsic value (DCF) arriving at a target price of €2,168.12, a 18.46% increase from its last close price of €1830

Key Risks

Downside risks: Bureaucracy and Political Instability

Upside catalysts: Demand expansion and successful capture

Investment Thesis

Since the invasion of Ukraine by Russia, EU and other NATO European nations have set clear goals for higher defence budgets, rearmament and technological advancement of the European army. This has led to accelerated momentum in multiple European defence contractors. Trump's administration has pressured the shares of these companies to rise even further. Rheinmetall is Germany's biggest defence company and 2nd biggest in Europe. RHM was only the 6th biggest in 2023, which shows the company's commitment and success in scaling with Germany's military expansion. The potential room for further enlargement of the company is evident by revenue growth which has been 35.9% for 2024 and expected to grow by 25%-30% for 2025, which is almost twice higher than the next fastest growing competitor in the corresponding European industry.

Germany stopped debt-brake, which gave no real upper-limit on military spending and even allocated a special fund of 100 billion euros. Germany is very committed to expanding its army and meeting the NATO commitments for the defence spending, as it lagged behind even its European counterparts. The reason why we believe Rheinmetall is a better choice for investing than its competitors is due to Germany's commitment, as it even has cut aid and social benefits to meet the new military spending target. Germany has the biggest GDP, national budget, and debt-management than its European counterparts such as Italy and France. Politically it is also seen as more stable, apart from the presence of the AFD party, however it is having difficulties in winning at the federal level, hence this risk is very limited. Germany is also fully committed to reach 3.5% allocation of GDP to defence spending by 2029 as part of the NATO commitments.

Rheinmetall has been expanding in Eastern Europe as well by opening an ammunition factory in Lithuania that will be operational in 2026 and having three relatively new factories of ammunition and gunpowder in Hungary. Rheinmetall has aggressively allocated its capital in Eastern Europe, which has reduced costs and has increased margins. These governments will be more dependent on Rheinmetall, which gives them a higher chance of winning the procurement rounds. Rheinmetall has a net-margin of approximately 9%, which is much higher than its competitors in the region who have 3%-6%. Rheinmetall has also acquired Hagerdorn-NC, a nitrocellulose company, which is the main ingredient for ammunition and rocket fuel. We believe this is one of the strongest upward forces for Rheinmetall's share price, as we believe that the market first underestimates the number of procurement rounds and tenders it will win and secondly underestimates the net margins that will even get better, due to the new factories in the Eastern Europe and the scarcity and high demand of ammunition. This is also supported by the DCF model, where we have modeled an increase in Sales and EBIT margin in our explicit forecast.

Rheinmetall is highly leveraged relative to competitors with about 45% of assets being financed by debt. At first glance it does put the company in a risky position, especially considering its current Moody's rating is Baa1. However, this higher leverage was needed for the quick scaling and aggressive expansion, which has shown to pay-off due to unprecedented revenue growth, which is twice as high as the next competitor's, and increases net margins. Also additionally, their credit rating has been only improving the past decade, which has been upgraded from Baa2 in 2022. One of the reasons that we believe that the market underprices Rheinmetall is its credit rating and higher leverage. We believe that first of all, the credit rating has been improving and is only going to improve further, and second of all the high leverage can be explained by the spikes in the EU military spending that influenced Rheinmetall's rapid, but cost-controlled expansion.

To conclude we believe that the combination of EU's rearmament efforts together with RheinMetall's strategic costs reduction, the expansion in both product range and manufacturing locations would increase revenues and margins to an extent not captured by other analysts. Additionally, we believe that the credit-risks associated with increased leverage are being overblown, and other analysts do not take into account management's competence and cost-controlled approach to the expansion cycle.

Valuation

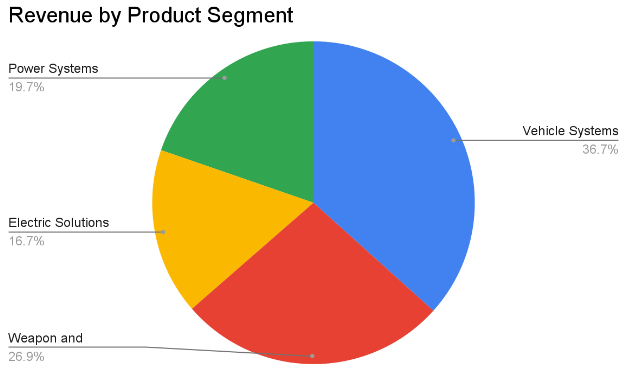
We value Rheinmetall exclusively with a DCF, since peer multiples available simply can't put into perspective the anticipated growth RheinMetall is going to experience in the following years. The DCF implied value per share we concluded sits at €2168.12 which implies 18.46% upside in the next months.

