Booz Allen Hamilton Holding Corp. (BAH)

Updated February 22nd, 2021 by Prakash Kolli

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	7.0%	**Market Cap:**	$10.84B
Fair Value Price:	$68	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/21/21[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	06/30/21
Dividend Yield:	1.9%	**5 Year Price Target**	$100	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	29.2%

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 FY20. Revenue was 47% defense, 27% civil, 22% intelligence and 4% global commercial in FY20. The company had ~$7.5B in revenue in FY20.

Booz reported a mixed quarter in Q3 FY 2021. Revenue increased 3.0% to $1,904.0M from $1,849.4M and diluted adjusted earnings per share increased 30.0% to $1.03 from $0.79 on a year-over-year basis. Top and bottom line growth was driven by client demand for Booz' services and cost controls. Booz increased headcount to 27,566 in the quarter from 27,176 in the prior year. Consulting headcount increased to 24,693 from 24,255 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 57%, time-and-materials rose to 24%, and fixed-price was about 19%. Booz' grew the backlog by 6.1% to $23.3B of which $3,620M is funded, $5,971M is unfunded, and $13,695M is priced options.

Booz' activity on the contract win front slowed due to changing administrations and lower stimulus spending. The book-to-bill ratio declined significantly to 0.32X in the quarter.

Booz lowered revenue growth guidance to 4.8% to 6% and raised adjusted diluted earnings per share to $3.70 to $3.85. Booz is having a decent year, but top line growth is slowing. There is uncertainty in federal budget priorities and the outlook for defense spending for services due to the new administration.

Growth on a Per-Share Basis

Year[2]	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	***$3.77***	***$5.54***
DPS	$0.09	$0.36	$0.40	$0.46	$0.54	$0.62	$0.70	$0.80	$0.96	$1.24	***$1.48***	***$2.61***
Shares[3]	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 2026. 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 $370 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 2026 due to the relatively low payout ratio.

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[1] Estimate based on prior years. The current dividend was announced on 02/11/21 and will be paid on 03/02/21.

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

[3] Share count in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.1	10.0	11.9	16.4	14.3	19.2	17.9	17.3	20.3	***23.1***	***20.9***	***18.0***
Avg. Yld.	2.5%	2.2%	1.8%	1.9%	1.9%	1.9%	1.7%	1.5%	1.7%	***1.5%***	***1.9%***	***2.6%***

Booz Allen Hamilton's stock price fell since our last report due to missing revenue estimates, lower revenue guidance, and the change in administration. Still, the stock is trading at an elevated valuation of 20.9X compared to our earnings multiple of 18X for the long haul. We have increased our FY 2021 earnings estimate to the mid-point of updated guidance. Our fair value estimate is now $68. Our 5-year price target is $100.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	14%	21%	28%	30%	36%	32%	42%	39%	33%	36%	***39%***	***47%***

