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Industrial CEOs Unplugged 2026: A&D Key Takeaways

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AEROSPACE & DEFENCE

Europe
Industry View **Attractive**

We hosted our annual **Industrial CEOs Unplugged Conference** this week, with over 50 corporates and ~400 investors in attendance, including **BAE Systems** (Fireside Chat), **Hensoldt**, **Indra**, **Kongsberg** (Fireside Chat), **Leonardo** (Fireside Chat), **MTU Aero Engines**, **Renk** (Initiation), **Rheinmetall** (Fireside Chat), **Rolls-Royce** (Fireside Chat) and **Saab**. In Defence, the standout was the confidence in the breadth and duration of the cycle, with most companies pointing to ~10 years of programme visibility, alongside emerging opportunities beyond current plans that could provide further upside. The debate is increasingly shifting from budgets to product mix, procurement allocation and execution. In Aerospace, we saw no signs of deterioration in the demand cycle, with strong aftermarket demand alongside a healthy OE ramp, while self-help, mix and execution remain key to further cash upside. **Overall, we believe the conference messaging remains consistent with continued momentum across Defence budgets/orders/execution and Civil aftermarket and ramp-up. The EU A&D sector has derated ~14% ytd (Aero ~10%, Def ~16%), implying a deterioration in fundamentals that does not align with management comments. In our view, greater clarity on budget allocation and key defence programme awards in Defence, and the longevity of the conflict in the Middle East for Aerospace, will be key to unlocking a recovery.**

Defence - Demand Remains Structurally Strong, with Product Mix Increasingly Key. The common message is that the Defence cycle is broadening and becoming more structural, with the debate increasingly shifting from the level of Defence budgets towards the product mix and industry's ability to deliver. Most companies pointed to ~10 years of programme visibility. Near-term demand remains driven by munitions, missiles and layered air defence, while longer-cycle opportunities across Land, Naval/Undersea and Combat Air should extend growth into the 2030s. The conflicts in Ukraine and Iran are also reshaping government procurement and company strategies towards a combination of high-end capability and affordable mass, while rapid technology obsolescence makes drones a shorter and fundamentally different replenishment cycle. Against this backdrop, we believe diversified portfolios should provide some protection as spending priorities evolve, while industrial capacity and execution are becoming key differentiators. **What to own? BAE (Top Pick, OW), Leonardo (OW), Saab (OW), Indra (OW), Rheinmetall (OW) and CSG (OW)**

- **The debate is increasingly about product mix and procurement allocation.** As governments move from budget announcements to procurement, the focus is shifting to spending priorities. Near-term urgency remains around ammunition, missiles and air defence, but procurement is broadening towards larger platforms and new capabilities. With most companies

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pointing to ~10 years of programme visibility, where incremental budgets are allocated will increasingly determine relative winners, favouring diversified portfolios across products and end-markets.

- **Growth is broadening from replenishment to longer-cycle platforms.** Land, Naval/Undersea and Combat Air should become increasingly important alongside munitions and air defence. BAE sees AUKUS and GCAP becoming more material into the 2030s, Kongsberg highlighted frigates, submarines and underwater autonomy, while Rheinmetall sees sustained opportunities across Land, Naval and Space. This broadens the growth pool and extends visibility well into the next decade.
- **High-end capability and affordable mass are complementary, not competing, priorities.** The Ukraine and Iran conflicts have demonstrated that the battlefield requires sophisticated systems for high-end threats alongside affordable solutions to counter lower-cost threats at scale, driving companies to broaden their portfolios across the threat spectrum. BAE combines high-end capabilities on priority US missile programmes and its shareholding in European missile manufacturer MBDA with its $30-40k APKWS counter-UAS solution. Kongsberg and Rheinmetall are following a similar approach. The strategy is therefore to match the right capability to the right threat at an economically sustainable cost-to-kill.
- **Drones require a fundamentally different procurement and inventory model.** Rapid technology obsolescence limits the rationale for large stockpiles, potentially shortening the replenishment cycle versus traditional munitions. The emerging model favours smaller, more frequent orders, continuous technology refresh and an 'always-on' capacity. Kongsberg illustrates this with a potential readiness-type model, where customers pay to maintain capacity that can be rapidly scaled rather than building inventories that risk becoming obsolete.
- **Industrial readiness and localisation are becoming increasingly important competitive differentiators.** With demand increasingly visible, the focus is shifting to how quickly companies can convert it into deliveries. Customers increasingly require domestic production, sovereign control of technology and resilient local supply chains, making industrial footprint an important part of winning programmes. Alongside persistent supplier bottlenecks, the ability to localise, finance capacity and reliably ramp production is becoming as important as product positioning.

Aerospace - Strength of Cycle Remains Supportive with Self-Help and Execution Driving Further Upside. We came away with no evidence of deterioration in Civil Aerospace, with high fleet utilisation, low retirements and constrained MRO capacity supporting aftermarket demand, alongside a healthy OE ramp, where mix will be a key driver of margin progression. Rolls-Royce and MTU continue to see self-help opportunities from durability, contract repricing and improving OE economics, while supply chain and capacity remain the main constraints. Longer term, the next narrowbody cycle provides additional optionality. **What to own? Rolls-Royce (Top Pick, OW), Airbus (OW).**

- **Aftermarket demand shows no sign of deterioration.** MTU highlighted

V2500 retirements of only 1-3%, stable shop visits and MRO demand above capacity into 2027, while Rolls-Royce continues to see strong flying hours and improving turnaround times.

