



General Dynamics Corporation (GD)

Updated November 8th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$202	5 Year CAGR Estimate:	5.2%	Market Cap:	\$56.03B
Fair Value Price:	\$173	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/14/21 ¹
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date:	02/05/21
Dividend Yield:	2.4%	5 Year Price Target	\$231	Years Of Dividend Growth:	30
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	8.2%

Overview & Current Events

General Dynamics is an US 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 fourth largest defense company. General Dynamics had revenue of approximately \$37.9B in 2020.

General Dynamics reported mixed Q3 2021 results on October 27, 2021. For the quarter, companywide revenue rose 1.5% to \$9,568M from \$9,431M and diluted earnings per share increased 5.9% to \$3.07 from \$2.90 on a year-over-year basis. Aerospace revenue rose 4.6% to \$2,066M from \$1,975M in the prior year. The total backlog grew 22.8% to \$14,690M, the highest since 2016. New orders were the strongest since 2008. The book-to-bill ratio was 1.6X. Services revenue grew 11% from Q3 2019. Combat Systems revenue fell (-3.1%) to \$1,745M from \$1,801M but operating margins rose to 15.8%. However, the backlog is declining and is now \$13,348M. Revenue for Marine Systems increased 9.6% to \$2,637M from \$2,405M. Operating margins also rose to 8.7%. Technologies revenue decreased (-4.0%) to \$3,120M from \$3,250M. The book-to-bill ratio was 1.0X. Operating margins rose to 10.5%.

The companywide backlog is at \$88.1B, and the unfunded backlog is ~\$21.3B (the majority in Marine Systems and Technologies). Gulfstream had another very strong quarter with orders outpacing completed jets. The company is planning to ramp up aircraft deliveries.

The company cut revenue guidance by \$400M to \$12.6B but maintained EPS guidance at \$11.50.

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	\$11.50	\$15.39
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 US 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. COVID-19 caused earnings to drop in 2020 and the company's guidance for 2021 was flat due to weakness in the business jet market but orders are picking up. 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 General Dynamics has not yet declared the next dividend. The dates are estimates based in prior years.

² 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	13.7	17.5	15.0
Avg. Yld.	2.7%	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	2.9%	2.4%	2.8%

General Dynamics' stock price is up again since our last report and trades above our fair value estimate. Our fair value multiple is 15X to account for recovery in the business jet market and a strong backlog. Our 2021 earnings estimate is the same as company guidance. Our current fair value estimate is now \$173. Our 5-year price target is \$231.

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%	41%	41%

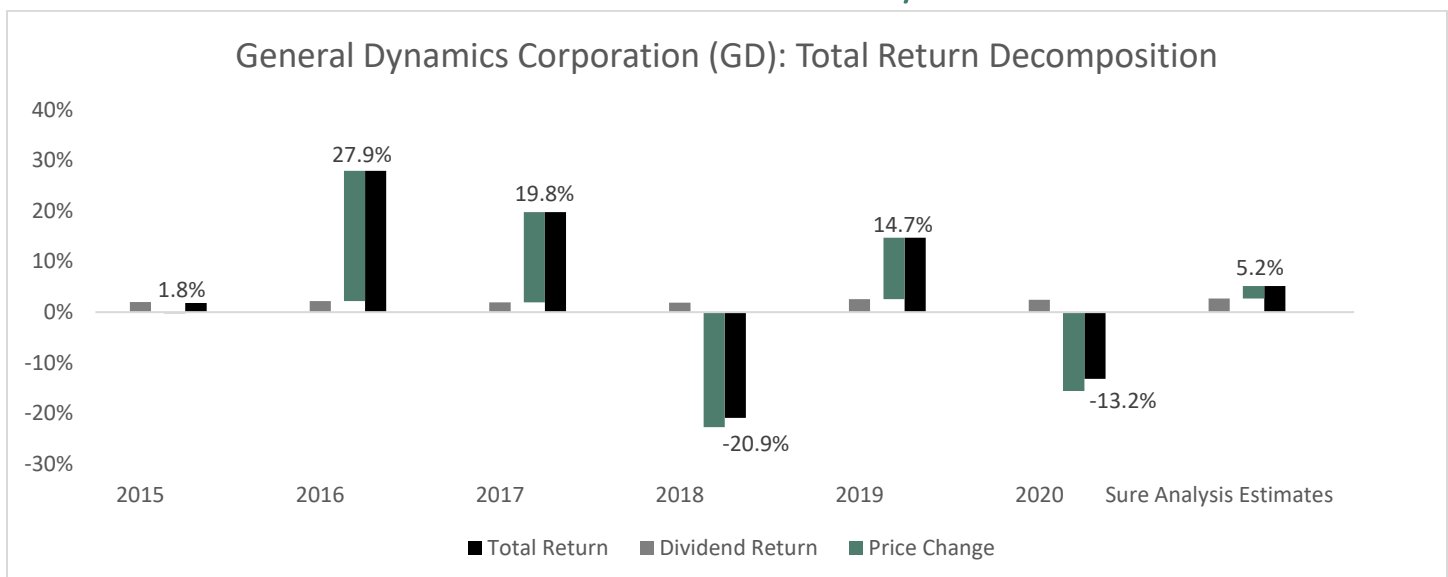
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the US Army, US Navy, and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise 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 \$2,183M and long-term debt is \$11,485M offset by \$3,139M in cash and equivalents. Interest coverage is about 9.5X and the leverage ratio is now about 2.2X.

Final Thoughts & Recommendation

At present we are forecasting 5.2% annualized total return through 2026. General Dynamics' stock price continues to trend up on optimism for a recovery in air travel and business jet sales. However, the withdrawal from Afghanistan may negatively impact revenue in the short-term as the Pentagon's priorities shift. The stock is trading above our fair value estimate at this point. 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	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.

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