We relied on a WACC (Weighted Average Cost of Capital) of 6.72% and a TGR (Terminal Growth Rate) of 2.3%, reflecting strong near-term expansion but a gradual normalization toward modest long-run growth slightly above inflation.

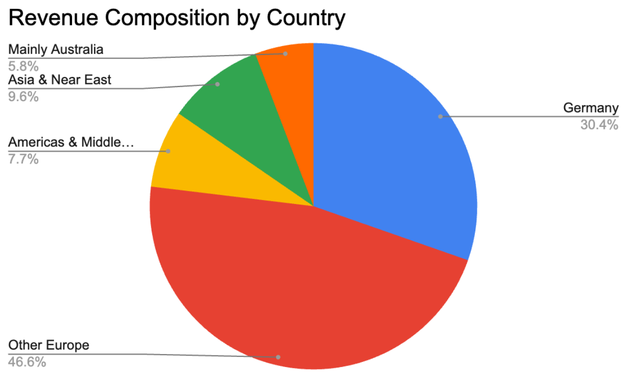
Base-case DCF implies €2,168.12/share (WACC 6.72%, TGR 2.30%); across sensitivities, valuation ranges €1,493–€3,958 showing high dependence on discount rate and terminal growth.

Company Overview

Rheinmetall is a German defence contractor and an automotive supplier operating mainly in the EU. Its main products are weapons & ammunition, electric solutions, power systems and vehicle systems.



The main customers are the German military and other EU nations. Revenue is earned 77% in Europe, while the other 23% is from other global nations.



Rheinmetall is Germany's biggest defence contractor, which is why most of its revenue comes from Germany and other EU nations. Its supply chain in Canada and Latin America mainly provides vehicular systems, while in Australia, it provides Boxer IFV (armoured fighter vehicle) and artillery programs.

Industry and Competitive Landscape

Industry Outlook:

Global military expenditure in 2024 was over USD 2.4 trillion, which has been growing the past decade. Germany has aimed to advance and modernize its military and hence allocated €82.69 billions to the German Armed Forces, which is 15% of the national budget. Additionally, the German government has created a separate special fund of €100 billion for military spending. These numbers are expected to grow due to the ongoing Russia-Ukraine war and NATO commitments. The rest of the European countries will also keep increasing their military budget, due to the same aforementioned reasons. NATO's commitment of 2% of GDP spending on military has been almost achieved by all European nations and this commitment is expected to jump up to 3.5% by 2029 and to 5% by 2035. This environment gives Rheinmetall the confidence that their market is only expected to grow at exceptional rates relative to the previous decades.

The defence budget is not cyclical, and is approved for each year making defence contracts sticky and long-term. Even though the growth of the defence budget and the industry in the region is unprecedented for the past few decades, the growth is secular due the on-going threat from Russia and the U.S. 's distancing from its allies. Europe lagged behind in its military advancement and re-armament and is going to continue its heavy investment for the next 5-10 years.

Tailwinds:

- German and EU defence budget expansion
- Ammunition shortages
- Bigger than ever preference for European contractors rather than American
- High and rising barriers for entry

Headwinds:

- Aggressive scaling can lead to issues such as supply chain management and infrastructure expansion requiring even more capital
- It's power systems for civilian use cars is under scrutiny due to the weakening European automotive market

Porter's 5 Forces:

1) Threat of New Entries: Very low
2) Bargaining Power of Buyers: Moderate
   - Governments do procurement rounds to establish the best price, however due to low number of qualified suppliers, governments don't have high bargaining power
3) Bargaining Power of Suppliers: Low
   - The raw materials needed for production are commoditised
   - Long-term contracts, which allows Rheinmetall not to worry too much about price spikes
4) Threat of Substitutes: Low
   - Can't really substitute ammunition and armoured vehicles, especially if you are the main provider
5) Competitive Rivalry: Moderate
   - Low number of competitors
   - Competition occurs mainly at the tender stages

Management

Leadership

- CEO: Armin Papperger
  - CEO since 2013
  - Made Rheinmetall Ukraine's main European supplier
- CFO: Klaus Neumann
  - CFO since 1 January 2025
  - Employee of Rheinmetall since 2012

Main evidence of competent execution was the fact that the company was pivoting towards defence by prioritising defence capital allocation such as for manufacturing and R&D pre 2022 war, due to the stagnating European automotive segment instead of incrementing its capital in the stagnating industry.They made a very good bet before the war started.

Capital Allocation

- Most of the capital goes towards increasing the capacity of ammunition and armored vehicles, as ammunition is scarce and armored vehicles are high in demand.
- Mergers and acquisitions of Rheinmetall have substantially increased the past two years. Rheinmetall recently increased their shares to 51% of a German company that specialises in software for the digitalisation of armed forces, acquired US vehicle specialist Loc Performance Product that won't only benefit its customers in the U.S., but also for its global chain.
- Earnings per share have been increasing due to increasing net margins and substantial growth in revenue and not due to financial engineering.

