



Lockheed Martin Corporation (LMT)

Updated August 1st, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$372	5 Year CAGR Estimate:	13.4%	Market Cap:	\$102.9B
Fair Value Price:	\$430	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/31/21
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	09/24/21
Dividend Yield:	2.8%	5 Year Price Target	\$631	Years Of Dividend Growth:	19
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	8.9%

Overview & Current Events

Lockheed Martin Corporation is the world's largest defense company. About 60% of the company's revenues comes from the U.S. Department of Defense, with other U.S. government agencies (10%) and international clients (30%) making up the remainder. The company consists of four business segments: Aeronautics (~40% sales) - which produces military aircraft like the F-35, F-22, F-16 and C-130; Rotary and Mission Systems (~26% sales) - which houses combat ships, naval electronics, and helicopters; Missiles and Fire Control (~16% sales) - which creates missile defense systems; and Space Systems (~17% sales) - which produces satellites. The company has significant strength and exposure in military aircraft. The company had total revenue of over \$65.4B in 2020.

Lockheed Martin reported another good quarter for for Q2 2021 on July 26th, 2021. Companywide net sales increased to \$17,029M from \$16,220M and diluted GAAP earnings per share increased to \$6.52 from \$5.79 on a year-over-year basis. All four business segments again increased net sales.

The Aeronautics segment increased net sales 3% to \$6,666M from \$6,503M in the prior year due to increased production of F-16 and F-35 offset by lower production on the F-22 and sustainment volumes. The segment was impacted by a loss of (-\$0.61) per share due to performance issues in a classified program. The Missiles and Fire Control segment increased sales 5% to \$2,944M from \$2,801M in comparable periods due to higher sales of tactical and strike missiles and sensors. Rotary and Mission Systems net sales increased 5% to \$4,242M from \$4,039M in the prior year on higher volumes on Sikorsky helicopter programs offset by decreases in integrated warfare systems and sensors. The Space segment sales increased 10% to \$3,177M from \$2,877M due to higher volumes in Atomic Weapons Establishment, national security space programs, and strategic and missile defense programs.

Lockheed Martin's backlog fell to approximately \$141.66B driven by declines in Aeronautics and Space offset by increases in Missiles and Fire Control, and Rotary and Mission Systems. The company's outlook for 2021 was increased to revenue of \$67,300 - \$68,700 and diluted earnings per share of \$26.70 - \$27.00. Lockheed Martin is acquiring Aerojet Rocketdyne for \$4.4B subject to regulatory approval. This will expand exposure to Space and Missile Defense programs.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$7.82	\$8.36	\$9.57	\$11.21	\$11.46	\$12.38	\$13.33	\$17.59	\$21.95	\$24.50	\$26.85	\$39.45
DPS	\$3.25	\$4.15	\$4.78	\$5.49	\$6.15	\$6.77	\$7.46	\$8.20	\$9.00	\$9.80	\$10.40	\$15.28
Shares¹	323.4	321	319	314	303	289	284	281	281	279	276	263

Lockheed Martin's earnings per share are increasing rapidly on the strength of F-35 production, tactical and strike missiles, satellite and missile defense programs, and the Sikorsky acquisition. The F-35 is one of the most advanced stealth military aircraft in the world and will likely be a source of increasing revenue and earnings for the long-term future. The Pentagon plans to buy 2,456 F-35s and this does not include sales to allies. It will become the largest defense

¹ Share count in millions.

Disclosure: This analyst is long LMT.



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program in history. Lockheed Martin also has a large installed base of other platforms that require modernization and sustainment. We expect the dividend to grow ~8% on average annually and the payout ratio to range from 35% to 45%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.9	10.6	11.8	15.1	17.7	19.2	21.5	18.2	15.5	15.5	13.8	16.0
Avg. Yld.	4.2%	4.7%	4.2%	3.2%	3.0%	2.8%	2.6%	2.6%	2.7%	2.6%	2.8%	2.4%

Lockheed Martin's stock price is little changed since our last report. The company raised guidance and we adjusted our estimate to the mid-point of current guidance. The stock is still trading below our fair value estimate of 16X, which is approximately the 10-year average. Our fair value estimate is now \$430. Our 5-year price target is now down to \$631.

