



# General Dynamics (GD)

Updated August 8<sup>th</sup>, 2019 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$181	<b>5 Year CAGR Estimate:</b>	6.6%	<b>Volatility Percentile:</b>	39.5%
<b>Fair Value Price:</b>	\$166	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	40.2%
<b>% Fair Value:</b>	109%	<b>5 Year Valuation Multiple Estimate:</b>	-1.7%	<b>Growth Percentile:</b>	54.1%
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$223	<b>Valuation Percentile:</b>	37.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	30.1%

## Overview & Current Events

General Dynamics is an U.S. aerospace & defense company that operates five business segments: Aerospace (23% of sales), Combat Systems (17%), Marine Systems (23%), Information Technology (23%), and Mission Systems (13%). The company's Aerospace segment is focused on business jets and services while the remainder of the company is defense. The company makes the well-known M1 Abrams tank, Stryker vehicle, Virginia class submarine and Gulfstream business jets. Based on revenue, General Dynamics is the third largest defense company. General Dynamics had revenue of approximately \$36.2B in 2018. The current market capitalization is ~\$52.1B.

General Dynamics reported another solid quarter for Q2 2019. Both revenue and EPS beat estimates for the third straight quarter. Companywide revenue increased 4% to \$9,555M from \$9,186M and diluted GAAP EPS increased 5.7% to \$2.77 from \$2.62 on a year-over-year basis. Aerospace revenue was up 12.7% to \$2,136M from \$1,895M in the prior year on the strength of more aircraft deliveries (31 vs. 26). Margins also improved 90 bps to 15.5% versus 14.6%. General Dynamics recently completed FAA certification of the Gulfstream G600 on June 28<sup>th</sup> and is expecting first deliveries in August. This should help stave off competition and also drive growth. The company is expanding its services network by adding three new locations. Combat Systems increased revenue 8.1% to \$1,659M from \$1,534M driven by growth in M-1 Abrams tank production and contributions from Stryker and munitions and armaments. Revenue for Marine Systems increased 7.2% to \$2,325M from \$2,168M due to continued work on the Columbia-class ballistic missile submarine and the Common Missile Compartment for the U.K. Royal Navy. Information Technology revenue decreased (11.6%) to \$2,158M from \$2,442M. The company is integrating the CSRA acquisition. The segment was awarded \$2B for DoS supply chain and engineering services and the backlog increased 6% sequentially to \$8.9B. The current new win rate is 74% and the recompetite rate is 92%. Revenue for Mission Systems increased 11.3% to \$1,277M from \$1,147M with contributions to growth from space, intelligence, and cyber systems.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$6.20	\$6.82	\$6.94	\$6.48	\$7.03	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	<b>\$11.88</b>	<b>\$15.90</b>
<b>DPS</b>	\$1.52	\$1.68	\$1.88	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	<b>\$4.02</b>	<b>\$5.99</b>
<b>Shares</b>	386	372	356	354	353	332	311	302	297	289	<b>286</b>	<b>272</b>

General Dynamics top and bottom lines are growing due to increasing defense spending in the U.S. and international sales of defense equipment. Furthermore, the commercial aviation market is showing signs of strength and is expected to grow for the next several years. General Dynamics has established naval and ground platforms that support maintenance and modernization contracts as well as future prime contract wins. The Gulfstream brand is growing sales and the backlog is rising for the G500/600/650 models. In addition, operating margin expansion and a reduction of share count will support EPS growth. We forecast on average 6% annual EPS growth out to 2024. Note that EPS growth can be uneven for General Dynamics due to the unpredictable budget process and political changes. We expect dividend growth to be about 8% going forward due to higher debt and lower operating margins after the acquisition of CRSA. That being said, General Dynamics is a Dividend Aristocrat and the dividend is well covered with a payout ratio of only about 34%.

*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.*



# General Dynamics (GD)

Updated August 8<sup>th</sup>, 2019 by Prakash Kolli

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	9.2	9.9	9.9	10.4	11.3	15.2	15.5	14.8	20.5	17.7	15.2	14.0
Avg. Yld.	2.7%	2.5%	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	2.3%	2.3%	2.7%

General Dynamics currently trades at a price-to-earnings multiple of ~15.2. This is greater than the 10-year average. We believe that a P/E ratio of roughly 14.0 is fair over the long haul. This indicates that the current stock price will decline to match our fair value of \$166. Our 5-year price target is \$223.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