Alignment

- The incentives for the executive board are based on performance for 1 year (short term) and for 4 years (long-term). The benefits for 1 year performance are all paid in cash, while for the four-year the bonus is in 50% cash and 50% in shares. This makes sure that the executive board reaches the target to benefit the company in the long-term and not pursues its own short-term interest that might put the company in scrutiny
- 60% of the company is owned by the public and institutions, while the insider ownership is small. The past 90 days the company insiders have purchased stocks worth approximately half million euros, which is a positive signal.

Governance & Communication

- Even though Rheinmetall has an overall credible guidance,for this year it has recently announced a decrease in its defence driven sales growth of 30%-35% in 2025, down from the 35% - 40% as previously stated.
- Rheinmetall doesn't have a history of breaking the law or not meeting the regulations. However, its subsidiary Rheinmetall Denel Munition in South Africa is facing a lawsuit for violating the South African law by importing weapons to conflict zones, such as Yemen, Israel, and Ukraine.

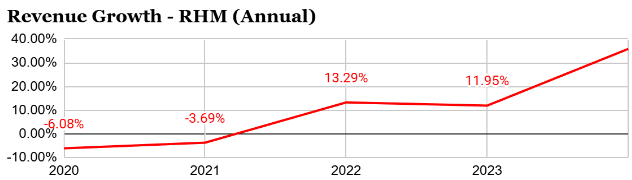
Verdict

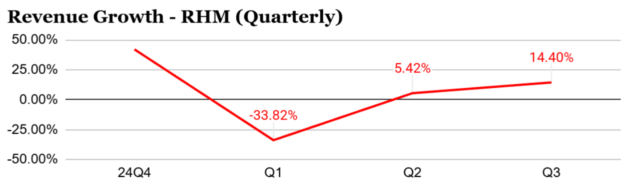
- Management quality: Strong
- Impact on valuation: Premium

Financial Analysis

A. Profitability

Revenue growth - Revenue figures have been growing strong and steady for the past five years with a 5Y CAGR at 10.7% compared to a Aerospace and Defence average of 11.1%, highlighting that larger players like LMT (3.5%) and BA (7.5%) tend to grow at a more modest pace. Low negatives can be seen during the COVID period (large hit to automotive division) and starting acceleration in 2022 coinciding with the start of the Russia-Ukrain conflict. The sharp dip in Q1 of 2025 is explained by late cycle executions of large NATO orders in the previous quarter inflating revenues significantly.





Margins - Margins portray a well established company with not much accelerative growth, but rather stabilising in nature. Over the past 4-years the GM has maximally deviated from the mean by slightly under a 100bp. While the OM has shown some promising signs of a growth trend, the NM seems to be stabilizing as well. Compared to a peer-group RHM also seems to have the upperhand, with margins beating the averages across the board. The only exception being Safran.

	FY1	FY2	FY3	FY4 (2024)
Gross Margin	53.55%	52.71%	54.86%	51.88%
Operating Margin	10.85%	11.76%	11.90%	14.43%
Net Margin	5.14%	7.39%	7.46%	7.35%

Margins

Company Name	Ticker	Fiscal Period	Gross Margin (%) Actual	Gross Margin (%) NTM	EBITDA Margin (%) Actual	EBITDA Margin (%) NTM	EBIT Margin (%) Actual	EBIT Margin (%) NTM	Pretax Margin (%) Actual	Pretax Margin (%) NTM	Net Margin (%) Actual	Net Margin (%) NTM
Rheinmetall	**RHM-DE**	**09/30/...**	**22.9**	**19.1**	**17.9**	**21.6**	**13.6**	**18.0**	**12.5**	**17.2**	**7.8**	**11.6**
Elbit Systems	ESLT-IL	09/30/...	24.2	24.6	10.2	12.0	8.0	9.9	6.0	8.2	5.9	7.3
Thales	HO-FR	06/30/...	26.1	26.7	14.6	16.0	9.2	12.8	5.5	10.7	4.9	8.4
BAE Systems Appli...	091Q29...	-	-	-	-	-	-	-	-	-	-	-
Lockheed Martin	LMT-US	09/28/...	8.2	13.3	10.5	14.2	8.2	12.1	6.7	10.4	5.7	8.7
Safran	SAF-FR	06/30/...	16.0	36.2	19.0	21.5	14.1	17.2	20.1	17.4	14.7	12.3
Leonardo	LDO-IT	06/30/...	7.8	13.8	9.8	13.0	6.2	9.3	7.0	8.6	5.6	6.1
Average			**17.5**	**22.3**	**13.7**	**16.4**	**9.9**	**13.2**	**9.6**	**12.1**	**7.4**	**9.1**
Median			**19.4**	**21.9**	**12.5**	**15.1**	**8.7**	**12.4**	**6.8**	**10.6**	**5.8**	**8.6**

