



General Dynamics Corporation (GD)

Updated November 2nd, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$248	5 Year CAGR Estimate:	2.0%	Market Cap:	\$68.45B
Fair Value Price:	\$182	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/13/22 ¹
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	02/04/22
Dividend Yield:	2.0%	5 Year Price Target	\$244	Years Of Dividend Growth:	31
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

General Dynamics is a US aerospace & defense company that now operates in four business segments: Aerospace (21% of sales), Combat Systems (19%), Marine Systems (26%), and Technologies (33%). General Dynamics combined the IT and Mission Systems segments in 2020. The company's Aerospace segment is focused on business jets and services while the remainder of the company is defense. The company makes the well-known M1 Abrams tank, Stryker vehicle, *Virginia*-class submarine, *Columbia*-class submarine, and Gulfstream business jets. Based on revenue, General Dynamics is the fourth largest defense company. General Dynamics had revenue of approximately \$38.5B in 2021.

General Dynamics reported Q3 2022 results on October 26th, 2022. For the quarter, companywide revenue rose 4.3% to \$9,975M from \$9,568M and diluted earnings per share increased 6.24% to \$3.26 from \$3.07 on a year-over-year basis. Aerospace revenue rose 13.6% to \$2,347M from \$2,066M in the prior year. The total backlog grew again to \$19,052M, the highest in more than a decade. Gulfstream demand drove a book-to-bill ratio of 1.2X. The G700/G800 received EASA certification. General Dynamics' Customer Service business continued to grow. Revenue for Marine Systems increased 5.0% to \$2,769M from \$2,637M. The firm was awarded \$3.2B in awards including the Expeditionary Sea Base, two oilers, and maintenance and modernization for the USS Hartford. Combat Systems revenue rose 2.5% to \$1,788M from \$1,745M. The backlog rose again on a \$1.3B order for M1 tanks for Poland. Technologies revenue decreased (-1.6%) to \$3,071M from \$3,120M because of tight labor supply. The total estimated contract value is up to \$42,239M, but the backlog is declining and is now \$13,568M.

The companywide backlog is at \$88.1B of which ~\$61.6B is funded and the unfunded backlog is ~\$26.5B (the majority in Marine Systems and Technologies).

The company maintained its guidance at revenue of ~\$39.45B and earnings per share of ~\$12.15 in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$6.48	\$7.03	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	\$11.98	\$11.00	\$11.55	\$12.16	\$16.27
DPS	\$2.04	\$2.24	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$3.99	\$4.32	\$4.76	\$5.04	\$6.74
Shares²	354	353	332	311	302	297	289	290	286	275	272	261

General Dynamics' top and bottom lines have grown due to increasing US defense spending, international sales, and business jet sales. General Dynamics has established naval and ground platforms that support maintenance and modernization contracts as well as future prime contract wins. COVID-19 caused earnings to drop in 2020 but the firm performed better than expected in 2021 because of rising orders in the business jet market. From 2022 we forecast on average 6% annual earnings per share growth out to 2027. Operating margin expansion and a reduction of share count will support earnings per share growth. We now expect dividend growth to be about 6% going forward on average. General Dynamics is a Dividend Aristocrat, and the current payout ratio is relatively low, supporting future dividend increases.

¹ General Dynamics has not yet declared the next dividend. The dates are estimates based in prior years.

² Share count in millions.

Disclosure: This analyst is long GD.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.4	11.3	15.2	15.5	14.8	20.5	17.7	14.8	13.7	16.2	20.4	15.0
Avg. Yld.	3.0%	2.8%	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	2.9%	2.5%	2.0%	2.8%

General Dynamics' stock price is up due to solid results and rising demand and backlog in the Aerospace segment. Our fair value multiple is 15X, near the 10-year average. We have maintained our 2022 earnings estimate. Our current fair value estimate is \$182. Our 5-year price target is \$244.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	31%	32%	32%	30%	31%	36%	34%	34%	39%	41%	41%	41%