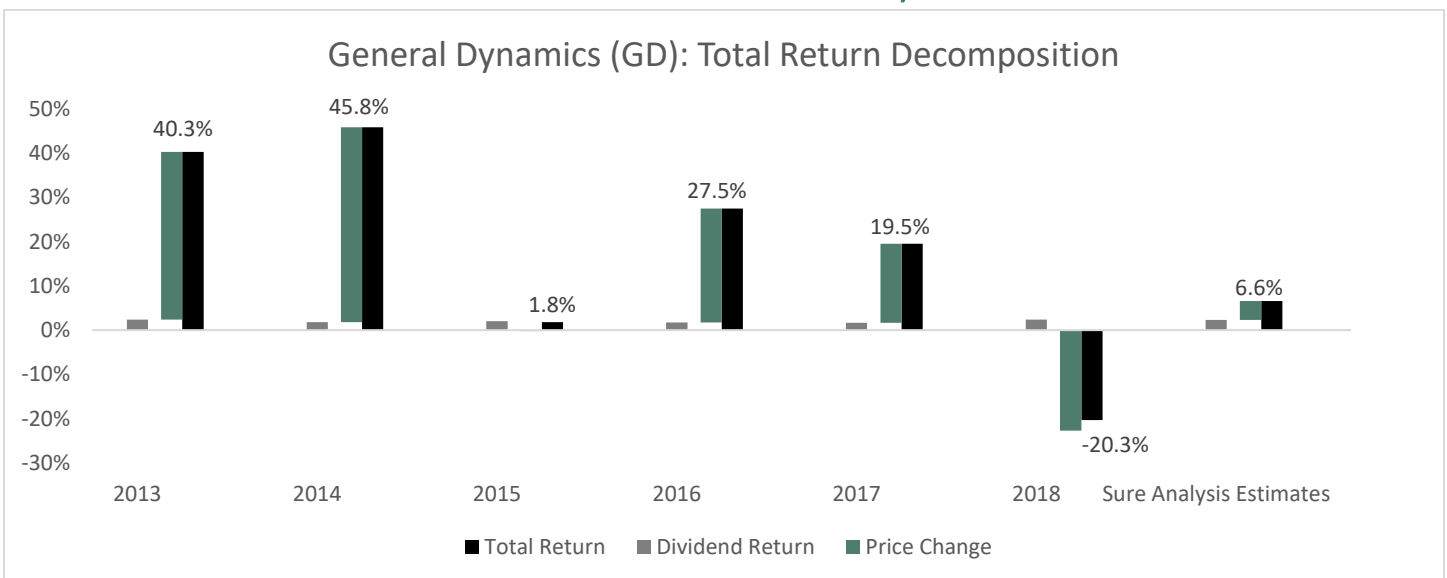
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	24.5%	24.6%	27.1%	31.5%	31.9%	31.7%	30.4%	30.8%	35.1%	33.5%	34.3%	37.7%

General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the U.S. Army, U.S. Navy and other militaries around the world. This leads to a competitive advantage as any new technologies would have to significantly outperform extant platforms. These platforms have decades long life cycles and General Dynamics has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company does face risks in program cuts and reduction in federal spending. One risk is that General Dynamics is increasing its exposure to Information Technology and cybersecurity. These are competitive fields with lower margins. Furthermore, traditional IT companies are moving strongly into government contracting. These companies often have broader and deeper experience and expertise in IT.

## Final Thoughts & Recommendation

At present we are forecasting a 6.6% annualized return through 2024 down from our last report due to market appreciation. The return is comprised of 6.0% earnings growth, 2.3% dividend yield and -1.7% from multiple contraction. General Dynamics businesses are performing well but the current stock price reflects this performance. We currently rate the stock a hold. This stock does have some appeal for those seeking income and dividend growth.

## 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.



# General Dynamics (GD)

Updated August 8<sup>th</sup>, 2019 by Prakash Kolli

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	31981	32466	32677	30992	30930	30852	31781	30561	30973	36193
<b>Gross Profit</b>	5629	5909	5856	4980	5728	5873	6232	5665	6242	6715
<b>Gross Margin</b>	17.6%	18.2%	17.9%	16.1%	18.5%	19.0%	19.6%	18.5%	20.2%	18.6%
<b>SG&amp;A Exp.</b>	1954	1964	2030	2221	2039	1984	1937	1921	2006	2258
<b>D&amp;A Exp.</b>	562	569	592	590	525	496	481	453	441	763
<b>Operating Profit</b>	3675	3945	3826	2759	3689	3889	4295	3744	4236	4457
<b>Op. Margin</b>	11.5%	12.2%	11.7%	8.9%	11.9%	12.6%	13.5%	12.3%	13.7%	12.3%
<b>Net Profit</b>	2394	2624	2526	-332	2357	2533	3036	2572	2912	3345
<b>Net Margin</b>	7.5%	8.1%	7.7%	-1.1%	7.6%	8.2%	9.6%	8.4%	9.4%	9.2%
<b>Free Cash Flow</b>	2455	2616	2780	2170	2675	3307	2038	1771	3448	2458
<b>Income Tax</b>	1106	1162	1166	854	1125	1129	1183	977	1165	727

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	31077	32545	34883	34309	35494	35337	31997	33172	35046	45408
<b>Cash &amp; Equivalents</b>	2263	2613	2649	3296	5301	4388	2785	2334	2983	963
<b>Acc. Receivable</b>	3678	3848	4429	4204	4370	4050	3446	3399	3617	3759
<b>Inventories</b>	2126	2158	7478	7740	7670	7812	7723	5118	5303	5977
<b>Goodwill &amp; Int.</b>	14367	14641	15389	13431	12976	12643	12206	12123	12616	22179
<b>Total Liabilities</b>	18654	19229	21651	22919	20993	23508	21259	22871	23611	33676
<b>Accounts Payable</b>	2365	2736	2895	2469	2216	2057	1964	2538	3207	3179
<b>Long-Term Debt</b>	3864	3203	3907	3908	3909	3893	3399	3888	3982	12417
<b>Total Equity</b>	12423	13316	13232	11390	14501	11829	10738	10301	11435	11732
<b>D/E Ratio</b>	0.31	0.24	0.30	0.34	0.27	0.33	0.32	0.38	0.35	1.06

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	8.1%	8.2%	7.5%	-1.0%	6.8%	7.2%	9.0%	7.9%	8.5%	8.3%
<b>Return on Equity</b>	21.3%	20.4%	19.0%	-2.7%	18.2%	19.2%	26.9%	24.4%	26.8%	28.9%
<b>ROIC</b>	15.8%	16.0%	15.0%	-2.0%	14.0%	14.8%	20.3%	18.2%	19.7%	16.9%
<b>Shares Out.</b>	386	372	356	354	353	332	311	302	297	289
<b>Revenue/Share</b>	82.44	84.28	88.91	87.71	87.50	90.39	97.29	98.46	101.67	120.98
<b>FCF/Share</b>	6.33	6.79	7.56	6.14	7.57	9.69	6.24	5.71	11.32	8.22

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.