# Booz Allen Hamilton Holding Corp. (BAH)

*Updated May 20th, 2022 by Prakash Kolli*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $78 | **5 Year CAGR Estimate:** | 10.0% | **Market Cap:** | $10.62B |
| **Fair Value Price:** | $77 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 06/14/22 |
| **% Fair Value:** | 101% | **5 Year Valuation Multiple Estimate:** | -0.2% | **Dividend Payment Date:** | 06/30/22 |
| **Dividend Yield:** | 2.2% | **5 Year Price Target** | $114 | **Years Of Dividend Growth:** | 11 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Rating:** | Buy |

## Overview & Current Events

Booz Allen Hamilton Holding Corporation traces its roots to 1914. The company had an IPO on November 10, 2010. Booz is a leading provider of professional management and technology consulting services to the US Government. Technology consulting services include information technology, cybersecurity, cloud computing, and engineering services. The company basically provides staffing to US Government clients. About 96% of revenue was derived from contracts where the US Government was the end client in FY21. Revenue was 49% defense, 28% civil, 20% intelligence, and 3% global commercial in FY21. The company had $8.36B in revenue in FY22.

Booz reported results for Q4 FY 2022 and full fiscal year on May 20th, 2022. For the quarter, revenue increased 13.1% to $2,238M from $1,979M and adjusted diluted earnings per share decreased (-3.4%) to $0.86 from $0.89 on a year-over-year basis. Despite a solid top line number, margins declined impacting earnings. Booz increased headcount to 29,317 in the quarter from 27,727 in the prior year. Client staff headcount increased to 26,289 from 24,823 in the prior year. Greater head count drives revenue for the company. Contract type mix for the quarter varied as cost-reimbursable contracts was 53%, time-and-materials was 24%, and fixed-price was 23%.

For the year, revenue increased 6.4% to $8,364M from $7,859M and adjusted diluted EPS increased 7.9% to $4.21 from $3.90. Booz announced the acquisition of EverWatch Corp. for classified software development and analytics. The company also invested in AI companies Synthetaic and Reveal Technology.

Booz' continues to win contracts and the backlog rose 21.7% to ~$29.2B of which $3,710M was funded, $9,925M was unfunded, and $15,612M was priced options. The book-to-bill ratio was 1.66X in the quarter.

Booz set guidance for 5.0% - 9.0% revenue growth and $4.15 to $4.45 adjusted diluted EPS.

## Growth on a Per-Share Basis

| Year[1] | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.45 | $1.54 | $1.52 | $1.94 | $1.67 | $2.03 | $2.91 | $3.41 | $4.37 | $4.21 | ***$4.30*** | ***$6.32*** |
| **DPS** | $0.36 | $0.39 | $0.43 | $0.52 | $0.60 | $0.68 | $0.76 | $0.96 | $1.24 | $1.48 | ***$1.72*** | ***$3.03*** |
| **Shares[2]** | 145.8 | 148.7 | 149.1 | 148.0 | 148.9 | 143.5 | 140.0 | 138.7 | 136.3 | 133.5 | ***130.9*** | ***115.9*** |

The EPS history for Booz Allen Hamilton's short operating history as a public company has been volatile. But until recently the federal budget environment has been unstable. However, Booz has exhibited an upward trend in EPS since fiscal 2016 until 2022. We are expecting continued growth for the next several years because of growth in the backlog and US federal government spending. We are now forecasting on average an 8% annual growth rate for EPS out to FY 2028. This will be driven by client demand for the company's services combined with around 2% decrease in share count annually. The company consistently repurchases shares each year. Booz has consistently increased the dividend at a double-digit rate since FY 2012. We expect the growth rate to slow over time. But we are still forecasting on average a 12% annual growth rate in DPS out to FY 2028 due to the relatively low payout ratio.

[1] BAH's fiscal year ends on the last day of March and all the tables are in fiscal year.
[2] Share count in millions.

