



# Lockheed Martin Corporation (LMT)

Updated November 2<sup>nd</sup>, 2021 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$331	<b>5 Year CAGR Estimate:</b>	10.6%	<b>Market Cap:</b>	\$91.65B
<b>Fair Value Price:</b>	\$359	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	11/30/21
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	1.7%	<b>Dividend Payment Date:</b>	12/27/21
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$481	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	7.7%

## Overview & Current Events

Lockheed Martin Corporation is the world's largest defense company. About 60% of the company's revenues comes from the US Department of Defense, with other US 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 weaker results for Q3 2021 on October 26<sup>th</sup>, 2021. Companywide net sales declined to \$16,028M from \$16,495M and diluted GAAP earnings per share decreased to \$2.21 from \$6.05 on a year-over-year basis after a \$1.7 billion pension charge. All four business segments reported lower net sales.

The Aeronautics segment net sales fell (-2%) to \$6,568M from \$6,680M in the prior year due to lower volumes of F-35 and sustainment offset by higher F-16 production. The Missiles and Fire Control segment sales decreased (-5%) to \$2,781M from \$2,971M in comparable periods due to lower sales of tactical and strike missiles and sensors. Rotary and Mission Systems net sales were flat to \$3,980M from \$3,998M in the prior year due to decreases in integrated warfare systems, sensors, radars, Littoral Combat Ship, and C6ISR offset by higher volumes on Sikorsky helicopter programs. The Space segment sales fell (-5%) to \$2,699M from \$2,846M due to renationalization of the Atomic Weapons Establishment program offset by increases in strategic and missile defense programs.

Lockheed Martin's backlog fell to approximately \$134.85B with only an increase in Space. The company's outlook for 2021 has been reduced to revenue of ~\$67,000 and diluted earnings per share of \$22.45 due to rebasing of revenue from the F-35 program, US exit from Afghanistan, and accelerated payments to suppliers. The company expects lower revenue in 2022 too. Lockheed Martin is acquiring Aerojet Rocketdyne for \$4.4B subject to regulatory approval.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$7.82	\$8.36	\$9.57	\$11.21	\$11.46	\$12.38	\$13.33	\$17.59	\$21.95	\$24.50	<b>\$22.45</b>	<b>\$30.04</b>
<b>DPS</b>	\$3.25	\$4.15	\$4.78	\$5.49	\$6.15	\$6.77	\$7.46	\$8.20	\$9.00	\$9.80	<b>\$11.20</b>	<b>\$15.57</b>
<b>Shares<sup>1</sup></b>	323.4	321	319	314	303	289	284	281	281	279	<b>276</b>	<b>263</b>

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 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%.

<sup>1</sup> Share count in millions.

Disclosure: This analyst is long LMT.



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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.9	10.6	11.8	15.1	17.7	19.2	21.5	18.2	15.5	15.5	14.7	16.0
Avg. Yld.	4.2%	4.7%	4.2%	3.2%	3.0%	2.8%	2.6%	2.6%	2.7%	2.6%	3.2%	2.8%

Lockheed Martin's stock price plunged since our last report. The company lowered guidance for sales and EPS in 2021. In addition, Lockheed Martin updated its 5-year business plan and is forecasting weaker growth. We have lowered our earnings and growth estimates. 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 \$359. Our 5-year price target is now down to \$481.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

