



Huntington Ingalls Industries Inc. (HII)

Updated November 16th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$191	5 Year CAGR Estimate:	9.3%	Market Cap:	\$7.69B
Fair Value Price:	\$209	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/24/21
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	12/10/21
Dividend Yield:	2.5%	5 Year Price Target	\$267	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	3.5%

Overview & Current Events

Huntington Ingalls Industries was spun out of Northrop Grumman in a tax-free transaction on March 31, 2011. Shareholders received one share in the new company for every six shares of Northrop Grumman owned. Today, the company primarily builds nuclear and non-nuclear ships for the U.S. Navy. The company reports three business segments: Newport News Shipbuilding, Ingalls Shipbuilding, and Technical Solutions. Newport News builds nuclear powered aircraft carriers and submarines. Ingalls builds surface combatant ships, amphibious assault ships, and Coast Guard cutters. Technical Solutions provides fleet maintenance and modernization, IT support, nuclear management and operations, and unmanned systems. The company had approximately \$9.4B in revenue in 2020.

Huntington Ingalls reported Q3 2021 results on November 4th, 2021. Companywide revenue rose 1.0% to \$2,338M compared to \$2,314M and diluted earnings per share fell (-33%) to \$3.65 from \$5.45 on a year-over-year basis. Companywide operating margins decreased 3 bps to 7.0% from 7.0%. Revenue from Ingalls Shipbuilding decreased (-7.0%) to \$628M from \$675M and operating margins rose to 9.9% from 9.2% in the prior year driven by lower revenue in the surface combatant ships, assault ships, and the National Security Cutter. Newport News revenue fell (-0.3%) to \$1,354M from \$1,358M in comparable periods due to lower revenue in naval support service offset by higher submarine and aircraft carrier revenue. Operating margins rose to 6.5% from 5.8%. Revenue for Technical Services decreased 23.1% to \$394M from \$320M due to divestiture of the oil & gas business offset by gains from the Alion acquisition. Operating margins decreased to 3.3% from 6.6%.

Huntington Ingalls is performing a refueling and complex overhaul of two carriers, constructing one carrier, and had the first steel cut for another carrier, completed trails for one guided-missile destroyer, christened an amphibious transport dock, and authenticated the keel for a National Security Cutter.

Huntington Ingalls' backlog now stands at \$50.1B after \$600M in contract wins. The company completed the acquisition of Alion Science & Technology for \$1.65 billion in cash expanding the Technical Solutions segment.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-\$1.93	\$2.91	\$5.18	\$6.85	\$8.36	\$12.14	\$10.46	\$19.11	\$14.01	\$17.14	\$14.95	\$19.08
DPS	--	\$0.10	\$0.50	\$1.00	\$1.70	\$2.10	\$2.52	\$3.02	\$3.61	\$4.23	\$4.72	\$6.94
Shares	49.4	49.6	48.7	48.3	46.8	46.2	45.1	41.9	40.8	40.5	39.7	35.9

Huntington Ingalls' historical adjusted earnings per share has been volatile due to pension adjustments, goodwill, and divestments. But the Pentagon is spending heavily on aircraft carriers, nuclear submarines, and amphibious assault ships. The U.S. Navy has a goal of 355 ships by 2034. Huntington Ingalls should experience top and bottom line growth due to sale of ships and submarines. Huntington Ingalls' operations were impacted by COVID-19, but acceleration of aircraft carrier revenue and deferral of payroll taxes helped the second half. After 2020, we are forecasting on average 5% annual growth in earnings per share out to 2026. The share count should trend lower as well. Huntington Ingalls has paid a growing dividend at a double-digit rate albeit off a low base since 2012. We believe that the dividend growth rate will slow to about 8% on average out to 2026. The forward payout ratio is ~32% leaving room for future increases.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	--	13.4	11.8	14.6	14.7	12.7	20.1	12.2	15.7	10.8	12.8	14.0
Avg. Yld.	--	0.3%	0.6%	0.9%	1.4%	1.2%	1.1%	1.6%	1.6%	2.1%	2.5%	2.6%

Huntington Ingalls stock price is down again since our last report. We have maintained our estimated earnings for 2021 since our last report. The stock now trades slightly below our fair value multiple of 14.0X, which is the trailing average for the past 10-years. Our current fair value estimate is now \$209. Our 5-year price target is now \$267.