B. Cash Flow

FCF generation - Large volatility can clearly be seen from the FCF and its growth figures. Though, this is not a worrisome factor after taking a closer look. The fluctuations line up with heavy Capex and Inventory build-ups, which even drove the FCF to the negatives in 2022. The alleviating factor comes in the following periods as we see Working Capital normalize to previous levels and a strong recovery in FCF amounting to nearly €1B (historically exceptional for RHM) in 2024 – this is a clear sign of monetization of the preceding investments and renders the volatility as an expansion cycle feature rather than a red flag.

Capex intensity - RHM has doubled its Capex intensity over the past five years from 4% of Revenue to 8% signalling possibly a demand driven investment acceleration. Steady and low growth in Capital Expenditures typically signals a maintenance-driven increase, but a doubling of the Capex-Revenue Ratio consistent with New Production Lines, Plant Expansions and Investments in Automation give strong signs of meeting growing defence demands.

Conversion - Negative FCF-to-Net Income in 2020 was caused by negative NI (-€27mln) driven by the COVID crisis and a global automotive production collapse leading to a drop in the profits for the Automotive segment of RHM. Overall the cyclicality in the Cash Conversion metrics (FCF/NI and CFO Margin) confirm the theory of a successful expansion cycle with compressions centred around 2022 and exiting with Structurally-Higher Cash Conversion Regime reaching to a little under 18% CFO Margin in 2024.

	FY1	FY2	FY3	FY4	FY5 (2024)
FCF	272,000,000	419,000,000	-175,000,000	345,000,000	988,000,000
FCF Growth	-26.29%	54.04%	-141.77%	297.14%	186.38%
Capex/Revenue	0.04	0.05	0.05	0.06	0.08
FCF/NI	-10.07	1.44	-0.37	0.64	1.38
CFO Margin	7.71%	12.20%	2.71%	10.35%	17.64%

C. Balance Sheet

Leverage - RHM's Capital Structure is characterised as moderately-conservative (below averages in comps). The trend in Leverage Ratios portrays a partially debt-funded expansion rather than operational stress, with sharp increases coinciding with Capex build-up and the 'Investment-year' outlined in the previous sections. The Debt ramp-up aligns with Equity increases from €921mln and €2.6bln in 2021 to €2.4bln and €4.5bln in 2024 respectively. This further confirms the paradigm of a partially debt-driven expansion rather than earnings weakness or operational stress. Negative Net Debt-to-EBITDA in 2021 was driven by Cash and Equivalents exceeding the Total Debt levels.

Liquidity - Overall Rheinmetall's liquidity looks healthy. At an immediate glance the downtrend, plus the below one Quick-Ratio, indicating that Current Liabilities exceed Inventory adjusted Current Assets may seem worrisome. In reality, liquidity looks worse on paper, but this is structural to the business-mix. The downtrend portrays a mix of both a moderate leverage increase and large Defence Inventory build-ups. Defence inventories are often Contracted-backed, Pre-sold, and have a low Obsolescence-risk. Divergence of the ratios over time proves this paradigm, and gives little evidence of a short-term funding risk.

Debt Sustainability - Generally an Interest Coverage of over 5x is considered as a "safe cushion". RHM far exceeds this and most of its peers, with only Safran being an exception. Trends indicate the same well-executed debt build-up for expansion purposes as outlined in the previous sections, and the following signs of normalization in the latest fiscal year, also continuing into 2025. Even at peak leverage RHM's debt service capacity was never in question, and repayment ability experienced a rapid-recovery once Cash Flows normalized – this all speaks to Management's competence in a well executed expansion cycle.

	FY1	FY2	FY3	FY4 (2024)
Leverage:				
Debt-to-Equity	0.35	0.31	0.53	0.54
Net Debt / EBITDA	-0.14	0.43	0.86	0.70
Liquidity:				
Current Ratio	1.49	1.41	1.30	1.21
Quick Ratio	1.02	0.90	0.76	0.69
Sustainability:				
Interest Coverage Ratio	19.77	23.44	8.34	10.10
Debt Repayment Ratio	1.33	5.59	2.58	1.41

