



General Dynamics Corporation (GD)

Updated May 4th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$192	5 Year CAGR Estimate:	5.7%	Market Cap:	\$54.08B
Fair Value Price:	\$168	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	07/01/21 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	08/07/21
Dividend Yield:	2.5%	5 Year Price Target	\$225	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	8.3%

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 excellent Q1 2020 results on April 28, 2021. For the quarter, companywide revenue rose 7.3% to \$9.389M from \$8,749M and diluted earnings per share increased 2.1% to \$2.48 from \$2.43 on a year-over-year basis. All four business segments showed revenue growth.

Aerospace revenue rose 11.6% to \$1,887M from \$1,691M in the prior year. The total backlog reversed its decline in 2020 and is now \$11,929M. New orders have strengthened sequentially and YoY, and the book-to-bill ratio rose to 1.30X running ahead of 2020 for both large-cabin aircraft and flat for mid-cabin aircraft. Combat Systems revenue rose 6.6% to \$1,820M from \$1,708M driven by higher margins and growth in the U.S. and abroad. Revenue was the highest in Q1 in a decade. Revenue for Marine Systems increased 10.4% to \$2,483M from \$2,246M due to growth in work for the *Virginia*-class Block V and *Columbia*-class submarines. The company received \$1.9 billion for the 10th *Virginia*-class Block V. Technologies revenue increased 3.1% to \$3,199M from \$3,104M driven by organic growth and ramp up of programs. The company was awarded a \$12.6 billion contract for the IT services for the DIA and NGA.

The companywide backlog is at a record of \$89.6B, and the unfunded backlog is ~\$41.8B (the majority in Marine Systems and Technologies). General Dynamics continues to win large contracts and the book-to-bill ratio is 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	\$11.19	\$14.97
DPS	\$1.88	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$3.99	\$4.32	\$4.76	\$6.37
Shares²	356	354	353	332	311	302	297	289	290	286	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 on average. General Dynamics is a Dividend Aristocrat, and the current payout ratio is relatively low supporting future dividend increases.

¹ Estimated based on prior years. General Dynamics has not yet announced the next quarter's dividend payout.

² Share count in millions.

Disclosure: This analyst is long GD.



General Dynamics Corporation (GD)

Updated May 4th, 2021 by Prakash Kolli

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	13.7	17.1	15.0
Avg. Yld.	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	2.9%	2.5%	2.8%

General Dynamics' stock price has risen significantly since our last report and trades above our fair value estimate. We have raised our fair value multiple to 15X and our 2021 earnings to match the consensus estimates. Our current fair value estimate is now \$168. Our 5-year price target is \$225.

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%	43%	43%

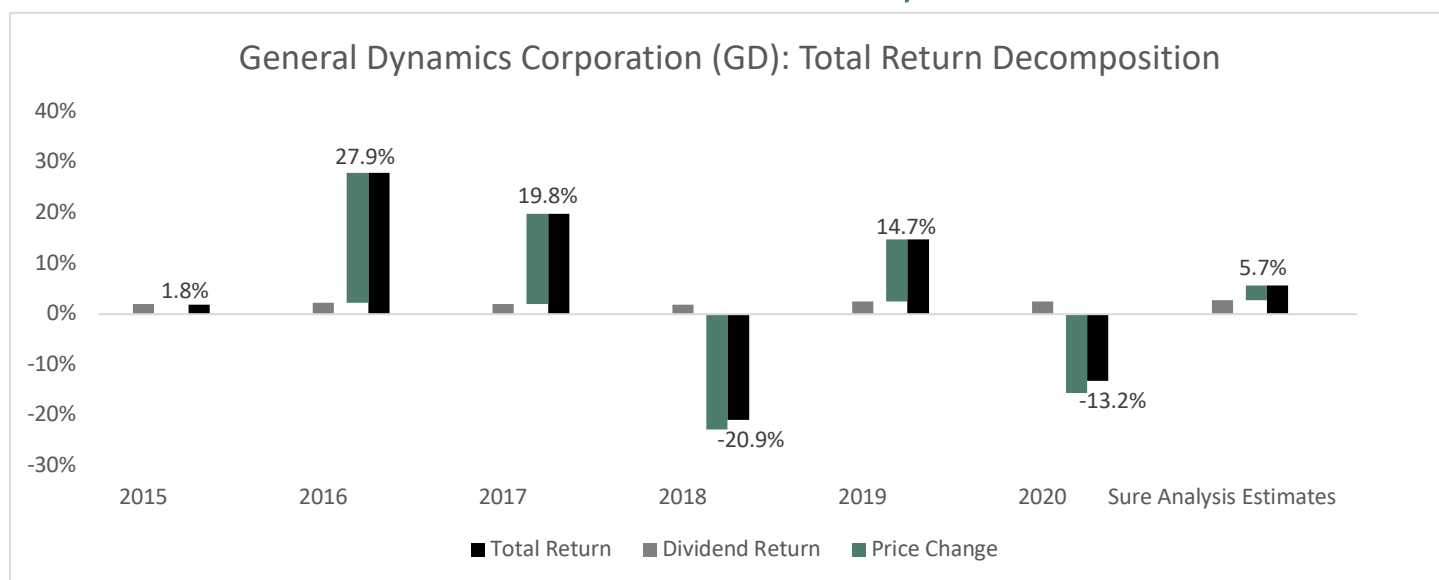
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the U.S. Army, U.S. Navy and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise 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 \$3,186M and long-term debt is \$9,995M offset by \$1,811M in cash and equivalents. Interest coverage is about 8.4X and the leverage ratio is now about 2.3X.

