



Lockheed Martin Corporation (LMT)

Updated July 27th, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$399	5 Year CAGR Estimate:	5.8%	Market Cap:	\$105.22B
Fair Value Price:	\$345	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	08/31/22
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	09/23/22
Dividend Yield:	2.8%	5 Year Price Target	\$461	Years Of Dividend Growth:	20
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	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 Q2 2022 on July 19th, 2022. Companywide net sales decreased to \$15,446M from \$17,029M and diluted GAAP earnings per share fell to \$1.16 from \$6.52 on a year-over-year basis. The quarter was impacted by lower sales in all segments and pension charges, investment losses, deferred compensation, and debt refinancing costs. Aeronautics net sales fell 12% to \$5,862M from \$6,666M in the prior year due to higher classified volumes offset by lower sales of F-35 and F-16. Missiles and Fire Control sales decreased 7% to \$2,747M from \$2,944M in comparable periods due to lower volumes of tactical and strike missiles, global sustainment programs, and sensors. Rotary and Mission Systems net sales were down 5% to \$4,012M from \$4,242M in the prior year due to decreases in integrated warfare systems, C6ISR, and helicopter programs. Space sales fell (-11%) to \$2,825M from \$3,177M due to renationalization of the Atomic Weapons Establishment program in the UK and lower volumes in Orion offset by higher sales for strategic and missile defense programs.

Lockheed Martin's backlog is approximately \$134.64B with an increase in Missiles and Fire Controls, Space and Rotary, and Mission Systems and a decline in the Aeronautics.

Lockheed Martin guided lower for ~\$65,250B in sales and ~\$21.55 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
EPS	\$8.36	\$9.57	\$11.21	\$11.46	\$12.38	\$13.33	\$17.59	\$21.95	\$24.50	\$22.76	\$21.55	\$28.84
DPS	\$4.15	\$4.78	\$5.49	\$6.15	\$6.77	\$7.46	\$8.20	\$9.00	\$9.80	\$10.60	\$11.20	\$14.99
Shares¹	321	319	314	303	289	284	281	281	279	276	274	260

Lockheed Martin's earnings per share has been 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. However, costs are rising, and the plane still has not finished operational testing. Lockheed Martin also has a large installed base of other platforms that require modernization and sustainment. Our earnings growth estimate is 6% out to 2027. We now expect the dividend to grow ~6% on average annually and the payout ratio to range from 45% to 55%.

¹ 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	18.5	16.0
Avg. Yld.	4.7%	4.2%	3.2%	3.0%	2.8%	2.6%	2.6%	2.7%	2.8%	2.9%	2.8%	3.2%

Lockheed Martin's stock price is down since our last report because of poor results and lower guidance. We have updated our earnings estimate to match guidance for 2022. The stock is trading above our fair value estimate of 16X, which is approximately the 10-year average. Our fair value estimate is now \$345. Our 5-year price target is now \$461.

Safety, Quality, Competitive Advantage, & Recession Resiliency

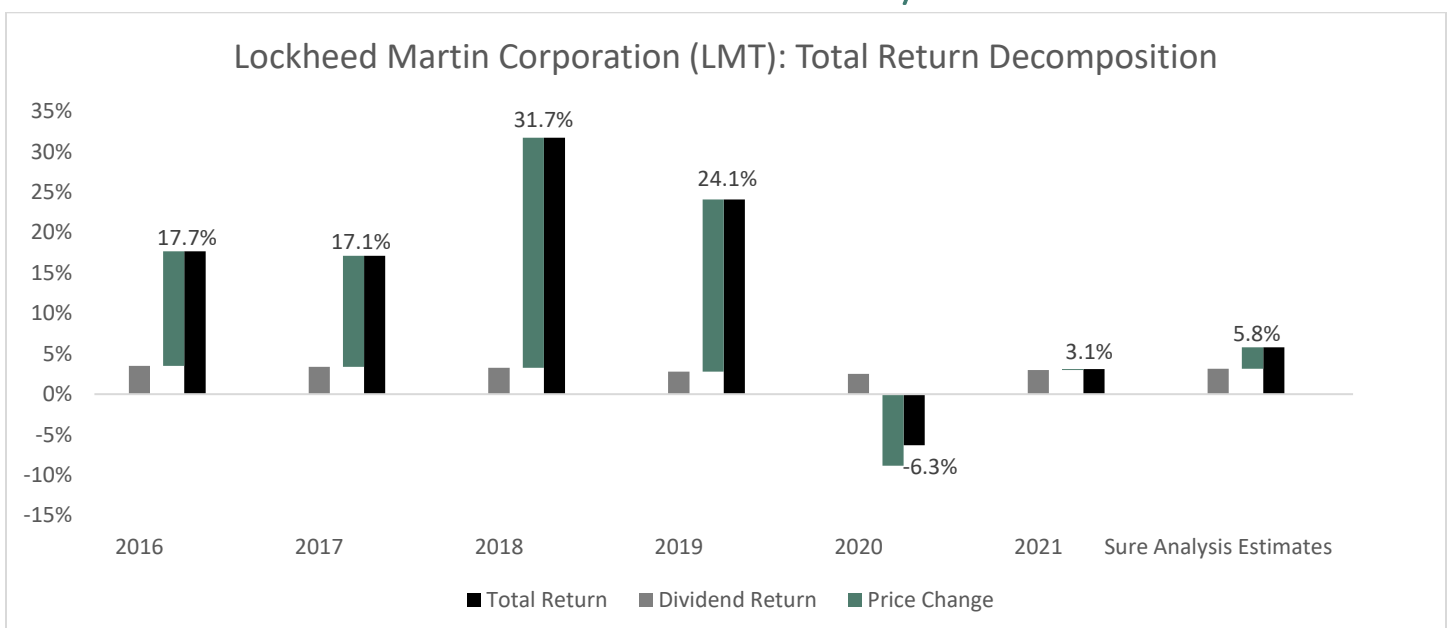
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50%	50%	49%	54%	55%	56%	47%	41%	40%	47%	52%	52%