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## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 11.9 | 16.4 | 14.3 | 19.2 | 17.9 | 17.3 | 20.3 | 20.9 | ***17.9*** | ***18.6*** | ***18.2*** | ***18.0*** |
| Avg. Yld. | 1.8% | 1.9% | 1.9% | 1.9% | 1.7% | 1.5% | 1.7% | 1.6% | 1.8% | ***1.9%*** | ***2.0%*** | ***2.3%*** |

Booz Allen Hamilton's stock price is down again since our last report on weak guidance. The stock is now trading near our fair value estimate of 18X based on the trailing 10-year average. We have pegged our FY 2023 earnings estimate to the mid-point of guidance. Our fair value estimate is $77. Our 5-year price target is $114.

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

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 25% | 25% | 28% | 27% | 36% | 33% | 26% | 28% | 28% | 28% | ***40%*** | ***48%*** |

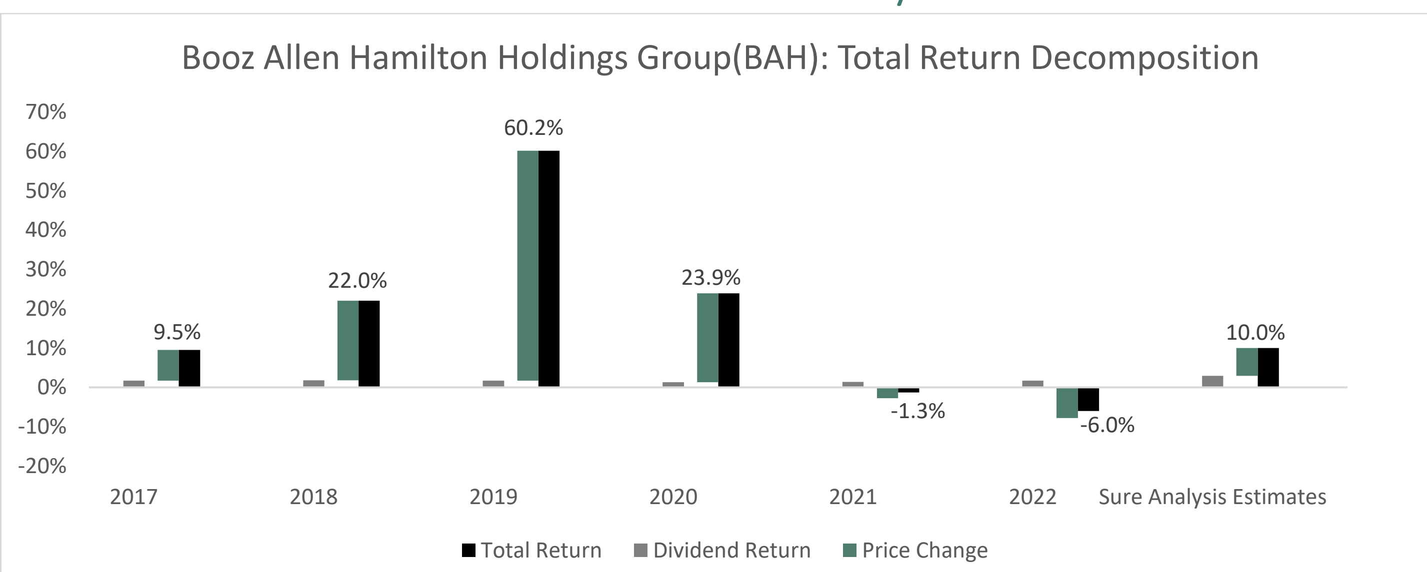
Booz Allen Hamilton is one of the largest prime services contractors for the US Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the ~90% win rate for recompete contracts and ~61% win rate for new contracts. This provides some degree of recession resistance. But saying that, the company is not immune to economic downturns or slowdowns in federal government spending. Events such as changes in administration or party control of Congress can affect the federal budget and impact Booz' top and bottom lines.

The company has $68.4M in current long-term debt and $2,731.7M in long-term debt offset by $695.9M in cash and equivalents at end of the quarter. The leverage ratio has come down and is now ~2.5X and interest coverage is ~8.8X.