Final Thoughts & Recommendation

At present we are forecasting 5.7% annualized total return through 2026. General Dynamics' stock price has risen significantly since our last report on optimism for a recovery in air travel and business jet sales. The stock is trading above our fair value and investors may want to wait for pull back. We rate this stock a hold at the current price.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst is long GD.



General Dynamics Corporation (GD)

Updated May 4th, 2021 by Prakash Kolli

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	32677	30992	30930	30852	31781	30561	30973	36193	39350	37925
Gross Profit	5856	4980	5728	5873	6232	5665	6242	6657	6987	6325
Gross Margin	17.9%	16.1%	18.5%	19.0%	19.6%	18.5%	20.2%	18.4%	17.8%	16.7%
SG&A Exp.	2030	2221	2039	1984	1937	1921	2006	2263	2417	2192
D&A Exp.	592	590	525	496	481	453	441	763	829	878
Operating Profit	3826	2759	3689	3889	4295	3744	4236	4394	4570	4133
Op. Margin	11.7%	8.9%	11.9%	12.6%	13.5%	12.3%	13.7%	12.1%	11.6%	10.9%
Net Profit	2526	-332	2357	2533	3036	2572	2912	3345	3484	3167
Net Margin	7.7%	-1.1%	7.6%	8.2%	9.6%	8.4%	9.4%	9.2%	8.9%	8.4%
Free Cash Flow	2780	2170	2675	3307	2038	1771	3448	2458	1994	2891
Income Tax	1166	854	1125	1129	1183	977	1165	727	718	571

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	34883	34309	35494	35337	31997	33172	35046	45408	49349	51308
Cash & Equivalents	2649	3296	5301	4388	2785	2334	2983	963	902	2824
Acc. Receivable	4429	4204	4370	4050	3446	3399	3617	3759	3544	3161
Inventories	7478	7740	7670	7812	7723	5118	5303	5977	6306	5745
Goodwill & Int.	15389	13431	12976	12643	12206	12123	12616	22179	21992	22170
Total Liabilities	21651	22919	20993	23508	21259	22871	23611	33676	35371	35647
Accounts Payable	2895	2469	2216	2057	1964	2538	3207	3179	3162	2952
Long-Term Debt	3907	3908	3909	3893	3399	3888	3982	12417	11930	12998
Total Equity	13232	11390	14501	11829	10738	10301	11435	11732	13978	15661
D/E Ratio	0.30	0.34	0.27	0.33	0.32	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	7.5%	-1.0%	6.8%	7.2%	9.0%	7.9%	8.5%	8.3%	7.4%	6.3%
Return on Equity	19.0%	-2.7%	18.2%	19.2%	26.9%	24.4%	26.8%	28.9%	27.1%	21.4%
ROIC	15.0%	-2.0%	14.0%	14.8%	20.3%	18.2%	19.7%	16.9%	13.9%	11.6%
Shares Out.	356	354	353	332	311	302	297	289	290	287
Revenue/Share	88.91	87.71	87.50	90.39	97.29	98.46	101.67	120.98	135.30	131.72
FCF/Share	7.56	6.14	7.57	9.69	6.24	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.