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 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, completed contracts, and changing defense priorities will impact revenue in the near-term. Long-term debt is \$11,644M offset by \$1,775M in cash and equivalents. Interest coverage is over 10X, and leverage ratio is about 1.3X.

Final Thoughts & Recommendation

At present we are forecasting a 5.8% annualized total return through 2027 from a dividend yield of 2.8%, 6% EPS growth, and (-2.9%) from P/E contraction. Lockheed Martin is experiencing lower sales due to COVID-19 and higher pensions adjustments impacting the bottom line. But defense spending should continue to rise because of Ukraine and strategic competition between countries. 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
Revenue	47182	45358	39946	40536	47248	51048	53762	59812	65398	67044
Gross Profit	4196	4187	4683	4492	5062	5548	7274	8367	8654	9007
Gross Margin	8.9%	9.2%	11.7%	11.1%	10.7%	10.9%	13.5%	14.0%	13.2%	13.4%
D&A Exp.	988	990	994	1026	1215	1195	1161	1189	1290	1364
Operating Profit	4434	4505	5012	4712	5549	5921	7334	8367	8644	9123
Op. Margin	9.4%	9.9%	12.5%	11.6%	11.7%	11.6%	13.6%	14.0%	13.2%	13.6%
Net Profit	2745	2981	3614	3605	5302	2002	5046	6230	6833	6315
Net Margin	5.8%	6.6%	9.0%	8.9%	11.2%	3.9%	9.4%	10.4%	10.4%	9.4%
Free Cash Flow	619	3710	3021	4162	4126	5299	1860	5827	6417	7699
Income Tax	1327	1205	1424	1173	1133	3340	792	1011	1347	1235

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	38657	36188	37046	49304	47806	46521	44876	47528	50710	50870
Cash & Equivalents	1898	2617	1446	1090	1837	2861	772	1514	3160	3604
Acc. Receivable	6563	5834	5877	7254	8202	8603	2444	2337	1978	1963
Inventories	2937	2977	2804	4819	4670	4487	2997	3619	3545	2981
Goodwill & Int.	10370	10348	11186	14717	14857	14604	14263	13817	13818	13520
Total Liabilities	38618	31270	33646	46207	46200	47130	43427	44357	44672	39910
Accounts Payable	2038	1397	1562	1745	1653	1467	2402	1281	880	780
Long-Term Debt	6308	6152	6142	15261	14282	14263	14104	12654	12169	11680
Total Equity	39	4918	3400	3097	1511	-683	1394	3127	6015	1096
LTD/E Ratio	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
Return on Assets	7.2%	8.0%	9.9%	8.3%	10.9%	4.2%	11.0%	13.5%	13.9%	12.4%
Return on Equity	528%	120%	86.9%	111%	230%	484%	1419%	275%	149.5%	74.4%
ROIC	39.8%	34.2%	35.1%	25.8%	31.0%	13.6%	34.6%	39.7%	40.2%	30.9%
Shares Out.	321	319	314	303	289	284	280	278	275	277
Revenue/Share	143.67	138.92	123.90	128.81	155.88	175.66	187.45	210.75	232.57	241.69
FCF/Share	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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