- **OE volumes remain supportive, but mix matters.** Production is ramping across GTF, GEnx and GE9X, alongside recovering 787 and ATR volumes. Installed engines remain less profitable than spare engines, although higher volumes, automation and learning curves should progressively improve OE installed engine economics.
- **Durability and contract quality remain key self-help levers.** Rolls-Royce's durability initiatives will result in a 100% improvement in time-on-wing across in-production Trent engines, while only ~50% of LTSAs are expected on revised terms by 2028. MTU is similarly improving GTF durability through Advantage and Hot Section Plus.
- **Supply chain and capacity remain the main constraints.** Castings and forgings remain bottlenecks despite improving conditions, requiring continued supplier support and investment. Strong MRO demand supports capacity expansion, although new facilities will take time to reach mature returns.
- **Next-generation narrowbody engines provide longer-term optionality.** Decisions could start emerging from end-2028, with Rolls-Royce developing a smaller UltraFan and MTU potentially increasing its programme share on the GTF programme from ~18% today towards ~25% for the next gen. Importantly, both are focused on more attractive economics and disciplined risk sharing from the outset.

Exhibit 1: Our takeaways from the CEOs Unplugged fireside chats

Company	MS Takeaway from company fireside
BAE Systems	UK defence spending remains supportive, with 3% of GDP offering upside, while BAE is well positioned in US priority munitions, with exposure to 10 of 12 priority programmes. European Land and US Maritime offer further growth. SMS synergies are ahead of plan with wins linked to Golden Dome and procurement scale. Group margin is tracking toward ~12%, not seen as a ceiling. AUKUS and GCAP underpin an underappreciated growth runway into the 2030s.
Kongsberg	Missile demand is supported by new customers and existing for restocking, as inventories are structurally low while procurement timelines are improving. Affordable mass is increasingly important alongside high-end capabilities, with Zone 5 central to the strategy. Aftermarket and new capacity models could offer recurring revenue upside with potential further communication from the company to expect. The 2029 ambition is underpinned by backlog, frameworks and pipeline, with no single-contract reliance, and >16% margin seen as a floor.
Leonardo	Execution is the returning CEO's first priority, with upside opportunities emerging across the portfolio with potential update at the next Industrial Plan Update expected in 2027. Partnerships were described as particularly attractive because they can be implemented more quickly than M&A or JVs. International expansion remains important, alongside accelerating Middle East demand. Portfolio actions continue across Aerostructures, Iveco and Bromo, while margins remain targeted at 10% in 2026 and 12% over the plan, not seen as a ceiling.
Rolls-Royce	The outlook remains self-help driven, with culture and execution key differentiators. Civil Aerospace margins of 21-23% are not seen as an endpoint, with only ~50% of the contract base on new terms by 2028, leaving further repricing upside and embedded contingency. LTSA economics are improving and remain one of the most misunderstood parts of the story, while Narrowbody is a key future opportunity. Power Systems offers visibility into 2029-30, while retaining the current portfolio structure remains strategically attractive.
Rheinmetall	German defence spending remains supportive to company diversification strategy. Arminius is seen as strategically secure with air defence representing >50% of value. Fixed contract is expected in December and frameworks more likely 2027 while splitting the initial frame contract could help simplify the administrative process. NATO capability gaps are driving investment in long-range precision, layered air defence and space. 2030 target is reaffirmed at €40-45bn operational revenue plus ~€5bn M&A.

Source: Morgan Stanley Research

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Equal-weight/Hold	1577	43%	395	42%	25%	770	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	559	15%	93	10%	17%	216	12%
Total	3,694		939			1754	

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INDUSTRY COVERAGE: Aerospace & Defence

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/10/2026)
Kristine T Liwag		
Elbit Systems Ltd (ESLT.O)	E (12/11/2025)	US$714.40
Marie-Ange Riggio		
Indra (IDR.MC)	O (07/14/2026)	€57.72
Kongsberg Gruppen ASA (KOG.OL)	U (07/07/2026)	NKr 302.00
Melrose Industries PLC (MRON.L)	E (09/06/2024)	474p
RENK Group AG (R3NK.DE)	E (09/07/2026)	€42.34
Rheinmetall AG (RHMG.DE)	O (07/03/2024)	€1,016.40
Saab AB (SAABb.ST)	O (07/07/2026)	SKr 577.70
Ross Law, CFA		
Airbus SE (AIR.PA)	O (06/13/2023)	€195.78
BAE Systems PLC (BAES.L)	O (06/13/2023)	1,924p
CSG N.V. (CSG.AS)	O (03/05/2026)	€16.43
Dassault Aviation SA (AM.PA)	E (06/13/2023)	€279.60
Hensoldt AG (HAGG.DE)	E (01/28/2026)	€77.50
Leonardo SpA (LDOF.MI)	O (01/16/2025)	€50.03
MTU Aero Engines AG (MTXGn.DE)	E (06/13/2023)	€338.40
Rolls-Royce Holdings PLC (RR.L)	O (11/08/2023)	1,430p
Safran SA (SAF.PA)	E (01/16/2025)	€322.00
Thales SA (TCFP.PA)	E (01/24/2024)	€225.10

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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