## Final Thoughts & Recommendation

At present we are forecasting on average a 10.0% annualized total return through FY 2028 from a dividend yield of 2.2%, 8.0% EPS growth, and (-0.2%) P/E multiple expansion. Booz is wining contracts, and the total backlog is increasing based on a solid book-to-bill ratio. Furthermore, Booz focuses on returning cash to shareholders through a rising dividend and share repurchases. We rate this quality stock a buy at the current price and valuation.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 5758 | 5479 | 5275 | 5406 | 5406 | 5809 | 6168 | 6704 | 7464 | 7859 |
| Gross Profit | 2887 | 2763 | 2681 | 2826 | 2826 | 3131 | 3301 | 3604 | 4085 | 4201 |
| Gross Margin | 50.1% | 50.4% | 50.8% | 52.3% | 52.3% | 53.9% | 53.5% | 53.8% | 54.7% | 53.5% |
| SG&A Exp. | 2367 | 2230 | 2159 | 2320 | 2320 | 2565 | 2717 | 2933 | 3334 | 336 |
| D&A Exp. | 74 | 72 | 63 | 62 | 62 | 60 | 65 | 69 | 81 | 84 |
| Operating Profit | 446 | 461 | 459 | 445 | 445 | 506 | 520 | 602 | 669 | 754 |
| Operating Margin | 7.7% | 8.4% | 8.7% | 8.2% | 8.2% | 8.7% | 8.4% | 9.0% | 9.0% | 9.6% |
| Net Profit | 219 | 232 | 233 | 294 | 294 | 261 | 302 | 419 | 483 | 609 |
| Net Margin | 3.8% | 4.2% | 4.4% | 5.4% | 5.4% | 4.5% | 4.9% | 6.2% | 6.5% | 7.7% |
| Free Cash Flow | 432 | 312 | 274 | 183 | 183 | 328 | 291 | 405 | 423 | 631 |
| Income Tax | 149 | 149 | 153 | 85 | 85 | 165 | 128 | 97 | 97 | 54 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3178 | 2941 | 2864 | 3010 | 3010 | 3373 | 3607 | 3832 | 4794 | 5500 |
| Cash & Equivalents | 350 | 260 | 207 | 188 | 188 | 217 | 287 | 284 | 742 | 991 |
| Accounts Receivable | 432 | 396 | 318 | 309 | 309 | 341 | 395 | 495 | 475 | 375 |
| Goodwill & Int. Ass. | 1514 | 1495 | 1524 | 1583 | 1583 | 1843 | 1860 | 1868 | 1882 | 1888 |
| Total Liabilities | 2951 | 2769 | 2677 | 2602 | 2602 | 2800 | 3044 | 3156 | 3938 | 4428 |
| Accounts Payable | 248 | 265 | 216 | 247 | 247 | 269 | 340 | 418 | 433 | 372 |
| Long-Term Debt | 1715 | 1659 | 1613 | 1597 | 1597 | 1663 | 1819 | 1760 | 2186 | 2357 |
| Shareholder's Equity | 227 | 172 | 186 | 408 | 408 | 574 | 562 | 675 | 856 | 1071 |
| LTD/E Ratio | 7.56 | 9.67 | 8.65 | 3.91 | 3.91 | 2.90 | 3.23 | 2.61 | 2.55 | 2.2 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 6.7% | 7.6% | 8.0% | 10.0% | 10.0% | 8.2% | 8.6% | 11.3% | 11.2% | 11.2% |
| Return on Equity | 31.0% | 117% | 130% | 98.9% | 98.9% | 53.1% | 53.1% | 67.6% | 63.0% | 63.2% |
| ROIC | 10.7% | 12.3% | 12.8% | 15.5% | 15.5% | 12.3% | 13.1% | 17.4% | 17.6% | 17.6% |
| Shares Out. | 132.4 | 145.8 | 148.7 | 149.1 | 148.0 | 148.9 | 143.5 | 140.0 | 138.7 | 138.7 |
| Revenue/Share | 39.75 | 36.85 | 35.08 | 36.11 | 36.11 | 38.66 | 41.74 | 46.83 | 52.85 | 56.66 |
| FCF/Share | 2.98 | 2.10 | 1.82 | 1.22 | 1.22 | 2.19 | 1.97 | 2.83 | 3.00 | 4.55 |

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