B/S Analysis

Company Name	Ticker	Fiscal Period	Current Ratio	Quick Ratio	Total Debt/ Total Equity (%)	Net Debt/ EBITDA (x)	EBIT/ Interest Expense
Rheinmetall	**RHM-DE**	**09/30/2025**	**1.14**	**0.49**	**52.0**	**0.95**	**11.56**
Elbit Systems	ESLT-IL	09/30/2025	1.32	0.76	26.6	0.40	4.10
Thales	HO-FR	06/30/2025	0.82	0.58	102.5	1.10	7.83
Safran	SAF-FR	06/30/2025	0.91	0.63	38.7	-0.29	39.55
BAE Systems	BA-GB	06/30/2025	0.96	0.84	87.0	1.98	4.12
HENSOLDT	HAG-DE	09/30/2025	1.22	0.76	189.1	2.58	2.25
Leonardo	LDO-IT	06/30/2025	0.97	0.59	47.2	1.33	4.97
Airbus	AIR-FR	09/30/2025	1.14	0.41	57.3	0.27	6.85
Average			**1.06**	**0.63**	**75.0**	**1.04**	**10.15**
Median			**1.05**	**0.61**	**54.6**	**1.03**	**5.91**

Valuation Deep Dive

Explicit Forecast Horizon

We use a 5-year explicit forecast horizon (FY2026–FY2030), as visibility into Rheinmetall's near-term growth drivers is materially higher than in the outer years, while long-run value is captured via a terminal value.

Revenue and Profitability

Revenue is forecast using a blend of historical growth, Street expectations, and the structural uplift in European defense spending, which we view as the main demand driver over the explicit period. We project revenue rising from ~€12bn (FY2025E) to ~€42bn (FY2030E), implying a ~27.9% CAGR before fading toward the terminal growth rate.

Profitability assumptions build on recent structural improvements and operating leverage, with EBIT margin expanding from 15.7% (FY2025E) to 21.4% (FY2030E) as scale increases and execution improves, then converging toward a steady-state level as growth normalizes.

WACC Logic

The risk free rate we assumed is the 10 year german bond with a yield of 2.86%. German yields were chosen since RheinMetall is traded on the Frankfurt exchange and its single largest revenue generating market is Germany.

For the equity risk premium we relied on analyst predictions which resulted in ERP of 4.23%

Beta

$$\beta_i = \frac{Cov(r_i, r_m)}{\sigma^2(r_m)}$$

When estimating beta we relied on our own calculations utilising market data from the past 3 years comparing RheinMetall weekly returns and weekly returns from the DAX stock markets which we used as the market portfolio. Our calculations resulted in an adjusted beta of 0.94 which is close to other analyst estimates.

Cost of Equity

$$Cost\ of\ Equity = R_f + \beta \times (R_m - R_f)$$

Cost of equity is estimated via CAPM, using a 2.86% 10-year German Bund, 4.23% ERP, and 0.94 beta implying a cost of equity of 6.83%

Cost of Debt

We source Rheinmetall's pre-tax cost of debt from FactSet at 1.9%. Applying the interest tax shield using a 26% tax rate implies an after-tax cost of debt of 1.41%.

WACC

$$WACC = \frac{E}{E+D} \times k_e + \frac{D}{E+D} \times k_d \times (1 - t)$$

We calculate WACC as the market-value weighted average of the cost of equity and the after-tax cost of debt. Under our assumptions, this yields a WACC of 6.72%, and the result is most sensitive to the beta (and ERP) inputs, so we test it in sensitivity analysis.

WACC

Cost of equity	
Risk-Free Rate (10Y)	2.86%
Beta	0.94
ERP	4.23%

WACC Calculations	
Cost of Equity	6.83%
Net Debt	€ 1,930.00
Total Equity	€ 87,814.00
E/(D+E)	97.8%
Cost of Debt	1.90%
D/(D+E)	2.2%
Tax Rate	26.00%
WACC	6.72%

Terminal Assumptions

$$TV = FCF_{2030} \times \frac{(1+TGR)}{(WACC-TGR)}$$

We estimate terminal value using a perpetuity-growth approach anchored to our explicit FY2030 FCFF forecast. We assume cash flows continue beyond FY2030 and grow at a constant 2.3% rate, reflecting sustainable long-run expansion after the near-term growth phase embedded in our model. Because terminal value accounts for a meaningful share of total DCF value, we test terminal growth and the discount rate through sensitivity analysis.

Comps

Peer selection logic

The peer group consists of large aerospace and defence companies, with exposure to military procurement, government contracts and technologically advanced defence systems. RheinMetall is benchmarked against Airbus, Lockheed Martin, RTX, General Dynamics, Leonardo and Thales, which together represent a relevant mix of defence contractors. While differences in both scale and products exist, all of them operate under similar demand drivers.

