



General Dynamics Corporation (GD)

Updated February 8th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$159	5 Year CAGR Estimate:	8.0%	Market Cap:	\$45.39B
Fair Value Price:	\$154	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/14/21
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	02/05/21
Dividend Yield:	2.8%	5 Year Price Target	\$207	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	10.3%

Overview & Current Events

General Dynamics is an U.S. aerospace & defense company that now operates in four business segments: Aerospace (21% of sales), Combat Systems (19%), Marine Systems (26%), and Technologies (33%). General Dynamics combined the IT and Mission Systems segments in 2020. 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 \$37.9B in 2020.

General Dynamics reported Q4 2020 and full year results on January 27, 2021. For the quarter, companywide revenue declined -2.7% to \$10,481M from \$10,773M and diluted earnings per share decreased -0.6% to \$3.49 from \$3.51 on a year-over-year basis. For the year, companywide revenue declined -3.6% to \$37,925M from \$39,350M and diluted earnings per share fell -8.2% to \$11.00 from \$11.98 in the prior year. The declines again resulted from weakness in Aerospace and Technologies segments and the adverse effects of COVID-19 on company operations.

Aerospace revenue fell -16.9% to \$2,435M from \$2,930M in the prior year. The backlog is declining and is now \$11,626M. New orders have strengthened sequentially, and the book-to-bill ratio rose to 0.96X but are still running behind 2019 for both mid-cabin and large cabin aircraft. Combat Systems revenue declined -0.6% to \$1,960M from \$1,972M driven by higher margins and growth in the U.S. and ELS. The company won major contracts of \$4.3B for the next generation Abrams tank and \$1.2B for the Stryker SHORAD. Revenue for Marine Systems increased 11.4% to \$2,857M from \$2,565M due to growth in work for the *Virginia*-class Block V and *Columbia*-class submarines. Technologies revenue decreased -1% to \$3,229M from \$3,250M due to the negative impact of COVID-19.

The companywide backlog is at a record of \$89.5B, and the unfunded backlog is ~\$45.2B (the majority in Marine Systems and Technologies). General Dynamics continues to win large contracts and the book-to-bill ratio is 1.1-to-1.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$6.94	\$6.48	\$7.03	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	\$11.98	\$11.00	\$11.03	\$14.76
DPS	\$1.88	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$3.99	\$4.32	\$4.40	\$5.89
Shares¹	356	354	353	332	311	302	297	289	290	287	284	270

General Dynamics top and bottom lines have grown due to increasing U.S. defense spending and international sales. General Dynamics has established naval and ground platforms that support maintenance and modernization contracts as well as future prime contract wins. The business jet market is being negatively impacted in the near-term due to COVID-19 and travel restrictions. COVID-19 caused earnings to drop in 2020 and the company's guidance for 2021 was flat due to continued weakness in the business jet market. After 2021, we forecast on average 6% annual earnings per share growth out to 2026. Operating margin expansion and a reduction of share count will support earnings per share growth. We now expect dividend growth to be about 6% going forward. General Dynamics is a Dividend Aristocrat and the current payout ratio is relatively low supporting future dividend increases.

¹ Share count in millions.

Disclosure: This analyst is long GD.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.9	10.4	11.3	15.2	15.5	14.8	20.5	17.7	14.8	14.4	14.4	14.0
Avg. Yld.	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	2.7%	2.8%	2.8%

General Dynamics' stock price has recovered since our last report. The stock now trades above our earnings multiple for the long haul. However, this is based on soft earnings estimates for 2021. We pegged our earnings estimate at the mid-point of current guidance. Our current fair value estimate is now \$154. Our 5-year price target is \$207.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	27%	31%	32%	32%	30%	31%	36%	34%	34%	39%	40%	40%

