



# Lockheed Martin Corporation (LMT)

Updated April 27<sup>th</sup>, 2022 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$446	<b>5 Year CAGR Estimate:</b>	7.6%	<b>Market Cap:</b>	\$118.82B
<b>Fair Value Price:</b>	\$427	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	05/31/22
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.9%	<b>Dividend Payment Date:</b>	06/24/22
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$572	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 \$67.0B in 2021.

Lockheed Martin reported weaker results for Q1 2022 on April 19<sup>th</sup>, 2022. Companywide net sales decreased to \$14,964M from \$16,258M and diluted GAAP earnings per share fell to \$6.44 from \$6.56 on a year-over-year basis.

Aeronautics net sales were flat at \$6,401M from \$6,387M in the prior year due to higher volumes of F-16 offset by lower sales of F-35. Missiles and Fire Control sales decreased 11% to \$2,452M from \$2,749M in comparable periods due to lower volumes of tactical and strike missiles, integrated air and missile defense, and global sustainment and sensors. Rotary and Mission Systems net sales were down 14% to \$3,552M from \$4,107M in the prior year due to decreases in integrated warfare systems, C6ISR, training and logistics solutions, and helicopter programs. Space sales fell (-15%) to \$2,559M from \$3,015M due to renationalization of the Atomic Weapons Establishment program in the UK and lower volumes in civil space programs offset by higher sales for strategic and missile defense programs.

Lockheed Martin's backlog is approximately \$134.23B with an increase in Space and Rotary and Mission Systems and declines in the Aeronautics and Missiles and Fire Controls.

Lockheed has decided not to pursue the Aerojet Rocketdyne acquisition after the FTC sued to block it.

Lockheed Martin guided for ~\$66B in sales and ~\$26.70 diluted earnings per share in 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$8.36	\$9.57	\$11.21	\$11.46	\$12.38	\$13.33	\$17.59	\$21.95	\$24.50	\$22.76	<b>\$26.70</b>	<b>\$35.73</b>
<b>DPS</b>	\$4.15	\$4.78	\$5.49	\$6.15	\$6.77	\$7.46	\$8.20	\$9.00	\$9.80	\$10.60	<b>\$11.20</b>	<b>\$16.46</b>
<b>Shares<sup>1</sup></b>	321	319	314	303	289	284	281	281	279	276	<b>274</b>	<b>260</b>

Lockheed Martin's earnings per share are increasing rapidly on the strength of the F-35, 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 drive growth for the long-term. 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. However, costs are rising, and the plane still has not finished operational testing. Our earnings growth estimate is 6% out to 2027. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.6	11.8	15.1	17.7	19.2	21.5	18.2	15.5	15.5	13.1	16.7	16.0
Avg. Yld.	4.7%	4.2%	3.2%	3.0%	2.8%	2.6%	2.6%	2.7%	2.8%	2.9%	2.5%	2.9%

Lockheed Martin's stock price rose significantly since our last report on increasing optimism and expected higher sales due to the conflict in Ukraine. We have updated our earnings estimate to match guidance for 2022. The stock is now trading above our fair value estimate of 16X, which is approximately the 10-year average. Our fair value estimate is now \$427. Our 5-year price target is now \$572.

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

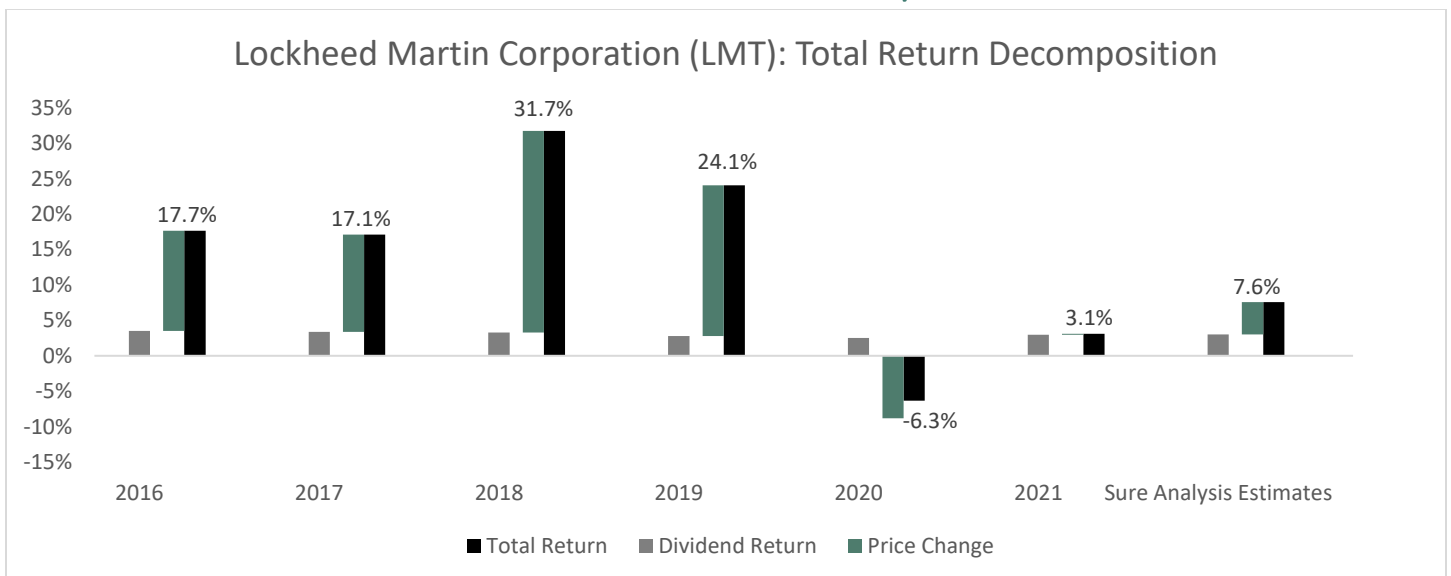
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50%	50%	49%	54%	55%	56%	47%	41%	40%	47%	42%	46%

