ooz Allen Hamilton Holding Corp. (BAH)

Updated September 7th, 2020 by Prakash Kolli

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$11.7B
Fair Value Price:	$63	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	08/13/20
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.8%	**Dividend Payment Date:**	08/28/20
Dividend Yield:	1.5%	**5 Year Price Target**	$93	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	26.3%

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 leading provider of professional management and technology consulting services to the U.S Government. Technology consulting services includes information technology, cybersecurity, cloud computing, and engineering services. The company basically provides staffing to U.S. 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, 27% civil, 23% intelligence and 3% global commercial in FY19. The company had ~$7.5B in revenue in FY20.

Booz reported another good quarter in Q1 FY 2021. Revenue increased 7.2% to $1,956.5M from $1,825.2M and diluted adjusted EPS increased 12% to $0.93 from $0.83 on a year-over-year basis. Top and bottom line growth was again driven by strong client demand for Booz' services. Booz increased headcount to 27,381 in the quarter from 26,384 in the prior year. Consulting headcount increased to 24,469 from 23,603 in the prior year. Greater head count drives revenue for Booz. Contract type mix for the quarter changed as cost-reimbursable contracts was flat at 56%, time-and-materials rose to 23%, and fixed-price declined to about 18%. Booz' grew the backlog by 15.3% to $23.0B of which $3,437M is funded, $4,734M is unfunded, and $14,846M is priced options.

Booz was active on the contract win front likely due to federal government fiscal stimulus spending during the pandemic. The book-to-bill ratio was 2.17X in the quarter, which is much higher than most first quarters. The long-term book-to-bill ratio rose. Contract wins are cyclical and tend to peak in the second quarter.

For FY 2021, Booz guided for 6% to 10% revenue growth and adjusted diluted earnings per share of $3.40 to $3.60. Booz should have another good year in FY 2021 barring changes to U.S. Government spending.

Growth on a Per-Share Basis[1]

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.66	$1.70	$1.45	$1.54	$1.52	$1.94	$1.67	$2.03	$2.91	$3.41	***$3.50***	***$5.14***
DPS	--	$0.09	$0.36	$0.40	$0.46	$0.54	$0.62	$0.70	$0.80	$0.96	***$1.24***	***$2.19***
Shares[2]	127.9	132.4	145.8	148.7	149.1	148.0	148.9	143.5	140.0	138.7	***135.9***	***122.9***

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 now forecasting on average an 8% annual growth rate for EPS out to fiscal 2025. This will be driven by client demand for the company's services combined with a 2% decrease in share count annually. The company's share repurchase program has $580M left out of a total of $1.4 billion. 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 2025 due to the relatively low payout ratio.

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[1] BAH's fiscal year ends on the last day of March and the FY is ahead of the CY. As a result, we've put the stock's FY 2019 results in the '2018' column in the table above and followed the same convention throughout the data tables.

[2] Share count in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	--	28.5	10.1	10.0	11.9	16.4	14.3	19.2	17.9	20.3	***24.3***	***18.0***
Avg. Yld.	--	0.5%	2.5%	2.2%	1.8%	1.9%	1.9%	1.9%	1.7%	1.5%	***1.5%***	***2.4%***

Booz Allen Hamilton's stock price has gained since our last report and is now trading higher than before the pandemic. The stock is trading at an elevated valuation of 24.3 compared to our multiple of 18X for the long haul. We have maintained our 2020 earnings estimate. Our current fair value estimate is $63. Our 5-year price target is $93.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	--	5%	25%	26%	30%	28%	37%	34%	27%	28%	***35%***	***42%***

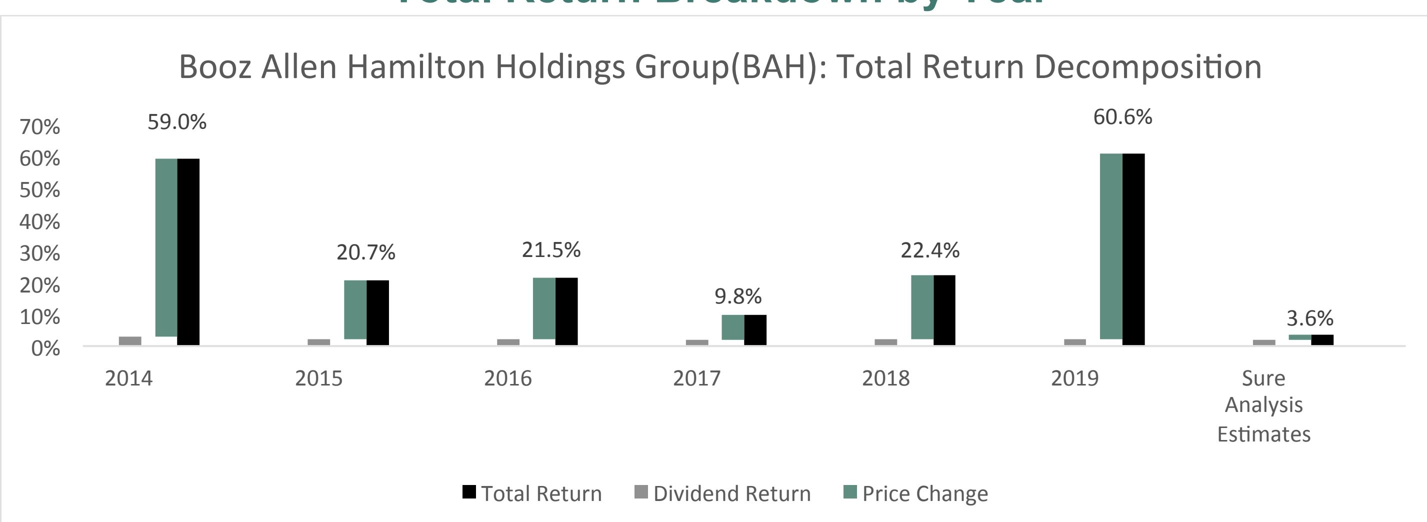
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the 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.

The company has $77.9M in short-term debt and $1,989.3M in long-term debt offset by $620.6M in cash and cash equivalents. The leverage ratio has come down and is now 2.2X and interest coverage is ~7X.

Final Thoughts & Recommendation

At present we are forecasting on average a 3.6% annualized total return through 2025. Booz is showing resiliency during the coronavirus pandemic due to its long-term relationships with clients. The total backlog continues to grow as the company wins more orders than it completes. That said, the stock price has gotten ahead of itself and much of the gains that we forecast are already priced in. The dividend yield is now below that of the broader market average. At the current valuation and stock price, we rate this stock a sell.

Total Return Breakdown by Year



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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.

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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.