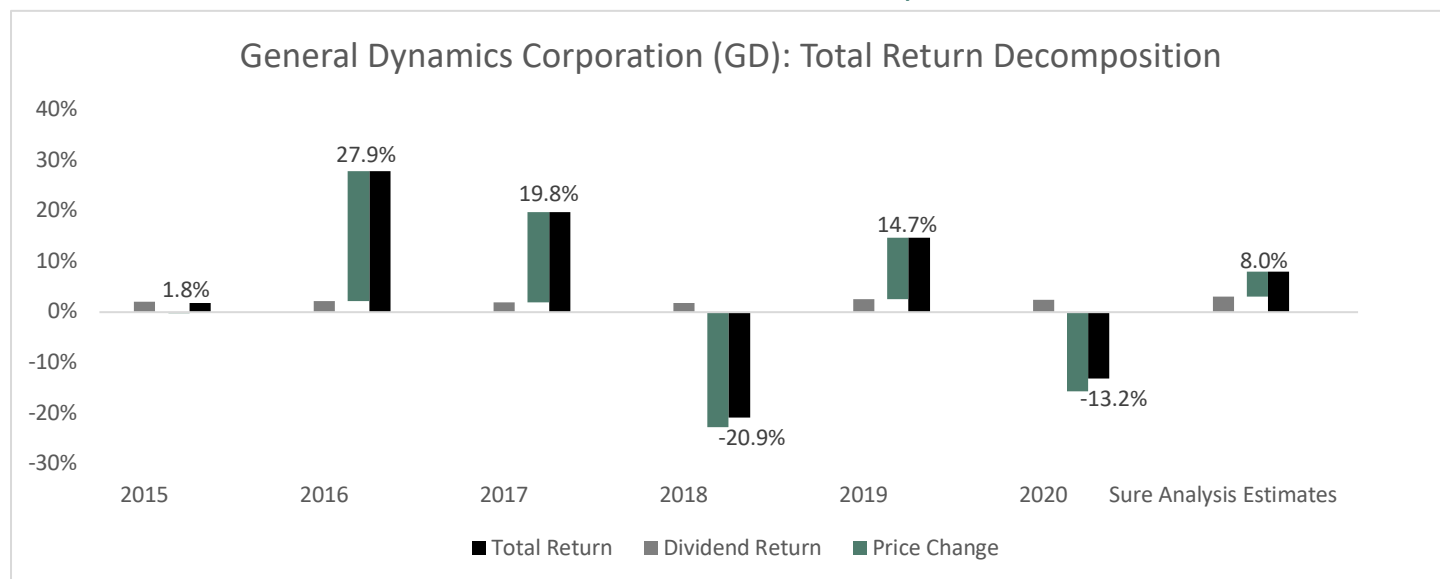
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the U.S. Army, U.S. Navy and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise 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 cyclical nature 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 \$3,003M and long-term debt is \$9,995M offset by \$2,824M in cash and equivalents. Interest coverage is about 8X and the leverage ratio is now about 2.0X.

Final Thoughts & Recommendation

At present we are forecasting 8.0% annualized total return through 2026. General Dynamics' stock price has recovered since our last report. The company is still facing weakness in the business jet market and it is unclear when air travel will return to normal. But the defense segments are performing well, and the General Dynamics is winning contracts. The current yield is above the trailing 5-year average. We rate this stock a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue						30561	30973	36193	39350	37925
Gross Profit						5665	6242	6657	6987	6325
Gross Margin						18.5%	20.2%	18.4%	17.8%	16.7%
SG&A Exp.						1921	2006	2263	2417	2192
D&A Exp.						453	441	763	829	878
Operating Profit						3744	4236	4394	4570	4133
Op. Margin						12.3%	13.7%	12.1%	11.6%	10.9%
Net Profit						2572	2912	3345	3484	3167
Net Margin						8.4%	9.4%	9.2%	8.9%	8.4%
Free Cash Flow						1771	3448	2458	1994	2891
Income Tax						977	1165	727	718	571

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets						33172	35046	45408	49349	51308
Cash & Equivalents						2334	2983	963	902	2824
Acc. Receivable						3399	3617	3759	3544	3161
Inventories						5118	5303	5977	6306	5745
Goodwill & Int.						12123	12616	22179	21992	22170
Total Liabilities						22871	23611	33676	35371	35647
Accounts Payable						2538	3207	3179	3162	2952
Long-Term Debt						3888	3982	12417	11930	12998
Total Equity						10301	11435	11732	13978	15661
D/E Ratio						0.38	0.35	1.06	0.85	0.83

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						7.9%	8.5%	8.3%	7.4%	6.3%
Return on Equity						24.4%	26.8%	28.9%	27.1%	21.4%
ROIC						18.2%	19.7%	16.9%	13.9%	11.6%
Shares Out.						302	297	289	290	287
Revenue/Share						98.46	101.67	120.98	135.30	131.72
FCF/Share						5.71	11.32	8.22	6.86	10.04

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

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