Raytheon Technologies Corp. (RTX)

Updated January 25th, 2022, by Eli Inkrot

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$133 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/02/22[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	03/16/22[1]
Dividend Yield:	2.3%	**5 Year Price Target**	$105	**Years Of Dividend Growth:**	27
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.4%

Overview & Current Events

Raytheon Technologies (RTX) was created on April 3rd, 2020, after the completion of the merger between Raytheon (previous ticker: RTN) and United Technologies (previous ticker: UTX), following United Technologies' spin-offs of its Carrier (CARR) and Otis (OTIS) businesses. The combined business, trading with a $133 billion market cap and headquartered in Waltham, MA, is one the largest aerospace and defense companies in the world with $64 billion in 2021 sales and a global team of 195,000 employees, including 60,000 engineers and scientists. The company has four segments: Collins Aerospace Systems, Pratt & Whitney, Raytheon Intelligence & Space and Raytheon Missiles & Defense.

On April 26th, 2021, Raytheon Technologies increased its quarterly dividend 7.4% to $0.51.

On January 25th, 2022, Raytheon Technologies reported Q4 and full year 20221 results for the period ending December 31st, 2021. This marks the seventh quarter of reporting all four segments together as a combined business. For the quarter sales totaled $17.0 billion, a 4% increase compared to Q4 2020. Results were up 13% and 15% in the Collins Aerospace and Pratt & Whitney segments, while Missiles & Defense and Intelligence & Space segments were down -8% and -2% respectively. Adjusted net income equaled $1.61 billion or $1.08 per share compared to $1.12 billion or $0.74 per share in Q4 2020.

For the year Raytheon Technologies generated $64.39 billion in sales, a 14% increase but slightly below prior guidance. Adjusted net income equaled $6.445 billion or $4.27 per share compared to $3.711 billion or $2.73 per share last year.

Raytheon Technologies backlog at the end of the quarter was $156 billion, of which $93 billion was from commercial aerospace and $63 billion was from defense.

Raytheon Technologies provided a full year 2022 outlook, anticipating sales of $68.5 billion to $69.5 billion and adjusted earnings-per-share of $4.60 to $4.80. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.34	$6.21	$6.82	$6.29	$6.61	$6.60	$7.61	$8.26	$2.73	$4.27	***$4.70***	***$6.59***
DPS	$2.03	$2.20	$2.36	$2.56	$2.62	$2.72	$2.84	$2.94	$2.16	$2.01	***$2.04***	***$2.86***
Shares[2]	919	917	909	838	809	799	861	864	1,515	1,509	***1,500***	***1,480***

Note that we have elected to show United Technologies' history through 2019, as ~57% of the new business is now owned by legacy UTX shareholders. However, the company is much different today with the merger and spin-offs. With that being said, both United Technologies and Raytheon have put together solid operating records. In the last decade United Technologies grew earnings-per-share by an average rate of 7.2%, while increasing its dividend for over 25 years. Meanwhile, Raytheon grew earnings-per-share by 9.3% annually while increasing its dividend for 15 consecutive years. Moving forward we anticipate solid growth to continue, forecasting 7% growth over the intermediate term. This takes into account the strong history of the underlying operating businesses, along with the idea of growth becoming more difficult given the size of the business along with the recent uncertainty related to the worldwide COVID-19 pandemic.

[1] Estimated date.
[2] In millions.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.7	16	16.4	17.0	15.3	17.7	16.8	16.1	22.0	18.4	***18.8***	***16.0***
Avg. Yld.	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	***2.3%***	***2.7%***

Once again note that we are using the history of United Technologies, which has traded with an average P/E ratio of about 16 times earnings over the past decade. We believe this is a fair starting multiple, considering the quality and growth prospects of the firm. With shares trading near 19 times estimated earnings, this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	35%	35%	41%	40%	41%	37%	36%	79%	47%	***43%***	***43%***

