



Raytheon Technologies Corp. (RTX)

Updated April 26th, 2022, by Nathan Parsh

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	3.5%	Market Cap:	\$149 B
Fair Value Price:	\$75	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	05/20/22
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	06/16/22
Dividend Yield:	2.2%	5 Year Price Target	\$105	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

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 \$149 billion market cap and headquartered in Waltham, MA, is one of the largest aerospace and defense companies in the world with \$64 billion in 2021 sales and a global team of 174,000 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 25th, 2022, Raytheon Technologies increased its quarterly dividend 7.8% to \$0.55.

On April 26th, 2022, Raytheon Technologies reported Q1 results for the period ending March 31st, 2021. This marks the eighth quarter of reporting all four segments together as a combined business. Revenue grew 3.1% to \$15.7 billion, but was \$110 million below expectations. Adjusted net income equaled \$1.7 billion, or \$1.15 per share, compared \$772 million, or \$0.90 per share. Adjusted earnings-per-share was \$0.13 ahead of estimates.

Results were up 10% and 12% in the Collins Aerospace and Pratt & Whitney segments, respectively, while Missiles & Defense and Intelligence & Space segments were down -7% and -5% respectively. Raytheon Technologies backlog at the end of the quarter was \$154 billion, of which \$92 billion was from commercial aerospace and \$62 billion was from defense.

Raytheon Technologies provided a revised full year 2022 outlook, with the company now anticipating sales of \$67.75 billion to \$68.75 billion, down from \$68.5 billion to \$69.5 billion previously. Adjusted earnings-per-share of \$4.60 to \$4.80 remains consistent with guidance from the end of 2021.

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	\$2.20	\$3.09
Shares¹	919	917	909	838	809	799	861	864	1,515	1,509	1,497	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 28 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 In millions.

Disclosure: This analyst has a long position in the security discussed in this research report.



Raytheon Technologies Corp. (RTX)

Updated April 26th, 2022, by Nathan Parsh

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	21.3	16.0
Avg. Yld.	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.2%	2.9%

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. Shares of Raytheon Technologies have gained \$12, or 13.6%, since our January 25th, 2022 update. With shares trading above 21 times estimated earnings, this implies a valuation headwind. Reverting to our target valuation would decrease annual returns by 5.5% through 2027.

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%	47%	47%

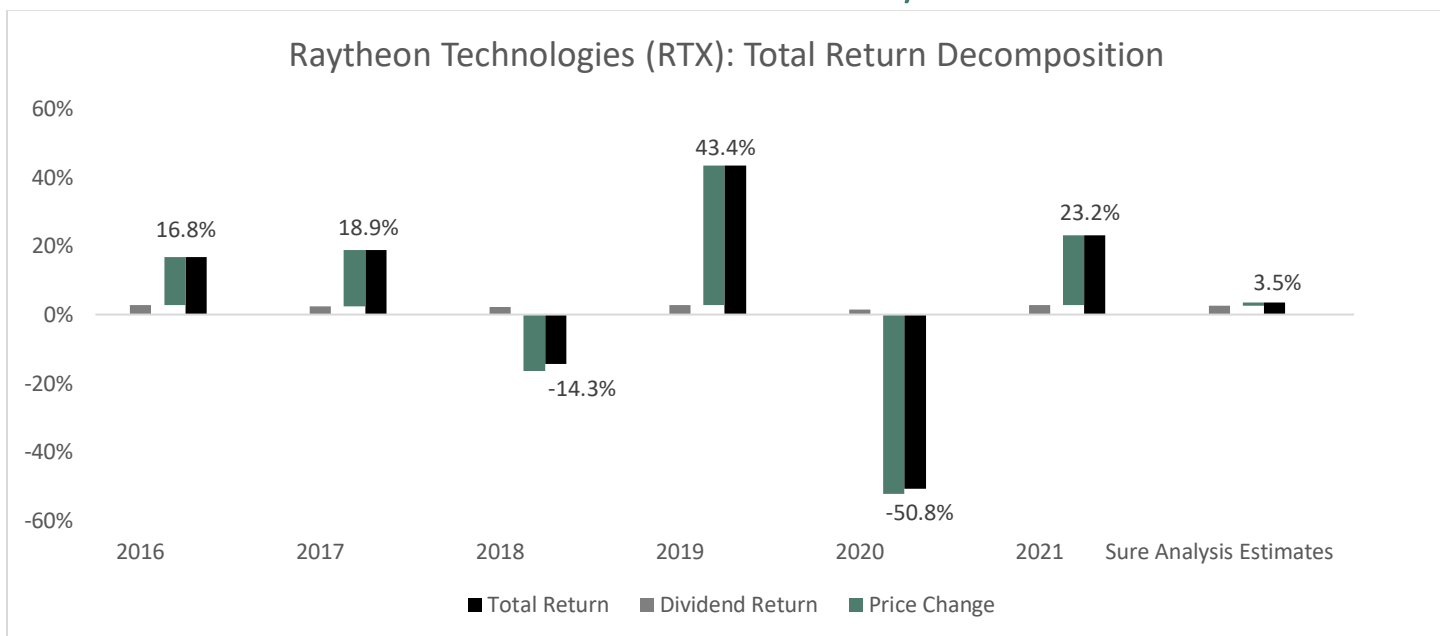
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting \$4.90, \$4.12, \$4.74, and \$5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept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

