Northrop Grumman Corporation (NOC)

Updated November 4th, 2019 by Prakash Kolli

Key Metrics

Current Price:	$347	**5 Year CAGR Estimate:**	8.5%	**Volatility Percentile:**	44.2%
Fair Value Price:	$291	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	74.0%
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Growth Percentile:**	93.6%
Dividend Yield:	1.5%	**5 Year Price Target**	$488	**Valuation Percentile:**	39.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	60.2%

Overview & Current Events

Northrop Grumman Corporation is one of the five largest U.S. aerospace and defense contractors based on revenue. The company reports four business segments: Aerospace Systems (aircraft and space systems), Mission Systems (radars, sensors and systems for surveillance and targeting), Technology Services (cybersecurity, information technology, logistics and maintenance), and Innovation Systems (missile defense, space systems, hypersonics and space launchers). Northrop Grumman completed its acquisition of Orbital ATK in June 2018 and stood up a new business segment, Innovation Systems. Northrop Grumman makes the well-known B-2 Spirit stealth bomber, E-2D Advanced Hawkeye and E-8C JSTARS. The company also provides content on the F-35 Lightening II and F/A-18 Super Hornet. It also won the contract for the B-21 Raider. In addition, the company makes the RQ-4 Global Hawk, MQ-4C Triton and MQ-8B/C Fire Scout UAVs. The company had revenue of over $30B in 2018. The current market capitalization is ~$59.35B.

Northrop Grumman released a mixed earnings report for Q3 2019 on October 24, 2019. Companywide revenue increased 5% to $8,475M from $8,085M and diluted earnings per share declined (23%) to $5.49 from $7.11 on a year-over-year basis. Last year's results included a $1.01 per share benefit for settlement of cost claims, as well as $0.47 per share for pension-related items. All four business segments had increases in sales, but Aerospace systems had a decline in operating income. Revenue for the Aerospace System increased 5% to $3,458M from $3,282M from the prior year due to higher volumes in the E-2 and F-35 aircraft. Revenue for the Innovation Systems increased 12% to $1,584M from $1,415M in comparable quarters on the strength of higher sales in satellite systems, precision munitions and armament products, tactical missiles, and aerospace structures. Revenue for Mission Systems increased 4% to $3,029M in the quarter from $2,911M in the prior year due higher volumes in marine systems, space and restricted programs, and airborne radar and electronic warfare programs. Revenue for Technology Services increased 3% to $1,067M in Q3 2019 from $1,040M in Q3 2018 due to higher sales in sustainment and services programs.

Companywide backlog increased 10% to $65B. On the strength of this quarter's results Northrop Grumman increased expected adjusted earnings per share to range from $20.10 to $20.35 for 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$4.87	$5.80	$7.41	$7.81	$8.35	$9.75	$10.39	$12.19	$11.47	$21.33	***$20.22***	***$32.56***
DPS	$1.69	$1.84	$1.97	$2.15	$2.38	$2.71	$3.10	$3.50	$3.90	$4.70	***$5.16***	***$7.58***
Shares[1]	306.9	291	253.9	237.1	216.7	198.4	181.3	175.1	174.1	170.7	***167***	***151***

Northrop Grumman's earnings has increased substantially over time driven by top line growth from contract wins, modernization and upgrades, and services. A significant reduction in share count has helped drive EPS gains as well. Looking forward, the company will achieve both revenue and EPS growth through its involvement in the F-35, B-21, E2-D and other platforms. We expect average annual EPS growth of 10% out to 2024. We expect share buybacks to slow as the company pays down debt after the Orbital ATK acquisition. Northrop Grumman has paid a growing dividend for 16 years. The payout ratio is currently low at ~26% so there is room for further increases.

[1] Share count in millions.

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.

Northrop Grumman Corporation (NOC)

Updated November 4th, 2019 by Prakash Kolli

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	9.9	10.5	8.3	8.2	10.4	12.9	16.1	17.4	23.0	16.8	***17.1***	***15.0***
Avg. Yld.	3.5%	3.0%	3.2%	3.4%	2.7%	2.1%	1.9%	1.6%	1.5%	1.7%	***1.5%***	***1.6%***

The stock price has declined slightly since our last report but earnings per share growth is exceeding expectations. Our current fair value is $303 based on updated 2019 EPS and a multiple of 15.0. We use a P/E multiple greater than the long-term average of ~13.4 to account for synergies from the Orbital ATK acquisition and growth from the F-35, B-21 and E-2D programs. Our 5-year price target is now $488.