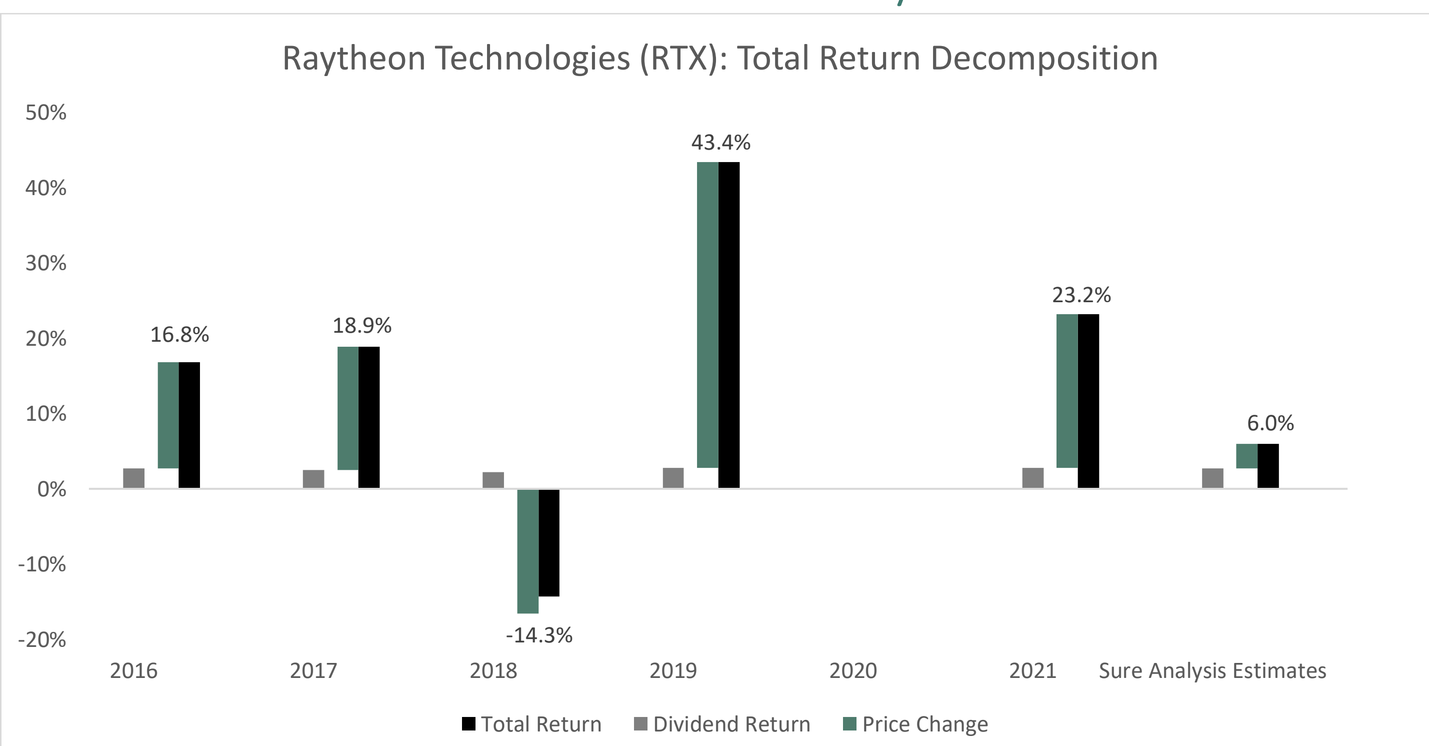
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting $4.90, $4.12, $4.74, and $5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept increasing their dividends during this period.

As of Q4 2021 Raytheon Technologies held $7.8 billion in cash, $42.1 billion in current assets and $161.4 billion in total assets against $35.4 billion in current liabilities and $86.7 billion in total liabilities. Long-term debt stood at $31.3 billion.

Final Thoughts & Recommendation

Shares are up 30% in the last year. We are enthused on a number of fronts about Raytheon Technologies, including the storied histories of the companies, the resilient businesses and tremendous backlog. However, the valuation leaves something to be desired. We are forecasting 6.0% annual total return potential stemming from 7% growth and a 2.3% dividend yield offset by the potential for a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	55,754	57,708	56,600	57,900	56,098	57,244	59,837	66,501	77,046	56,590
Gross Profit	15,385	15,555	16,132	17,002	15,667	15,773	15,636	16,516	19,981	8,531
Gross Margin	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%	14.3%
SG&A Exp.	6,161	6,452	6,364	6,172	5,886	5,958	6,429	7,066	8,521	5,540
D&A Exp.	1,263	1,524	1,735	1,820	1,863	1,962	2,140	2,433	3,783	4,156
Operating Profit	7,846	7,684	8,549	9,593	7,291	8,221	8,138	8,553	8,966	1,294
Op. Margin	14.1%	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%	2.2%
Net Profit	4,979	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5537	-3,519
Net Margin	8.9%	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%	-3.9%
Free Cash Flow	5,661	3,714	4,586	5,134	4,294	1,793	3,237	4,020	6,276	1,639
Income Tax	2,134	1,711	1,999	2,244	2,111	1,697	2,843	2,626	2,295	575

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	61,452	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,716	162,150
Cash & Equivalents	5,960	4,819	4,619	5,229	7,075	7,157	8,985	6,152	7,378	8,802
Acc. Receivable	9,546	11,099	11,458	10,448	10,653	11,481	12,595	14,271	13,524	9,254
Inventories	7,797	9,537	10,330	7,642	8,135	8,704	9,881	10,083	10,950	9,411
Goodwill & Int.	21,861	42,990	43,689	42,976	42,904	42,743	43,793	74,536	74,109	94,820
Total Liabilities	38,632	62,340	57,375	58,642	58,640	60,537	65,499	93,601	95,485	88,300
Accounts Payable	5,570	6,431	6,965	6,250	6,875	7,483	9,579	11,080	10,809	8,639
Long-Term Debt	10,260	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,648	31,182
Total Equity	21,880	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774	72,160
D/E Ratio	0.47	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04	0.44

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.3%	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%
Return on Equity	23.0%	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%
ROIC	15.1%	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%	-3.6%
Shares Out.	907	919	917	909	838	809	799	795	864	1,358
Revenue/Share	61.48	63.65	61.85	63.51	63.52	69.29	74.88	82.09	89.18	41.68
FCF/Share	6.24	4.10	5.01	5.63	4.86	2.17	4.05	4.96	7.26	1.21

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