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 the 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 \$500M and long-term debt is \$11,145M offset by \$1,883M in cash and equivalents. Interest coverage is over 13X, and leverage ratio is about 1.3X.

## Final Thoughts & Recommendation

At present we are forecasting a 7.6% annualized total return through 2027 from a dividend yield of 2.5%, 6% EPS growth, and (-0.9%) from P/E contraction. Despite lower revenue and weakness in F-35 sales, Lockheed Martin's share price has risen on optimism and expected higher sales due to the conflict in Ukraine and an improved defense budget outlook. At the current share price, we rate this high-quality stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	47182	45358	39946	40536	47248	51048	53762	59812	65398	67044
<b>Gross Profit</b>	4196	4187	4683	4492	5062	5548	7274	8367	8654	9007
<b>Gross Margin</b>	8.9%	9.2%	11.7%	11.1%	10.7%	10.9%	13.5%	14.0%	13.2%	13.4%
<b>D&amp;A Exp.</b>	988	990	994	1026	1215	1195	1161	1189	1290	1364
<b>Operating Profit</b>	4434	4505	5012	4712	5549	5921	7334	8367	8644	9123
<b>Op. Margin</b>	9.4%	9.9%	12.5%	11.6%	11.7%	11.6%	13.6%	14.0%	13.2%	13.6%
<b>Net Profit</b>	2745	2981	3614	3605	5302	2002	5046	6230	6833	6315
<b>Net Margin</b>	5.8%	6.6%	9.0%	8.9%	11.2%	3.9%	9.4%	10.4%	10.4%	9.4%
<b>Free Cash Flow</b>	619	3710	3021	4162	4126	5299	1860	5827	6417	7699
<b>Income Tax</b>	1327	1205	1424	1173	1133	3340	792	1011	1347	1235

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	38657	36188	37046	49304	47806	46521	44876	47528	50710	50870
<b>Cash &amp; Equivalents</b>	1898	2617	1446	1090	1837	2861	772	1514	3160	3604
<b>Acc. Receivable</b>	6563	5834	5877	7254	8202	8603	2444	2337	1978	1963
<b>Inventories</b>	2937	2977	2804	4819	4670	4487	2997	3619	3545	2981
<b>Goodwill &amp; Int.</b>	10370	10348	11186	14717	14857	14604	14263	13817	13818	13520
<b>Total Liabilities</b>	38618	31270	33646	46207	46200	47130	43427	44357	44672	39910
<b>Accounts Payable</b>	2038	1397	1562	1745	1653	1467	2402	1281	880	780
<b>Long-Term Debt</b>	6308	6152	6142	15261	14282	14263	14104	12654	12169	11680
<b>Total Equity</b>	39	4918	3400	3097	1511	-683	1394	3127	6015	1096
<b>LTD/E Ratio</b>	161.74	1.25	1.81	4.93	9.45	-20.88	10.12	4.05	2.02	1.065

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	7.2%	8.0%	9.9%	8.3%	10.9%	4.2%	11.0%	13.5%	13.9%	12.4%
<b>Return on Equity</b>	528%	120%	86.9%	111%	230%	484%	1419%	275%	149.5%	74.4%
<b>ROIC</b>	39.8%	34.2%	35.1%	25.8%	31.0%	13.6%	34.6%	39.7%	40.2%	30.9%
<b>Shares Out.</b>	321	319	314	303	289	284	280	278	275	277
<b>Revenue/Share</b>	143.67	138.92	123.90	128.81	155.88	175.66	187.45	210.75	232.57	241.69
<b>FCF/Share</b>	1.88	11.36	9.37	13.23	13.61	18.23	6.49	20.53	22.82	27.75

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

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