Name	EV/Sales	EV/EBITDA	EV/EBIT	P/E	Forward P/E
Rheinmetall AG	7.8x	48.3x	57.9x	96.3x	41.7x
Airbus SE	2.3x	18.5x	29.4x	32.2x	25.9x
General Dynamics	2.0x	15.4x	19.8x	23.5x	21.0x
Leonardo SpA	2.1x	8.7x	32.2x	31.9x	25.4x
Lockheed Martin	2.1x	17.2x	26.0x	33.0x	19.9x
RTX	3.5x	20.5x	35.4x	40.2x	29.0x
Thales SA	2.6x	10.2x	28.7x	77.7x	23.4x
Median	2.3x	17.2x	29.4x	33.0x	25.4x
Mean	3.2x	19.8x	32.8x	47.9x	26.6x

Multiples used

RheinMetall Mean	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	39611.05	47990.92	63455.04	43011.47
Net Debt	1239.00	1239.00	1239.00	1239.00
Implied Market Value	38372.00	46752.00	62216.00	41772.47
Diluted Shares Outstanding MM	47.52	47.52	47.52	47.52
Implied Value per Share	807.49	983.84	1309.26	879.05

Our valuation relies on a combination of enterprise value-based and equity value-based multiples. EV/Sales and EV/EBITDA are used to compare performance and scale across companies. EV/EBIT is included to account for Rheinmetall's significant capital intensity and depreciation charges. P/E and forward P/E ratios are also analyzed, as earnings-based multiples are especially relevant given Rheinmetall's rapidly improving profitability and strong earnings momentum.

Premium or Discount Rationale

Rheinmetall trades at a premium to most peers, reflecting its strong positioning in Europe's rearmament cycle. A growing backlog, high demand for land systems and ammunition, and rising defense budgets increase revenue visibility and support above-peer growth expectations. Improving margins and operating leverage further reinforce the case for higher multiples, suggesting the premium is driven more by structural growth and strategic positioning than by short-term sentiment.

P/E Ratios

Rheinmetall currently trades on a 96.3x trailing P/E, while its forward P/E is 41.7x. This sharp compression from trailing to forward earnings indicates the market is pricing in a significant near-term earnings ramp, meaning the trailing multiple is inflated by historically lower earnings and the valuation is increasingly anchored on expected future profitability.

Sensitivity

		TGR				
		1.30%	1.80%	2.30%	2.80%	3.30%
WACC	5.72%	€ 2,247	€ 2,511	€ 2,852	€ 3,310	€ 3,958
	6.22%	€ 2,001	€ 2,207	€ 2,466	€ 2,801	€ 3,251
	6.72%	€ 1,800	€ 1,965	€ 2,168	€ 2,423	€ 2,752
	7.22%	€ 1,634	€ 1,769	€ 1,931	€ 2,130	€ 2,380
	7.72%	€ 1,493	€ 1,605	€ 1,738	€ 1,897	€ 2,093

Base-case DCF implies €2,168/share at WACC 6.72% and terminal growth 2.30%; across sensitivities, valuation ranges from €1,493 to €3,958 per share, highlighting strong dependence on discount rate and terminal assumptions.

We further stress-test the valuation by haircutting EBIT margins by 100–200 bps versus our base case to capture potential execution slippage and input-cost pressure, resulting in an implied value of €2038.96/ share (–100 bps) and €1909.80/ share(–200 bps).

Final Valuation Methodology

We assign a 100% weight to our DCF derived intrinsic value. While the peer set is relevant and they share similar demand drivers, multiples fail to capture RheinMetall's company specific growth trajectory, margin expansion and its long-standing backlog. The DCF directly tries to model these dynamics through explicit forecasts, thus making it most consistent for the goal of capturing the full earnings and cash-flow uplift implied by the current order book and rearmament cycle, and translating it into an intrinsic value per share.

Risks and Catalysts

Downside Risks:

Operational: Production delays, supply bottlenecks or higher costs could decrease margins and slow backlog converting into sales. Having said that, RheinMetall's recent expansion into Eastern Europe could act as a counterweight to those risks.

Regulatory: Stricter export quotas or license delays might shrink markets, decrease sales and add more uncertainty in the future

Macro: Budget pressure or political uncertainty could slow defence orders. What we think is that with

Europe's geopolitical climate, public approval for defence spending in Germany and rumors for a European army that is unlikely.

Competitive: Expanding European capacity could raise competition and add downwards pressure on prices and margins.

Upside Catalysts:

Earnings: Better than expected results if production ramps up faster than expected, unit costs fall and operating leverage drives higher net margins and EPS.

Contracts: New manufacturing contracts could help expand the backlog even further, improve revenue visibility and reduce risk and pull cash flows forward.

Re-rating events: If investors see growth and return patterns as cyclical and not as a one-off increase, RheinMetall could be valued more as a long-term compounder

Structural Shifts: Continued NATO/EU stockpile rebuilding and policy support could keep demand strong for years. Even if tensions in Ukraine fade, European countries already see Russia as a threat so it's unlikely they cease rearmament

Final Recommendation

We believe that the combination of EU's rearmament efforts together with RheinMetall's strategic costs reduction, and the expansion in both product range and manufacturing locations would increase revenues and margins to an extent not captured by other analysts. Additionally, we believe that the credit-risks associated with increased leverage are being overblown, as the debt-funded scaling is supporting a cost-controlled expansion cycle. From a valuation perspective, we value RheinMetall exclusively with a DCF, arriving at a target price of €2,168.12 versus a last close of €1,830.00, implying 18.46% upside, which we view as justified by higher sales growth and margin expansion than what is currently reflected in consensus assumptions.

