



General Dynamics Corporation (GD)

Updated March 17th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	15.6%	Market Cap:	\$37,058M
Fair Value Price:	\$176	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/08/20
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.6%	Dividend Payment Date:	05/08/20
Dividend Yield:	3.4%	5 Year Price Target	\$236	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	7.8%

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, Columbia 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.

General Dynamics reported Q4 2019 and full year results on January 29, 2020. Companywide revenue increased 3.8% to \$10,773M from \$10,378M and diluted GAAP earnings per share increased 14.3% to \$3.51 from \$3.07 on a year-over-year basis. Four of the five operating segments reported growth. Aerospace revenue was up 8.4% to \$2,930M from \$2,704M in the prior year and margins increased 230 bps to 16.4%. The company is now delivering the Gulfstream G600 and started taking orders for the G700. The book-to-bill ratio jumped to 1.7 from 1.2. Combat Systems increased revenue 13.1% to \$2,930M from \$2,704M driven by ramp up of the M1, Mobile Protected Firepower, deliveries of the AJAX vehicle, and demand for munitions and ordnance. Revenue for Marine Systems increased 11.7% to \$2,565M from \$2,297M due to higher volumes, especially with the Virginia Block V and Columbia submarines. Information Technology revenue decreased (15.0%) to \$2,024M from \$2,382M. The company is integrating the CSRA acquisition by rationalizing real estate space and personnel. Revenue for Mission Systems increased 2.5% to \$1,282M from \$1,251M.

For the year, companywide revenue grew 8.7% to \$39,350M from \$36,193M and diluted adjusted earnings per share grew 7.2% to \$11.98 from \$11.22 in the prior year. After several quarters of decline, the companywide backlog grew to \$86,945M and the book-to-bill ratio is now a healthy 1.5-to-1.0. Growth was driven by a \$22.2B contract award for Virginia Block V submarines, aerospace orders, and IT contract wins.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$6.82	\$6.94	\$6.48	\$7.03	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	\$11.98	\$12.58	\$16.83
DPS	\$1.68	\$1.88	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$3.99	\$4.32	\$6.35
Shares¹	372	356	354	353	332	311	302	297	289	290	287	273

General Dynamics top and bottom lines are growing due to increasing U.S. defense spending and international sales. The business jet market may take a short-term hit due to covid-19 and travel restrictions but should grow over time due to new models. 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 with new models. In addition, operating margin expansion and a reduction of share count will support earnings per share growth. We forecast on average 6% annual earnings per share growth out to 2025. We expect dividend growth to be about 8% going forward. General Dynamics is a Dividend Aristocrat and the current payout ratio is low supporting future dividend increases.

¹ Share count in millions.

Disclosure: This analyst is long GD.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	9.9	9.9	10.4	11.3	15.2	15.5	14.8	20.5	17.7	14.7	10.1	14.0
Avg. Yld.	2.5%	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	3.4%	2.7%

General Dynamics stock price is down significantly due to covid-19, oil price wars, and transportation restrictions. The stock currently trades at a depressed multiple of 10.1. This is below our estimated fair value multiple of 14.0 over the long haul. Our current fair value estimate is now \$176. Our 5-year price target is now \$236.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	25%	27%	31%	32%	32%	30%	31%	36%	34%	34%	34%	38%

