Booz Allen Hamilton Holding Corp. (BAH)

Updated December 9th, 2020 by Prakash Kolli

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$12.2B
Fair Value Price:	$66	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/13/20
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	12/02/20
Dividend Yield:	1.4%	**5 Year Price Target**	$97	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 excellent quarter in Q2 FY 2021. Revenue increased 11.0% to $2,019.2M from $1,819.6M and diluted adjusted earnings per share increased 22.5% to $0.98 from $0.80 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 27,638 in the quarter from 26,984 in the prior year. Consulting headcount increased to 24,772 from 24,123 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 55%, time-and-materials rose to 25%, and fixed-price was about 19%. Booz' grew the backlog by 7.3% to $24.6B of which $4,482M is funded, $6,159M is unfunded, and $13,933M is priced options.

Booz was active on the contract win front likely due to federal government fiscal stimulus spending during the pandemic. But the book-to-bill ratio was down from the high last quarter to 1.77X in the quarter. The long-term book-to-bill declined sequentially. Contract wins are cyclical and tend to peak in the second quarter.

Booz updated guidance at 7% to 9% revenue growth and higher adjusted diluted earnings per share of $3.60 to $3.75. Booz should have another good year in FY 2021 barring changes to U.S. Government spending.

Growth on a Per-Share Basis

Year[1]	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.66	$1.70	$1.45	$1.54	$1.52	$1.94	$1.67	$2.03	$2.91	$3.41	***$3.68***	***$5.41***
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 FY 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 $388 million left out of a total of $1.4 billion. Booz has consistently increased the dividend at a double-digit rate since FY 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 FY 2025 due to the relatively low payout ratio.

---

[1] BAH's fiscal year ends on the last day of March and the. All tables are in fiscal year.

[2] Share count in millions.

Booz Allen Hamilton Holding Corp. (BAH)

Updated December 9th, 2020 by Prakash Kolli

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	--	28.5	10.1	10.0	11.9	16.4	14.3	19.2	17.9	20.3	***24.1***	***18.0***
Avg. Yld.	--	0.5%	2.5%	2.2%	1.8%	1.9%	1.9%	1.9%	1.7%	1.5%	***1.4%***	***2.2%***

Booz Allen Hamilton's stock price is up since our last report and is now trading near its 52-week high. The stock is trading at an elevated valuation of 24.1X compared to our earnings multiple of 18X for the long haul. We have increased our FY 2021 earnings estimate due to good performance. Our fair value estimate is $66. Our 5-year price target is $97.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	--	5%	25%	26%	30%	28%	37%	34%	27%	28%	***34%***	***40%***

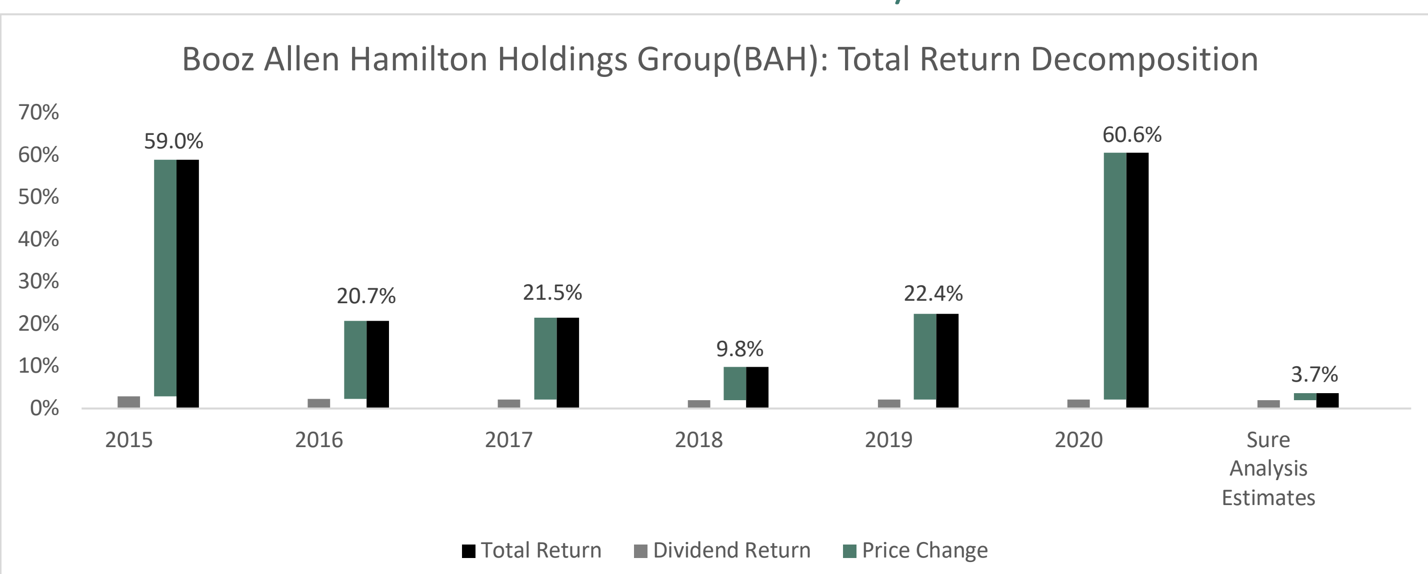
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the 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 $2,315.7M in long-term debt offset by $1,275.2M in cash and cash equivalents at end of the quarter. The leverage ratio has come down and is now 1.5X and interest coverage is ~11X.

Final Thoughts & Recommendation

At present we are forecasting on average a 3.7% annualized total return through FY 2025. The pandemic has had little effect on Booz' ability to grow its headcount and thus revenue. The total backlog is growing as the company continues to win contracts. That said, the stock is trading near its all-time high and we suggest that new investors wait for a better entry point. For existing investors, we rate this stock a sell at the current price and valuation.

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.

Booz Allen Hamilton Holding Corp. (BAH)

Updated December 9th, 2020 by Prakash Kolli

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue						5,406	5,809	6,168	6,704	7,464
Gross Profit						2,826	3,131	3,301	3,604	4,085
Gross Margin						52.3%	53.9%	53.5%	53.8%	54.7%
SG&A Exp.						2,320	2,565	2,717	2,933	3,334
D&A Exp.						62	60	65	69	81
Operating Profit						445	506	520	602	669
Operating Margin						8.2%	8.7%	8.4%	9.0%	9.0%
Net Profit						294	261	302	419	483
Net Margin						5.4%	4.5%	4.9%	6.2%	6.5%
Free Cash Flow						183	328	291	405	423
Income Tax						85	165	128	97	97

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets						3,010	3,373	3,607	3,832	4,794
Cash & Equivalents						188	217	287	284	742
Accounts Receivable						309	341	395	495	475
Goodwill & Int. Ass.						1,583	1,843	1,860	1,868	1,882
Total Liabilities						2,602	2,800	3,044	3,156	3,938
Accounts Payable						247	269	340	418	433
Long-Term Debt						1,597	1,663	1,819	1,760	2,186
Shareholder's Equity						408	574	562	675	856
D/E Ratio						3.91	2.90	3.23	2.61	2.55

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						10.0%	8.2%	8.6%	11.3%	11.2%
Return on Equity						98.9%	53.1%	53.1%	67.6%	63.0%
ROIC						15.5%	12.3%	13.1%	17.4%	17.6%
Shares Out.	127.9	132.4	145.8	148.7	149.1	148.0	148.9	143.5	140.0	138.7
Revenue/Share						36.11	38.66	41.74	46.83	52.85
FCF/Share						1.22	2.19	1.97	2.83	3.00

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