As of Q1 2022 Raytheon Technologies held \$6 billion in cash, \$40.7 billion in current assets, and \$159.4 billion in total assets against \$35 billion in current liabilities and \$85.3 billion in total liabilities. Long-term debt stood at \$31.3 billion.

Final Thoughts & Recommendation

We remain enthused on a number of fronts about Raytheon Technologies, including the storied histories of the companies, the resilient businesses, and the tremendous backlog. However, the valuation leaves something to be desired. We are forecasting 3.5% annual total return through 2027, down from 6% previously. Our forecast stems from 7% growth rate and a 2.2% dividend yield offset by the potential for a valuation headwind. Shares earn a sell rating as a result.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has a long position in the security discussed in this research report.



Raytheon Technologies Corp. (RTX)

Updated April 26th, 2022, by Nathan Parsh

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	57,708	56,600	57,900	56,098	57,244	59,837	66,501	77,046	56,590	
Gross Profit	15,555	16,132	17,002	15,667	15,773	15,636	16,516	19,981	8,531	
Gross Margin	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%	14.3%	
SG&A Exp.	6,452	6,364	6,172	5,886	5,958	6,429	7,066	8,521	5,540	
D&A Exp.	1,524	1,735	1,820	1,863	1,962	2,140	2,433	3,783	4,156	
Operating Profit	7,684	8,549	9,593	7,291	8,221	8,138	8,553	8,966	1,294	
Op. Margin	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%	2.2%	
Net Profit	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5537	-3,519	
Net Margin	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%	-3.9%	
Free Cash Flow	3,714	4,586	5,134	4,294	1,793	3,237	4,020	6,276	1,639	
Income Tax	1,711	1,999	2,244	2,111	1,697	2,843	2,626	2,295	575	

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,716	162,150	
Cash & Equivalents	4,819	4,619	5,229	7,075	7,157	8,985	6,152	7,378	8,802	
Acc. Receivable	11,099	11,458	10,448	10,653	11,481	12,595	14,271	13,524	9,254	
Inventories	9,537	10,330	7,642	8,135	8,704	9,881	10,083	10,950	9,411	
Goodwill & Int.	42,990	43,689	42,976	42,904	42,743	43,793	74,536	74,109	94,820	
Total Liabilities	62,340	57,375	58,642	58,640	60,537	65,499	93,601	95,485	88,300	
Accounts Payable	6,431	6,965	6,250	6,875	7,483	9,579	11,080	10,809	8,639	
Long-Term Debt	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,648	31,182	
Total Equity	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774	72,160	
D/E Ratio	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04	0.44	

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%	
Return on Equity	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%	
ROIC	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%	-3.6%	
Shares Out.	919	917	909	838	809	799	795	864	1,358	
Revenue/Share	63.65	61.85	63.51	63.52	69.29	74.88	82.09	89.18	41.68	
FCF/Share	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.