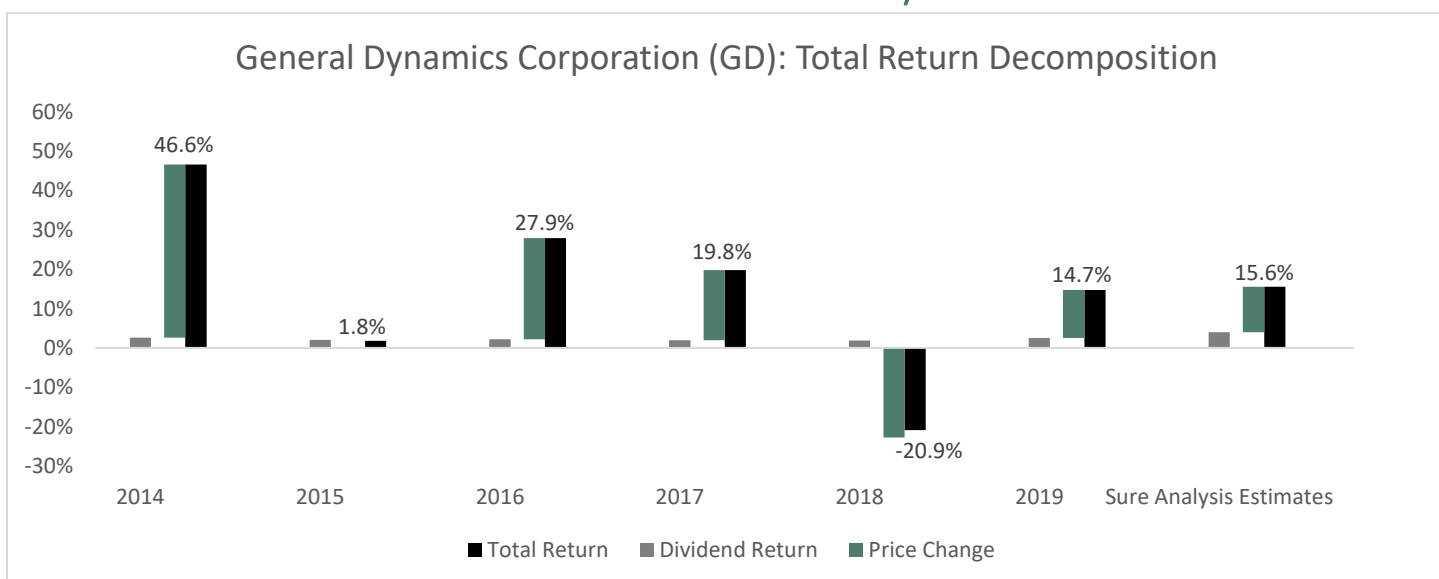
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the U.S. Army, U.S. Navy and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company faces risks in program cuts, reduction in federal spending, and cyclicity of the business jet market. 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 \$2,920M and long-term debt is \$9,010M offset by only \$902M in cash. Interest coverage is healthy at about 10X and the leverage ratio is about 2.2X.

Final Thoughts & Recommendation

At present we are forecasting a 15.6% annual total return through 2025 up materially since our last report. The stock price has been caught in the downward trend over the past month. But with that said, General Dynamics businesses are performing well, and the company has improved its book-to-bill ratio. The stock is a Dividend Aristocrat and the current yield may be of interest to some. We rate this stock a buy at the current stock price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	32466	32677	30992	30930	30852	31781	30561	30973	36193	39350
Gross Profit	5909	5856	4980	5728	5873	6232	5665	6242	6715	7059
Gross Margin	18.2%	17.9%	16.1%	18.5%	19.0%	19.6%	18.5%	20.2%	18.6%	17.9%
SG&A Exp.	1964	2030	2221	2039	1984	1937	1921	2006	2258	2411
D&A Exp.	569	592	590	525	496	481	453	441	763	829
Operating Profit	3945	3826	2759	3689	3889	4295	3744	4236	4457	4648
Op. Margin	12.2%	11.7%	8.9%	11.9%	12.6%	13.5%	12.3%	13.7%	12.3%	11.8%
Net Profit	2624	2526	-332	2357	2533	3036	2572	2912	3345	3484
Net Margin	8.1%	7.7%	-1.1%	7.6%	8.2%	9.6%	8.4%	9.4%	9.2%	8.9%
Free Cash Flow	2616	2780	2170	2675	3307	2038	1771	3448	2458	1994
Income Tax	1162	1166	854	1125	1129	1183	977	1165	727	718

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	32545	34883	34309	35494	35337	31997	33172	35046	45408	48841
Cash & Equivalents	2613	2649	3296	5301	4388	2785	2334	2983	963	902
Acc. Receivable	3848	4429	4204	4370	4050	3446	3399	3617	3759	3544
Inventories	2158	7478	7740	7670	7812	7723	5118	5303	5977	6306
Goodwill & Int.	14641	15389	13431	12976	12643	12206	12123	12616	22179	21992
Total Liabilities	19229	21651	22919	20993	23508	21259	22871	23611	33676	35264
Accounts Payable	2736	2895	2469	2216	2057	1964	2538	3207	3179	3162
Long-Term Debt	3203	3907	3908	3909	3893	3399	3888	3982	12417	11930
Total Equity	13316	13232	11390	14501	11829	10738	10301	11435	11732	13577
D/E Ratio	0.24	0.30	0.34	0.27	0.33	0.32	0.38	0.35	1.06	0.88

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.2%	7.5%	-1.0%	6.8%	7.2%	9.0%	7.9%	8.5%	8.3%	7.4%
Return on Equity	20.4%	19.0%	-2.7%	18.2%	19.2%	26.9%	24.4%	26.8%	28.9%	27.5%
ROIC	16.0%	15.0%	-2.0%	14.0%	14.8%	20.3%	18.2%	19.7%	16.9%	14.0%
Shares Out.	372	356	354	353	332	311	302	297	289	290
Revenue/Share	84.28	88.91	87.71	87.50	90.39	97.29	98.46	101.67	120.98	135.3
FCF/Share	6.79	7.56	6.14	7.57	9.69	6.24	5.71	11.32	8.22	6.86

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

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