Booz Allen Hamilton Holding Corp (BAH)

Updated July 2nd, 2019 by Prakash Kolli

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	1.3%	**Volatility Percentile:**	54.8%
Fair Value Price:	$49	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	97.2%
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Growth Percentile:**	52.6%
Dividend Yield:	1.4%	**5 Year Price Target**	$65	**Valuation Percentile:**	14.2%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	9.0%

Overview & Current Events

Booz Allen Hamilton Holding Corporation traces its roots to 1914. The company had an IPO on November 10, 2010. Booz is a major provider of professional management and technology consulting services to the U.S Government. Technology consulting services include IT, cybersecurity, cloud computing and engineering services. The company essentially provides staffing to government clients. About 96% of revenue was derived from contracts where the U.S Government was the end client in FY19. Revenue was 47% defense, 26% civil, 23% intelligence and 4% global commercial in FY19. The company had ~$6.7B in revenue in FY19. The current market capitalization is ~$9.3B.

Booz reported excellent Q4 FY 2019 and FY 2019 results on May 28, 2019. The company beat both revenue and earnings per share estimates for the second straight quarter. Revenue increased 9.1% to $1,780M from $1,631M on a year-over-year basis. Diluted earnings per share grew 12.5% to $0.63 from $0.56 in comparable quarters. Top and bottom line growth was driven by client demand, which led to increased client staffing, billable expenses, subcontractors and direct expenses. The company also benefitted from an income tax benefit resulting from a lower federal corporate tax rate.

For FY 2019, revenue grew 8.7% to $6,704M compared to $6,167M in FY2018. Diluted earnings-per-share grew to $2.91 in FY 2019 from $2.03 in FY 2018. Top and bottom line growth was largely driven by the same factors that led to the increase in Q4 FY 2019 results. The consulting staffing headcount increased to 23,379 from 22,145 on a year-over-year basis. Notably, Booz generated solid backlog growth of 20.6% over the prior year period to $19,321M from $16,020M. The current backlog is comprised of $3,436M funded, $3,687M unfunded and $12,198M priced options.

For FY 2020, Booz is forecasting 6% to 9% revenue growth and adjusted diluted EPS of $2.90 to $3.05. This will likely be driven by continued client demand. Booz is also investing in talent, capabilities, new business lines and solutions, e.g. cybersecurity and artificial intelligence. These should drive top and bottom-line growth over the next few years.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	--	$0.66	$1.70	$1.45	$1.54	$1.52	$1.94	$1.67	$2.03	$2.91	***$3.05***	***$4.08***
DPS	--	--	$0.09	$0.36	$0.40	$0.46	$0.54	$0.62	$0.70	$0.80	***$0.92***	***$1.62***
Shares	--	127.9	132.4	145.8	148.7	149.1	148.0	148.9	143.5	***137.0***	***134.3***	***121.4***

Note: *BAH's fiscal year ends the last day of March. As a result, we've put the stock's fiscal 2019 results in the '2018' column in the table above as an example, and followed the same convention throughout this article.*

The EPS history for Booz Allen Hamilton's short operating history as a public company has been volatile. But until recently the federal budget environment has been unstable. However, Booz has exhibited an upward trend in EPS since 2016. We are expecting this to continue over the next several years, although changes in administration may interrupt this trend. We are forecasting on average a 6% annual growth rate for EPS out to 2024. This will be driven by client demand for the company's services combined with modest 2% decrease in share count annually. The company recently increased the share repurchase program by $400M to $658M total.

Booz Allen Hamilton Holding Corp (BAH)

Updated July 2nd, 2019 by Prakash Kolli

Booz has consistently increased the dividend at a double-digit rate since 2011. We expect the growth rate to slow over the time. But we are still forecasting on average a 12% annual growth rate in DPS out to 2024. The current payout ratio is low at only about 30.2% giving Booz room to further increase the dividend.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/E	--	--	28.5	10.1	10.0	11.9	16.4	14.3	19.2	17.9	***21.9***	***16.0***
Avg. Yld.	--	--	0.5%	2.5%	2.2%	1.8%	1.9%	1.9%	1.9%	1.7%	***1.4%***	***2.5%***

Booz Allen Hamilton's stock price has gained significantly this year in response to good operating results. The stock is currently trading at a price-to-earnings ratio of ~21.9 based on expected FY fiscal 2020 EPS. This is much higher than the long-term multiple average since 2011 of approximately 16.0. Our current fair value estimate is $49 based on expected FY 2020 EPS and a P/E ratio of 16.0. Our current 5-year price target is $65.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	--	--	24.8%	26.0%	30.3%	27.8%	37.1%	34.1%	29.6%	30.2%	***30.2%***	***39.7%***

