



General Dynamics Corporation (GD)

Updated December 2nd, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$182	5 Year CAGR Estimate:	6.5%	Volatility Percentile:	35.6%
Fair Value Price:	\$167	5 Year Growth Estimate:	6.0%	Momentum Percentile:	38.8%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Growth Percentile:	57.0%
Dividend Yield:	2.2%	5 Year Price Target	\$223	Valuation Percentile:	56.2%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	49.6%

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 ~\$52.45B.

General Dynamics reported a decent quarter for Q3 2019. Companywide revenue increased 7.3% to \$9,761M from \$9,094M and diluted GAAP EPS increased 10.2% to \$3.14 from \$2.85 on a year-over-year basis. Three of the five operating segments reported growth. Aerospace revenue was up 22.8% to \$2,495M from \$2,031M in the prior year on the strength of more aircraft deliveries (38 vs. 27) offset by declining margins to 15.8% versus 18.5% in the prior year. The company delivered its first G600 aircraft in the quarter and expanded its service capabilities. General Dynamics announced the G700 product line, which will have larger cabin volume and range. Combat Systems increased revenue 14.2% to \$1,740M from \$1,523M driven by growth in munitions and armaments, and award for 360 armored combat support vehicles from Canada, and Stryker vehicle deliveries to Thailand. Revenue for Marine Systems increased 11.6% to \$2,235M from \$2,003M. Information Technology revenue decreased (10.2%) to \$2,071M from \$2,307M due to divestitures and program timing. The company is integrating the CSRA acquisition by rationalizing real estate space and personnel. Revenue for Mission Systems declined (0.8%) to \$1,220M from \$1,230M.

General Dynamics backlog has declined some over the past few quarters. It currently stands at \$67,396M. This is due a decline in backlog for Aerospace, Combat Systems, and Marine Systems offset by an increase for Information Technology, and flat Mission Systems. Aerospace book-to-bill declined in comparable quarters to 0.70X.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$6.20	\$6.82	\$6.94	\$6.48	\$7.03	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	\$11.90	\$15.92
DPS	\$1.52	\$1.68	\$1.88	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$4.08	\$5.99
Shares¹	386	372	356	354	353	332	311	302	297	289	286	272

General Dynamics top and bottom lines are growing due to increasing U.S. defense spending and international sales. 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 in the high-end business jet market. 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 federal budget process and cyclicity of commercial aviation. We expect dividend growth to be about 8% going forward. That being said, General Dynamics is a Dividend Aristocrat and the dividend is well covered.

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.



General Dynamics Corporation (GD)

Updated December 2nd, 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	15.3	14.0
Avg. Yld.	2.7%	2.5%	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	2.3%	2.2%	2.7%

General Dynamics currently trades at a price-to-earnings multiple of ~15.3 almost unchanged since our last report. 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. Our current fair value estimate is now \$167. Our 5-year price target remains \$223.