Appendix

Models:

- Financials calculations: https://docs.google.com/spreadsheets/d/1wJgNZ3gb0rIVL7TxmI-vYmjrLaZFHfKKTWHKcMi5nO8/edit?usp=sharing
- DCF Model:

Sources:

1) Sector CAGR: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histgr.html
2) LMT CAGR: https://finbox.com/NYSE:LMT/explorer/total_rev_cagr_5y/
3) BA CAGR: https://finbox.com/OTCPK:BAES.Y/explorer/total_rev_cagr_5y
4) Interest Coverage Benchmark: https://umbrex.com/resources/financial-ratio-primer/leverage-coverage-ratios/
5) Acquisition of Hagerdorn-NC, https://www.pravda.com.ua/eng/news/2025/04/08/7506514/
6) Germany's Defence Budget & Expansion: https://atlasinstitute.org/germanys-path-to-kriegstuchtigkeit-the-2026-defence-budget/ https://www.internationalaffairs.org.au/australianoutlook/zeitenwende-in-berlin-and-brussels-a-turning-point/
7) South African Lawsuit https://iol.co.za/sundayindependent/dispatch/2025-04-04-amid-rheinmetall-scandals-activists-file-a-lawsuit-and-demand-transparency-and-justice/

All Financial Statements used can be found here:
https://ir.rheinmetall.com/investor-relations/news/financial-reports

Balance Sheet

Balance Sheet (€ million)	2020	2021	2022	2023	2024
Assets					
Cash & Short-Term Investments	**1,027**	**1,201**	**677**	**850**	**1,184**
Short-Term Receivables	**1,669**	**1,721**	**2,060**	**2,676**	**2,848**
Inventories	**1,573**	**1,651**	**1,976**	**3,244**	**3,989**
Other Current Assets	**70**	**409**	**465**	**322**	**210**
Total Current Assets	4,339	4,982	5,178	7,092	8,231
Net Property, Plant & Equipment	**1,365**	**1,270**	**1,346**	**1,641**	**2,187**
Total Long-Term Investments	**376**	**305**	**528**	**454**	**455**
Intangible Assets	**716**	**768**	**821**	**2,077**	**2,802**
Deferred Tax Assets	249	147	285	400	498
Other Assets	**222**	**262**	**125**	**279**	**497**
Total Assets	7,267	7,734	8,283	11,943	14,670
Liabilities & Shareholders' Equity					
Current					
ST Debt & Curr. Portion LT Debt	150	215	454	410	552
Accounts Payable	700	809	931	1,222	1,151
Income Tax Payable	76	87	67	108	118
Other Current Liabilities	**1,962**	**2,230**	**2,213**	**3,719**	**4,961**
Accrued Payroll	178	176	205	227	235

Miscellaneous Current Liabilities	1,784	2,054	2,008	3,492	4,726
Total Current Liabilities	2,888	3,341	3,665	5,459	6,782
Long-Term					
Long-Term Debt	**873**	**706**	**517**	**1,503**	**1,871**
Long-Term Debt excl Lease Obligations	666	525	345	1,277	1,597
Capital and Operating Lease Obligations	207	181	172	226	274
Provision for Risks & Charges	1,368	983	689	792	812
Deferred Tax Liabilities	4	38	265	496	682
Other Liabilities	**81**	**45**	**57**	**50**	**58**
Other Liabilities (excl. Deferred Income)	81	45	57	50	58
Total Liabilities	5,214	5,113	5,193	8,300	10,205
Equity					
Common Equity	**1,888**	**2,418**	**2,819**	**3,316**	**4,051**
Total Shareholders' Equity	1,888	2,418	2,819	3,316	4,051
Accumulated Minority Interest	165	203	271	327	414
Total Equity	2,053	2,621	3,090	3,643	4,465
Total Liabilities & Shareholders' Equity	**7,267**	**7,734**	**8,283**	**11,943**	**14,670**