Safety, Quality, Competitive Advantage, & Recession Resiliency

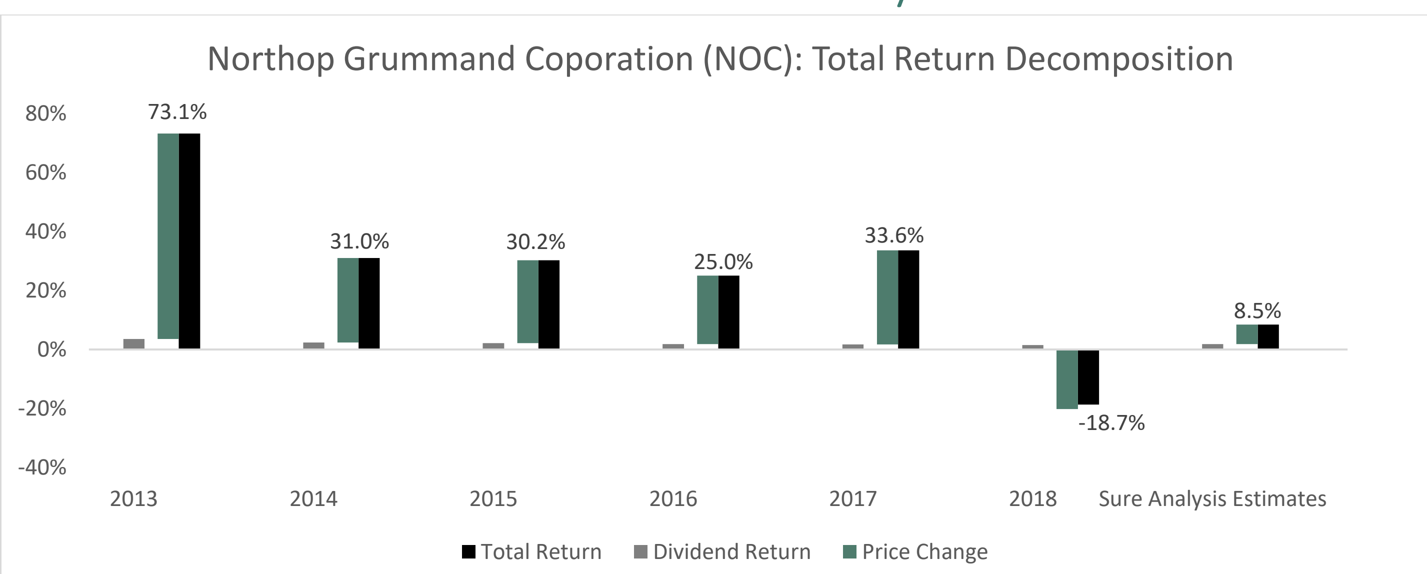
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	35%	32%	27%	28%	29%	28%	30%	29%	34%	25%	***26%***	***23%***

As a prime U.S. defense contractor, Northrop Grumman has an entrenched position in many of its end markets. Of note are the B-2, B-21, E-2D, E-8C, Global Hawk and Triton platforms. These platforms have decades long life cycles and Northrop Grumman has the 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 that could lead to revenue declines. Another risk is that Northrop Grumman has exposure to Information Technology and cybersecurity. These are competitive fields. Traditional IT companies are moving into government contracting focusing on DoD and cybersecurity. These companies often have broader and deeper expertise in IT compared to Northrop Grumman. Debt has increased due to the acquisition. Long-term debt is now at $13,826M offset by $1,127 in cash and cash equivalents.

Final Thoughts & Recommendation

At present we are forecasting an 8.5% total annual return through 2024 up from our last report due to higher earnings per share and a decline in share price. Northrop Grumman's four businesses are generally performing well and positioned in growth areas for defense spending. However, the current stock price reflects current performance and optimism, and the dividend yield is relatively low. Hence, we rate this stock as a hold at the current share price.

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.

Northrop Grumman Corporation (NOC)

Updated November 4th, 2019 by Prakash Kolli

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	33755	28143	26412	25218	24661	23979	23526	24706	26004	30095
Gross Profit	5625	5294	5626	5580	5379	5601	5642	5909	5930	6791
Gross Margin	16.7%	18.8%	21.3%	22.1%	21.8%	23.4%	24.0%	23.9%	22.8%	22.6%
SG&A Exp.	3142	2467	2350	2450	2256	2405	2566	2632	2712	3011
D&A Exp.	736	555	544	510	495	462	467	456	475	800
Operating Profit	2483	2827	3276	3130	3123	3196	3076	3277	3218	3780
Op. Margin	7.4%	10.0%	12.4%	12.4%	12.7%	13.3%	13.1%	13.3%	12.4%	12.6%
Net Profit	1686	2053	2118	1978	1952	2069	1990	2043	2869	3229
Net Margin	5.0%	7.3%	8.0%	7.8%	7.9%	8.6%	8.5%	8.3%	11.0%	10.7%
Free Cash Flow	1411	1868	1623	2309	2119	2032	1691	1893	1685	2578
Income Tax	693	462	997	987	911	868	800	638	1360	513

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	30252	31421	25411	26543	26381	26572	24424	25614	35128	37653
Cash & Equivalents	3275	3701	3002	3862	5150	3863	2319	2541	11225	1579
Acc. Receivable	3394	4057	2964	2858	2685	2806	2841	3299	1054	1448
Inventories	1170	1185	873	798	698	742	807	816	398	654
Goodwill & Int.	14390	14296	12374	12431	12438	12466	12460	12450	12507	20044
Total Liabilities	17565	17864	15075	17029	15761	19337	18902	20355	27996	29466
Accounts Payable	1921	1846	1481	1392	1229	1305	1282	1554	1661	2182
Long-Term Debt	4294	4829	3935	3930	5928	5925	6386	7058	14399	13883
Total Equity	12687	13557	10336	9514	10620	7235	5522	5259	7132	8187
D/E Ratio	0.34	0.36	0.38	0.41	0.56	0.82	1.16	1.34	2.02	1.70

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.6%	6.7%	7.5%	7.6%	7.4%	7.8%	7.8%	8.2%	9.4%	8.9%
Return on Equity	13.7%	15.6%	17.7%	19.9%	19.4%	23.2%	31.2%	37.9%	46.3%	42.2%
ROIC	10.3%	11.6%	13.0%	14.3%	13.0%	13.9%	15.9%	16.9%	17.0%	14.8%
Shares Out.	306.9	291	253.9	237.1	216.7	198.4	181.3	175.1	174.1	170
Revenue/Share	104.41	93.47	93.79	99.52	105.43	113.06	122.79	136.88	148.09	172.37
FCF/Share	4.36	6.20	5.76	9.11	9.06	9.58	8.83	10.49	9.60	14.77

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.