Safety, Quality, Competitive Advantage, & Recession Resiliency

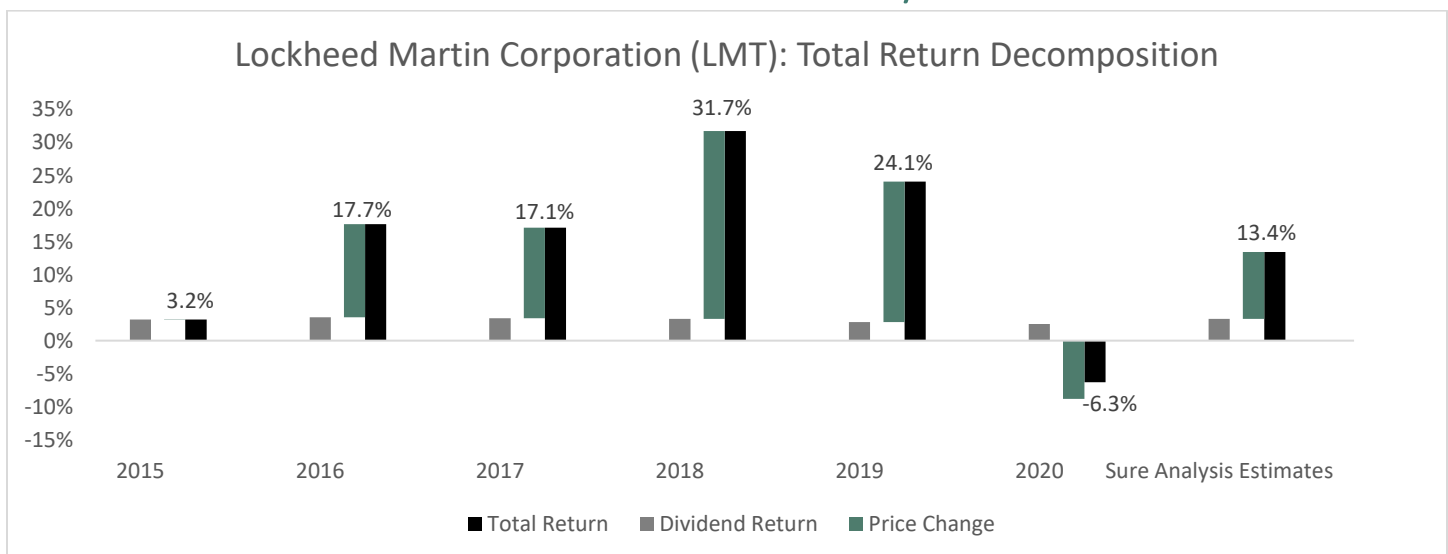
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	50%	50%	49%	54%	55%	56%	47%	41%	40%	39%	39%

Lockheed Martin is an entrenched military prime contractor. It produces aircraft and other platforms that serve as the backbone for the U.S. military and other militaries around the world. This leads to a competitive advantage as any new technologies would have to significantly outperform extant platforms. These platforms have decades long life cycles and Lockheed Martin has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company does face risks from program cuts. Changing administrations can also adversely affect defense budgets. Along those lines, there has been recent news of the affordability of the F-35 and cost overruns. Short-term debt is now \$506M and long-term debt is \$11,665M offset by \$2,745M in cash and equivalents. Interest coverage is over 15X, and leverage ratio is below 1X.

Final Thoughts & Recommendation

At present we are forecasting a 13.4% annualized total return through 2026. Lockheed Martin continues to perform well on the strength of its product platforms, especially the F-35. The company continues to grow revenue and earnings and has raised guidance despite the large charge for a classified program. The yield is 2.8% and dividend safety is excellent. At the current share price, we rate this high-quality stock a strong buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	46499	47182	45358	39946	40536	47248	51048	53762	59812	65398
Gross Profit	3744	4196	4187	4683	4492	5062	5548	7274	8367	8654
Gross Margin	8.1%	8.9%	9.2%	11.7%	11.1%	10.7%	10.9%	13.5%	14.0%	13.2%
D&A Exp.	1008	988	990	994	1026	1215	1195	1161	1189	1290
Operating Profit	4020	4434	4505	5012	4712	5549	5921	7334	8367	8644
Op. Margin	8.6%	9.4%	9.9%	12.5%	11.6%	11.7%	11.6%	13.6%	14.0%	13.2%
Net Profit	2655	2745	2981	3614	3605	5302	2002	5046	6230	6833
Net Margin	5.7%	5.8%	6.6%	9.0%	8.9%	11.2%	3.9%	9.4%	10.4%	10.4%
Free Cash Flow	3266	619	3710	3021	4162	4126	5299	1860	5827	6417
Income Tax	964	1327	1205	1424	1173	1133	3340	792	1011	1347

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	37908	38657	36188	37046	49304	47806	46521	44876	47528	50710
Cash & Equivalents	3582	1898	2617	1446	1090	1837	2861	772	1514	3160
Acc. Receivable	6064	6563	5834	5877	7254	8202	8603	2444	2337	1978
Inventories	2481	2937	2977	2804	4819	4670	4487	2997	3619	3545
Goodwill & Int.	10148	10370	10348	11186	14717	14857	14604	14263	13817	13818
Total Liabilities	36907	38618	31270	33646	46207	46200	47130	43427	44357	44672
Accounts Payable	2269	2038	1397	1562	1745	1653	1467	2402	1281	880
Long-Term Debt	6460	6308	6152	6142	15261	14282	14263	14104	12654	12169
Total Equity	1001	39	4918	3400	3097	1511	-683	1394	3127	6015
D/E Ratio	6.45	161.74	1.25	1.81	4.93	9.45	-20.88	10.12	4.05	2.02

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.3%	7.2%	8.0%	9.9%	8.3%	10.9%	4.2%	11.0%	13.5%	13.9%
Return on Equity	118%	528%	120%	86.9%	111%	230%	484%	1419%	275.6%	149.5%
ROIC	33.2%	39.8%	34.2%	35.1%	25.8%	31.0%	13.6%	34.6%	39.7%	40.2%
Shares Out.	323.4	321	319	314	303	289	284	280	278	275
Revenue/Share	136.80	143.67	138.92	123.90	128.81	155.88	175.66	187.45	210.75	232.57
FCF/Share	9.61	1.88	11.36	9.37	13.23	13.61	18.23	6.49	20.53	22.82

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

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