Income Statement

Income Statement (€ million)	2020	2021	2022	2023	2024
Sales	**5,405.00**	**5,658.00**	**6,410.00**	**7,176.00**	**9,751.00**
Cost of Goods Sold (COGS) incl. D&A	**4,485.00**	**4,558.00**	**5,178.00**	**5,669.00**	**7,557.00**
Gross Income	**920**	**1,100.00**	**1,232.00**	**1,507.00**	**2,194.00**
SG&A Expense	**531**	**527**	**599**	**707**	**851**
Other Operating Expense	25	21	-80	-38	-28
EBIT (Operating Income)	**364**	**552**	**713**	**838**	**1,371.00**
Nonoperating Income - Net	**62**	**64**	**-7**	**29**	**23**
Interest Expense	**40**	**30**	**32**	**111**	**135**
Unusual Expense - Net	**32**	**15**	**-5**	**-2**	**-7**
Pretax Income	**354**	**571**	**679**	**758**	**1,266.00**
Consolidated Net Income	**284**	**432**	**534**	**630**	**896**
Net Income	**256**	**391**	**468**	**579**	**804**

Cash Flow Statement

Cash Flow Statement (€ million)	2020	2021	2022	2023	2024
Operating Activities					
Net Income / Starting Line	1	332	540	586	808
Depreciation, Depletion & Amortization	**303**	**254**	**249**	**308**	**403**
Other Funds	296	19	-69	27	204
Funds from Operations	600	605	720	921	1,415.00
Changes in Working Capital	**-147**	**85**	**-546**	**-178**	**305**
Net Operating Cash Flow	453	690	174	743	1,720.00
Investing Activities					

Capital Expenditures	**-237**	**-271**	**-349**	**-398**	**-732**
Sale of Fixed Assets & Businesses	31	4	19	2	10
Purchase/Sale of Investments	**18**	**-35**	**-204**	**-909**	**-484**
Other Funds	**0**	**-160**	**0**	**130**	**34**
Net Investing Cash Flow	-188	-462	-534	-1,175.00	-1,172.00
Financing Activities					
Cash Dividends Paid	**-104**	**-87**	**-143**	**-187**	**-248**
Change in Capital Stock	**0**	**0**	**1**	**21**	**22**
Issuance/Reduction of Debt, Net	**-42**	**-110**	**17**	**915**	**21**
Other Funds	**-2**	**-5**	**-6**	**-3**	**-29**
Net Financing Cash Flow	-148	-202	-131	746	-234
All Activities					
Exchange Rate Effect	-10	4	1	-9	-2
Net Change in Cash	107	30	-490	305	312
Free Cash Flow	**216**	**419**	**-175**	**345**	**988**

DCF Model Summary

€ million	F2025	F2026	F2027	F2028	F2029	F2030
Sales	12310.00	16215.30	21050.12	26924.83	33925.29	42098.50
% growth	26.2%	31.7%	29.8%	27.9%	26.0%	24.1%
COGS&OpEx	10373.12	13304.21	16949.94	21514.67	26989.49	33108.42
EBIT	1936.88	2911.09	4100.18	5410.16	6935.80	8990.08
EBIT margin	15.7%	18.0%	19.5%	20.1%	20.4%	21.4%
Taxes	503.59	756.88	1066.05	1406.64	1803.31	2337.42
% taxes	26%	26%	26%	26%	26%	26%
EBIT*(1-Taxes)	1433.29	2154.21	3034.13	4003.52	5132.49	6652.66
Change in WC	223.75	294.73	382.61	489.38	616.62	765.18
CapEx	681.29	897.43	1165.01	1490.14	1877.58	2329.93
D&A	520.06	685.05	889.31	1137.5	1433.25	1778.55
FCFF	1058	1662	2396	3188	4106	5381

Multiple Analysis

Name	EV/Sales	EV/EBITDA	EV/EBIT	P/E	Forward P/E
Rheinmetall AG	7.8x	48.3x	57.9x	96.3x	41.7x
Airbus SE	2.3x	18.5x	29.4x	32.2x	25.9x
General Dynamics	2.0x	15.4x	19.8x	23.5x	21.0x
Leonardo SpA	2.1x	8.7x	32.2x	31.9x	25.4x
Lockheed Martin	2.1x	17.2x	26.0x	33.0x	19.9x
RTX	3.5x	20.5x	35.4x	40.2x	29.0x
Thales SA	2.6x	10.2x	28.7x	77.7x	23.4x
Median	2.3x	17.2x	29.4x	33.0x	25.4x
Mean	3.2x	19.8x	32.8x	47.9x	26.6x

Multiple Valuation

RheinMetall Median	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	28253.31	41710.63	56859.92	30030.08
Net Debt	1239	1239	1239	1239
Implied Market Value	27,014	40,472	55,621	28791.08
Diluted Shares Outstanding MM	47.52	47.52	47.52	47.52
Implied Value per Share	568.48	851.68	1170.47	605.87

RheinMetall Mean	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	39611.05	47990.92	63455.04	43011.47
Net Debt	1239.00	1239.00	1239.00	1239.00
Implied Market Value	38372.00	46752.00	62216.00	41772.47
Diluted Shares Outstanding MM	47.52	47.52	47.52	47.52
Implied Value per Share	807.49	983.84	1309.26	879.05