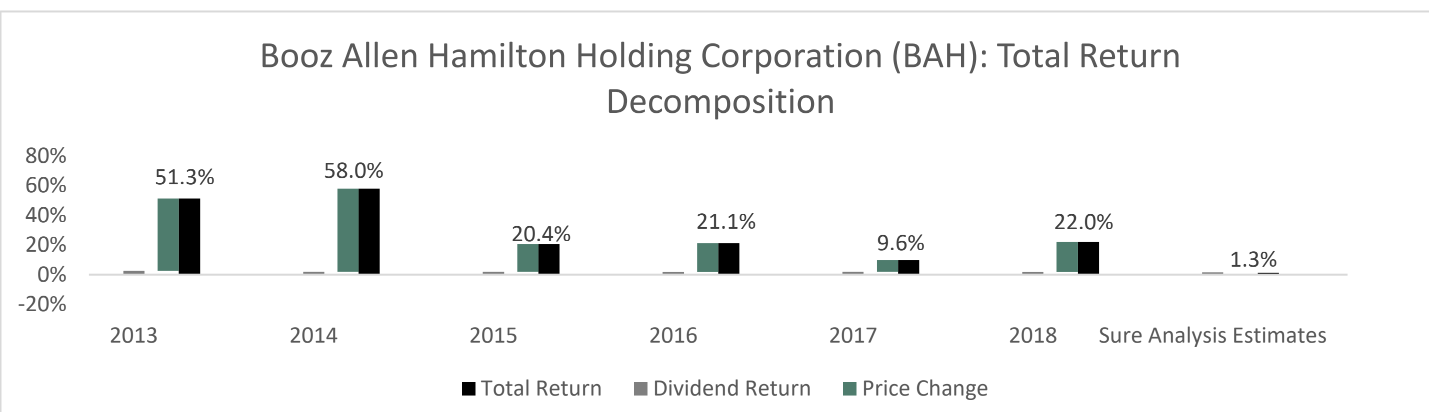
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the 83% win rate for recompete contracts and 60% win rate for new contracts. This provides some degree of recession resistance. But saying that, the company is not immune to economic downturns or slowdowns in federal government spending. Events such as changes in administration or party control of Congress can affect the federal budget and impact Booz' top and bottom lines.

Debt is of concern for Booz since the debt-to-equity ratio is ~2.5X. The company has $57.9M in current portion of long-term debt and $1,701.8M in long-term debt. Interest expense has increased substantially due to issuing senior notes and is now $89.5M. The debt is divided into two floating rate Term Loans and fixed-rate Senior Notes.

Final Thoughts & Recommendation

At present we are forecasting on average a 1.3% total annual return through 2024. The return is comprised of 6.0% earnings growth, 1.4% dividend yield and -6.1% from P/E multiple contraction. Booz is benefitting from the current U.S. Government services contracting environment and growth should extend into the next several years. But the recent runup in stock price reflects future optimism. At the current stock price, we rate this stock a sell.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Booz Allen Hamilton Holding Corp (BAH)

Updated July 2nd, 2019 by Prakash Kolli

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5123	5591	5859	5758	5479	5275	5406	5809	6168	6704
Gross Profit	2468	2754	2925	2887	2763	2681	2826	3131	3301	3604
Gross Margin	48.2%	49.3%	49.9%	50.1%	50.4%	50.8%	52.3%	53.9%	53.5%	53.8%
SG&A Exp.	2173	2354	2447	2367	2230	2159	2320	2565	2717	2933
D&A Exp.	96	81	75	74	72	63	62	60	65	69
Operating Profit	200	319	403	446	461	459	445	506	520	602
Operating Margin	3.9%	5.7%	6.9%	7.7%	8.4%	8.7%	8.2%	8.7%	8.4%	9.0%
Net Profit	25	85	240	219	232	233	294	261	302	419
Net Margin	0.5%	1.5%	4.1%	3.8%	4.2%	4.4%	5.4%	4.5%	4.9%	6.2%
Free Cash Flow	221	208	283	432	312	274	183	328	291	405
Income Tax	24	43	104	149	149	153	85	165	128	97

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3062	3024	3315	3178	2941	2864	3010	3373	3607	3832
Cash & Equivalents	308	193	484	350	260	207	188	217	287	284
Accounts Receivable	1018	1111	436	432	396	318	309	341	395	495
Goodwill & Int. Ass.	1432	1404	1412	1514	1495	1524	1583	1843	1860	1868
Total Liabilities	2553	2117	2130	2951	2769	2677	2602	2800	3044	3156
Accounts Payable			288	248	265	216	247	269	340	418
Long-Term Debt	1569	994	965	1715	1659	1613	1597	1663	1819	1760
Shareholder's Equity	510	907	1185	227	172	186	408	574	562	675
D/E Ratio	3.08	1.10	0.81	7.56	9.67	8.65	3.91	2.90	3.23	2.61

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.8%	2.8%	7.6%	6.7%	7.6%	8.0%	10.0%	8.2%	8.6%	11.3%
Return on Equity	3.2%	12.0%	22.9%	31.0%	117%	130%	98.9%	53.1%	53.1%	67.6%
ROIC	1.2%	4.3%	11.8%	10.7%	12.3%	12.8%	15.5%	12.3%	13.1%	17.4%
Shares Out.	115.08	127.45	140.81	144.85	148.68	150.38	149.72	150.27	147.75	143.16
Revenue/Share	44.51	43.87	41.61	39.75	36.85	35.08	36.11	38.66	41.74	46.83
FCF/Share	1.92	1.63	2.01	2.98	2.10	1.82	1.22	2.19	1.97	2.83

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.