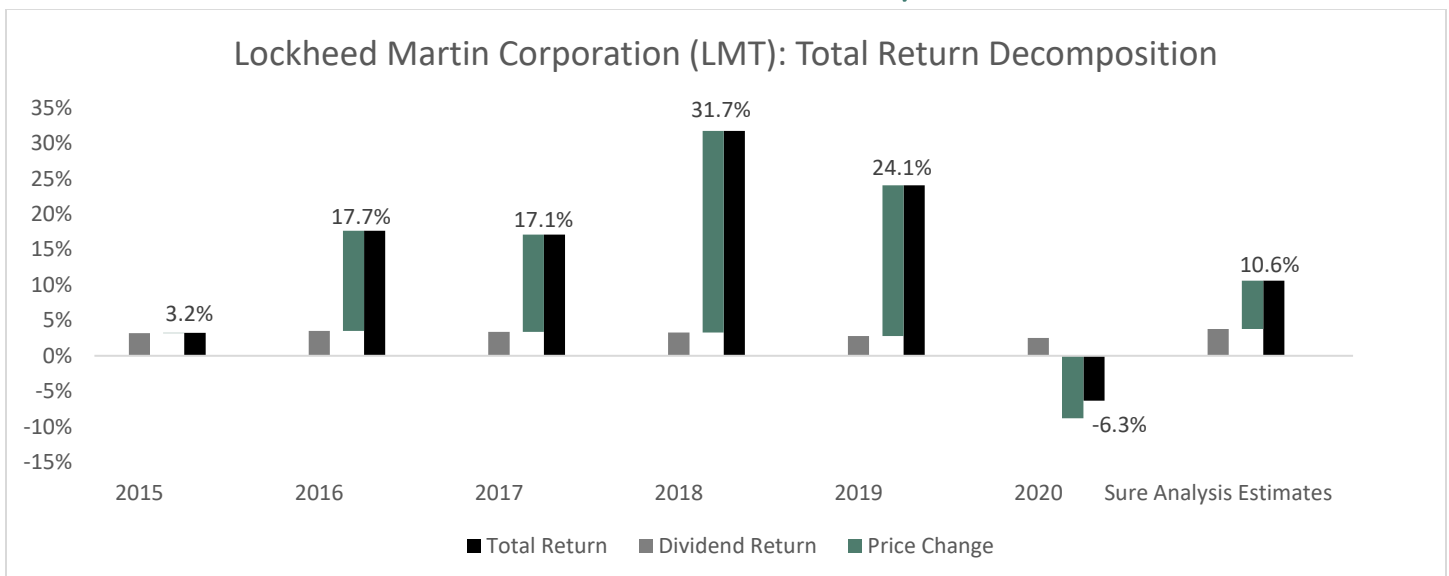
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	50%	50%	49%	54%	55%	56%	47%	41%	40%	50%	52%

Lockheed Martin is an entrenched military prime contractor. It produces aircraft and other platforms that serve as the backbone for the US 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, the exit from Afghanistan and changing defense priorities will impact revenue. Current long-term debt is now \$6M and long-term debt is \$11,668M offset by \$2,727M in cash and equivalents. Interest coverage is over 13X, and leverage ratio is below 1X.

## Final Thoughts & Recommendation

At present we are forecasting a 10.6% annualized total return through 2026. Lockheed Martin has hit a rough patch in its growth trajectory and is shifting priorities to independent R&D, dividends, and share buybacks. The company is forecasting lower growth over the next few years followed by higher growth later. The yield is ~3.4% and dividend safety is still excellent. At the current share price, we rate this high-quality stock a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	37908	38657	36188	37046	49304	47806	46521	44876	47528	50710
<b>Cash &amp; Equivalents</b>	3582	1898	2617	1446	1090	1837	2861	772	1514	3160
<b>Acc. Receivable</b>	6064	6563	5834	5877	7254	8202	8603	2444	2337	1978
<b>Inventories</b>	2481	2937	2977	2804	4819	4670	4487	2997	3619	3545
<b>Goodwill &amp; Int.</b>	10148	10370	10348	11186	14717	14857	14604	14263	13817	13818
<b>Total Liabilities</b>	36907	38618	31270	33646	46207	46200	47130	43427	44357	44672
<b>Accounts Payable</b>	2269	2038	1397	1562	1745	1653	1467	2402	1281	880
<b>Long-Term Debt</b>	6460	6308	6152	6142	15261	14282	14263	14104	12654	12169
<b>Total Equity</b>	1001	39	4918	3400	3097	1511	-683	1394	3127	6015
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	7.3%	7.2%	8.0%	9.9%	8.3%	10.9%	4.2%	11.0%	13.5%	13.9%
<b>Return on Equity</b>	118%	528%	120%	86.9%	111%	230%	484%	1419%	275.6%	149.5%
<b>ROIC</b>	33.2%	39.8%	34.2%	35.1%	25.8%	31.0%	13.6%	34.6%	39.7%	40.2%
<b>Shares Out.</b>	323.4	321	319	314	303	289	284	280	278	275
<b>Revenue/Share</b>	136.80	143.67	138.92	123.90	128.81	155.88	175.66	187.45	210.75	232.57
<b>FCF/Share</b>	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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