Safety, Quality, Competitive Advantage, & Recession Resiliency

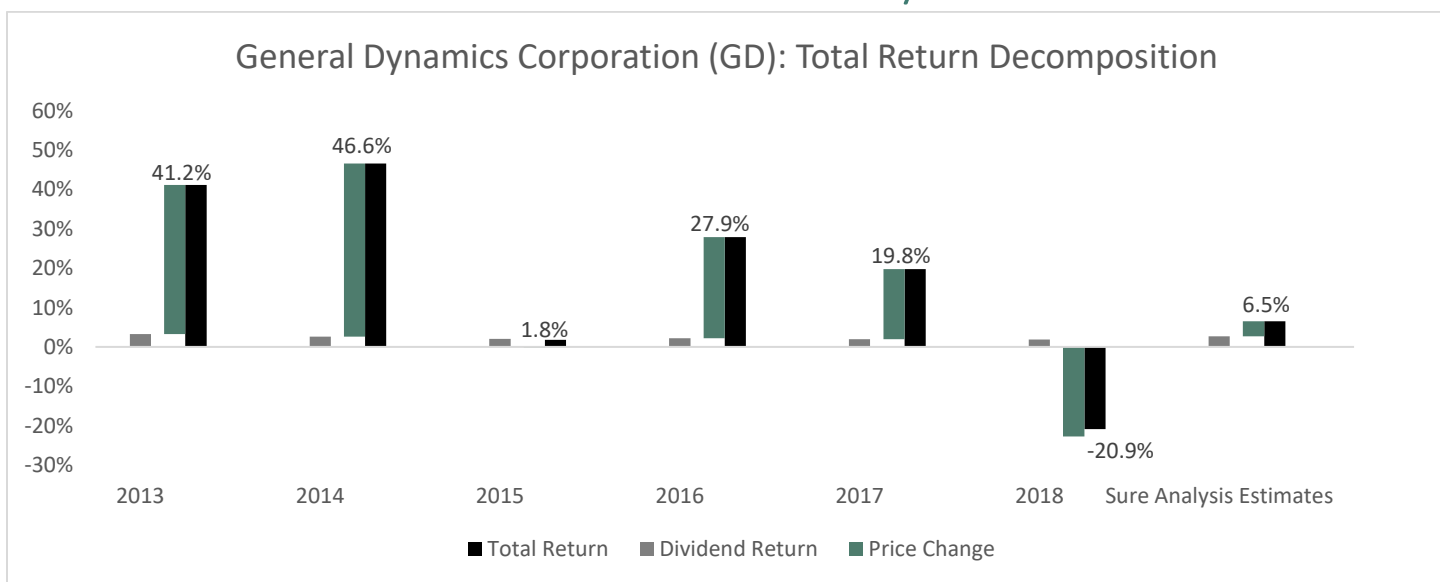
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	25%	25%	27%	31%	32%	32%	30%	31%	36%	34%	34%	38%

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 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. Another risk is that General Dynamics is increasing its exposure to Information Technology and cybersecurity. These are competitive fields with lower margins. General Dynamics debt increased for the CRSA acquisition. Short-term debt is \$4,661M and long-term debt is \$8,989M offset by only \$974M in cash. Interest coverage is healthy at about 12X.

Final Thoughts & Recommendation

At present we are forecasting a 6.5% annualized return through 2024. General Dynamics defense businesses are performing well but competition in commercial aviation is increasing. We rate this stock a hold at the current stock price. This stock does retain appeal for those seeking income and dividend growth, but investors may desire to wait for a lower valuation to add to existing positions.

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 Corporation (GD)

Updated December 2nd, 2019 by Prakash Kolli

Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	31077	32545	34883	34309	35494	35337	31997	33172	35046	45408
Cash & Equivalents	2263	2613	2649	3296	5301	4388	2785	2334	2983	963
Acc. Receivable	3678	3848	4429	4204	4370	4050	3446	3399	3617	3759
Inventories	2126	2158	7478	7740	7670	7812	7723	5118	5303	5977
Goodwill & Int.	14367	14641	15389	13431	12976	12643	12206	12123	12616	22179
Total Liabilities	18654	19229	21651	22919	20993	23508	21259	22871	23611	33676
Accounts Payable	2365	2736	2895	2469	2216	2057	1964	2538	3207	3179
Long-Term Debt	3864	3203	3907	3908	3909	3893	3399	3888	3982	12417
Total Equity	12423	13316	13232	11390	14501	11829	10738	10301	11435	11732
D/E Ratio	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
Return on Assets	8.1%	8.2%	7.5%	-1.0%	6.8%	7.2%	9.0%	7.9%	8.5%	8.3%
Return on Equity	21.3%	20.4%	19.0%	-2.7%	18.2%	19.2%	26.9%	24.4%	26.8%	28.9%
ROIC	15.8%	16.0%	15.0%	-2.0%	14.0%	14.8%	20.3%	18.2%	19.7%	16.9%
Shares Out.	386	372	356	354	353	332	311	302	297	289
Revenue/Share	82.44	84.28	88.91	87.71	87.50	90.39	97.29	98.46	101.67	120.98
FCF/Share	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.