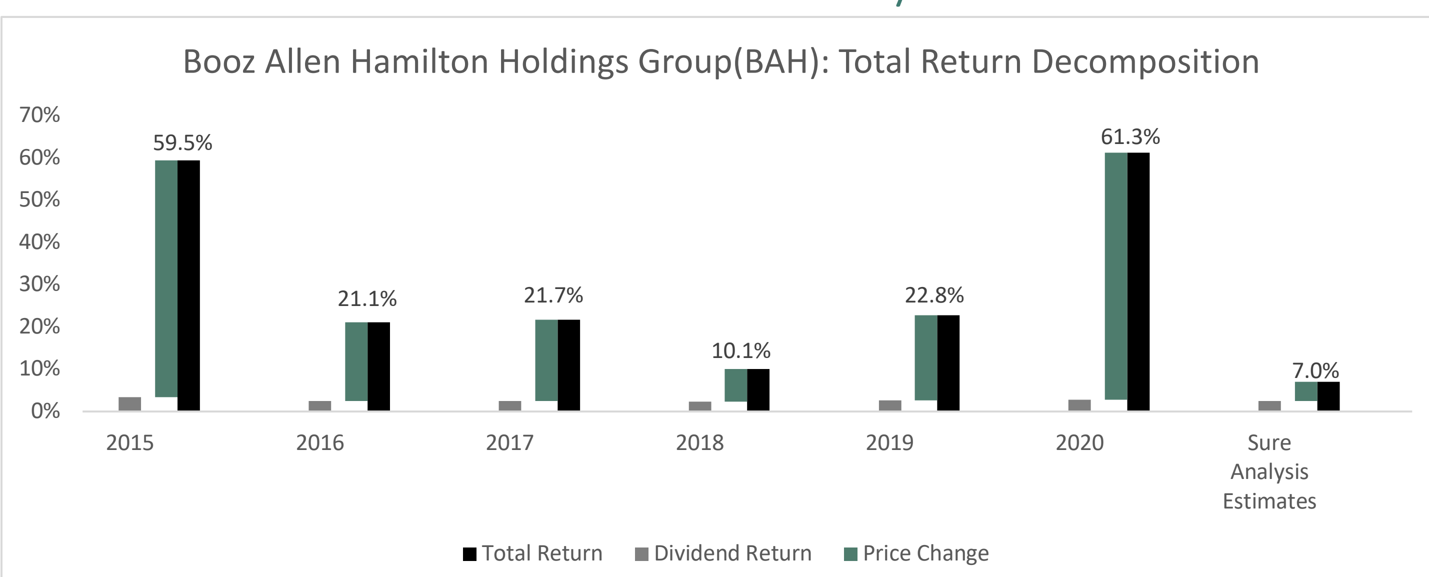
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the 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 $2,297.1M in long-term debt offset by $1,341.3M in cash and cash equivalents at end of the quarter. The leverage ratio has come down and is now 1.6X and interest coverage is ~9X.

Final Thoughts & Recommendation

At present we are forecasting on average a 7.0% annualized total return through FY 2026. Booz lowered revenue guidance but raised adjusted earnings per share guidance. The book-to-bill ratio was 0.32X, which was lower than typical over the past few years, but the backlog is healthy at $23.3B. The change in administration and rising budget deficits may slow future revenue growth in the near-term. We rate this stock a hold at the current price and valuation.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5859	5758	5479	5275	5406	5406	5809	6168	6704	7464
Gross Profit	2925	2887	2763	2681	2826	2826	3131	3301	3604	4085
Gross Margin	49.9%	50.1%	50.4%	50.8%	52.3%	52.3%	53.9%	53.5%	53.8%	54.7%
SG&A Exp.	2447	2367	2230	2159	2320	2320	2565	2717	2933	3334
D&A Exp.	75	74	72	63	62	62	60	65	69	81
Operating Profit	403	446	461	459	445	445	506	520	602	669
Operating Margin	6.9%	7.7%	8.4%	8.7%	8.2%	8.2%	8.7%	8.4%	9.0%	9.0%
Net Profit	240	219	232	233	294	294	261	302	419	483
Net Margin	4.1%	3.8%	4.2%	4.4%	5.4%	5.4%	4.5%	4.9%	6.2%	6.5%
Free Cash Flow	283	432	312	274	183	183	328	291	405	423
Income Tax	104	149	149	153	85	85	165	128	97	97

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3315	3178	2941	2864	3010	3010	3373	3607	3832	4794
Cash & Equivalents	484	350	260	207	188	188	217	287	284	742
Accounts Receivable	436	432	396	318	309	309	341	395	495	475
Goodwill & Int. Ass.	1412	1514	1495	1524	1583	1583	1843	1860	1868	1882
Total Liabilities	2130	2951	2769	2677	2602	2602	2800	3044	3156	3938
Accounts Payable	288	248	265	216	247	247	269	340	418	433
Long-Term Debt	965	1715	1659	1613	1597	1597	1663	1819	1760	2186
Shareholder's Equity	1185	227	172	186	408	408	574	562	675	856
D/E Ratio	0.81	7.56	9.67	8.65	3.91	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	7.6%	6.7%	7.6%	8.0%	10.0%	10.0%	8.2%	8.6%	11.3%	11.2%
Return on Equity	22.9%	31.0%	117%	130%	98.9%	98.9%	53.1%	53.1%	67.6%	63.0%
ROIC	11.8%	10.7%	12.3%	12.8%	15.5%	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	41.61	39.75	36.85	35.08	36.11	36.11	38.66	41.74	46.83	52.85
FCF/Share	2.01	2.98	2.10	1.82	1.22	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.