Safety, Quality, Competitive Advantage, & Recession Resiliency

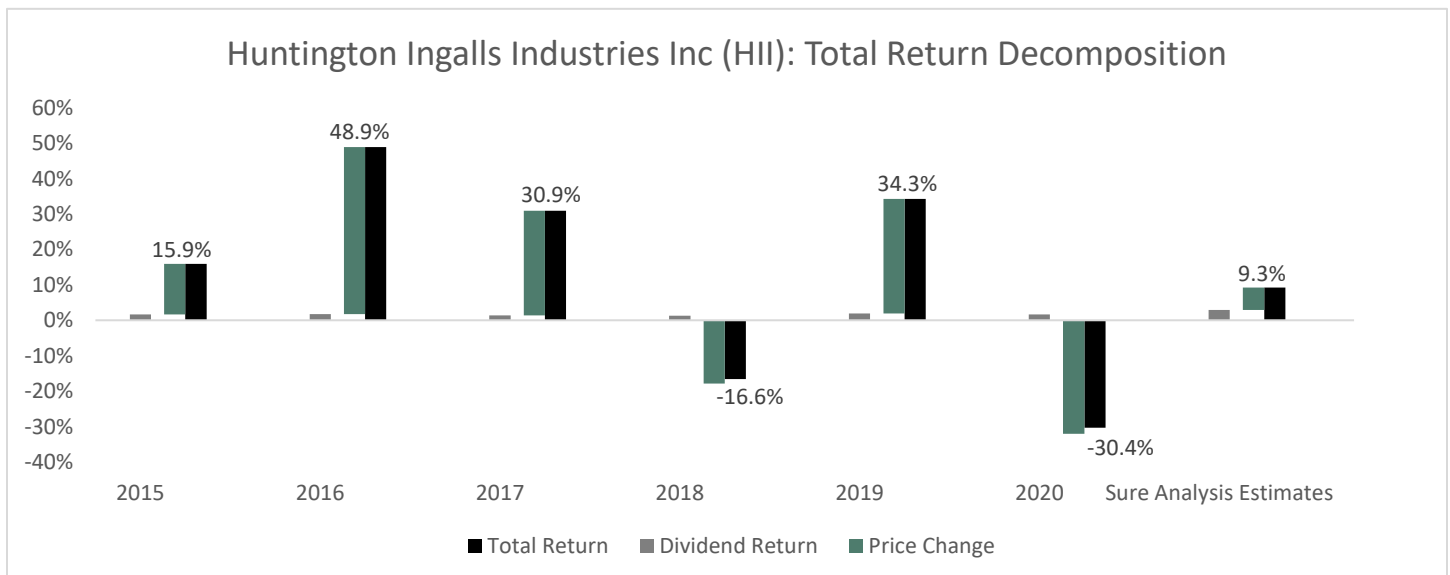
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	--	3%	10%	15%	20%	17%	24%	16%	26%	25%	32%	36%

As a U.S. prime defense contractor, Huntington Ingalls has an entrenched position in its end markets. The company's main competitive advantage is the expertise it brings in designing and fabricating bespoke ships for the U.S. Navy. This expertise is not easy to recreate. Indeed, in the U.S., the company is the only provider of nuclear aircraft carriers, one of two providers of nuclear submarines and the only provider of amphibious assault ships. These platforms have decades long life cycles and Huntington Ingalls 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 in program cuts and changes to future naval requirements. Long-term debt is \$3,321M not including pension plan liabilities. Cash and equivalents on hand is \$555M. Debt is rising as the company makes acquisitions for the Technical Solutions segment.

Final Thoughts & Recommendation

At present we are forecasting a 9.3% annualized total return through 2026. Huntington is performing better in 2021 compared to 2020 as challenges with shipyard operations have subsided and operating margins have improved. The company continues to grow the Technical Solutions segment through M&A and acquired Alion Science and Technology for \$1.65B, but debt doubled. The dividend is well covered by earnings. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6575	6708	6820	6957	7020	7068	7441	8176	8899	9361
Gross Profit	1004	1079	1237	1417	1503	1623	1628	1791	1531	1670
Gross Margin	15.3%	16.1%	18.1%	20.4%	21.4%	23.0%	21.9%	21.9%	17.2%	17.8%
SG&A Exp.	634	739	739	726	669	768	759	871	788	904
D&A Exp.	184	184	226	194	180	186	205	203	227	247
Operating Profit	370	340	498	691	834	870	869	934	743	767
Operating Margin	5.6%	5.1%	7.3%	9.9%	11.9%	12.3%	11.7%	11.4%	8.3%	8.2%
Net Profit	-100	146	261	338	404	573	479	836	549	696
Net Margin	-1.5%	2.2%	3.8%	4.9%	5.8%	8.1%	6.4%	10.2%	6.2%	7.4%
Free Cash Flow	331	170	97	590	673	537	432	451	366	740
Income Tax	96	95	133	169	228	211	293	135	134	114

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6069	6392	6225	6239	6024	6352	6374	6383	7031	8157
Cash & Equivalents	915	1057	1043	990	894	720	701	240	75	512
Accounts Receivable	135	191	171	244	236	318	442	252	318	397
Inventories	380	288	311	339	285	210	183	128	136	137
Goodwill & Int. Ass.	1448	1429	1409	1573	1451	1782	1725	1755	1865	2129
Total Liabilities	5210	5725	4704	4874	4534	4699	4616	4867	5443	6256
Accounts Payable	380	377	337	269	317	316	375	562	497	460
Long-Term Debt	1859	1830	1779	1670	1273	1278	1279	1283	1286	1686
Shareholder's Equity	859	667	1521	1365	1490	1653	1758	1516	1588	1901
D/E Ratio	2.16	2.74	1.17	1.22	0.85	0.77	0.73	0.85	0.81	0.89

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets		19.1%	23.9%	23.4%	28.3%	9.2%	8.2%	13.1%	7.5%	9.3%
Return on Equity		5.6%	9.0%	10.7%	13.9%	39.9%	35.4%	51.1%	28.1%	36.5%
ROIC		50.1	50.4	49.3	48.3	21.5%	19.4%	28.6%	16.1%	20.1%
Shares Out.	49.4	49.6	48.7	48.3	46.8	46.2	45.1	41.9	40.8	40.0
Revenue/Share	134.73	3.39	1.92	11.97	13.93	230.57	214.95	186.67	162.47	149.75
FCF/Share	6.78	19.1%	23.9%	23.4%	28.3%	18.23	8.84	10.30	9.43	11.38

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

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