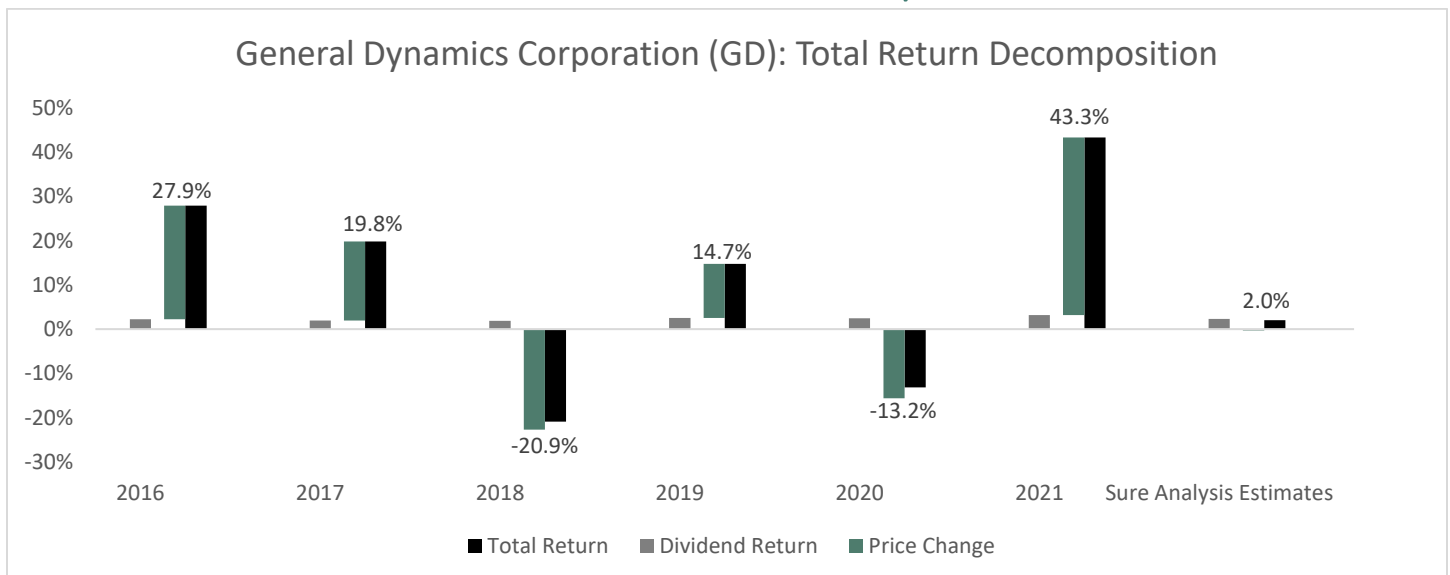
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the US Army, US Navy, and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company faces risks in program cuts, reduction in federal spending, and cyclical nature of the business jet market. General Dynamics is increasing its exposure to information technology and cybersecurity. These are competitive fields with lower margins.

General Dynamics' debt increased for the CRSA acquisition. Short-term debt is \$2,252M and long-term debt is \$9,239M offset by \$2,496M in cash and equivalents. Interest coverage is about 11.7X and the leverage ratio is now about 2.0X.

Final Thoughts & Recommendation

At present we are forecasting 2.0% annualized total return through 2027 from a dividend yield of 2.0%, 6% EPS growth, and (-6.0%) P/E multiple contraction. The stock has solid dividend safety but is trading above our fair value estimate and the yield is below the 5-year average. Optimism about this company is priced in and the stock is trading at a rich valuation. We rate this stock a sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	30992	30930	30852	31781	30561	30973	36193	39350	37925	38469
Gross Profit	4980	5728	5873	6232	5665	6242	6657	6987	6325	6408
Gross Margin	16.1%	18.5%	19.0%	19.6%	18.5%	20.2%	18.4%	17.8%	16.7%	16.7%
SG&A Exp.	2221	2039	1984	1937	1921	2006	2263	2417	2192	2245
D&A Exp.	590	525	496	481	453	441	763	829	878	890
Operating Profit	2759	3689	3889	4295	3744	4236	4394	4570	4133	4163
Op. Margin	8.9%	11.9%	12.6%	13.5%	12.3%	13.7%	12.1%	11.6%	10.9%	10.8%
Net Profit	-332	2357	2533	3036	2572	2912	3345	3484	3167	3257
Net Margin	-1.1%	7.6%	8.2%	9.6%	8.4%	9.4%	9.2%	8.9%	8.4%	8.5%
Free Cash Flow	2170	2675	3307	2038	1771	3448	2458	1994	2891	3384
Income Tax	854	1125	1129	1183	977	1165	727	718	571	616

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	34309	35494	35337	31997	33172	35046	45408	49349	51308	50073
Cash & Equivalents	3296	5301	4388	2785	2334	2983	963	902	2824	1603
Acc. Receivable	4204	4370	4050	3446	3399	3617	3759	3544	3161	3041
Inventories	7740	7670	7812	7723	5118	5303	5977	6306	5745	5340
Goodwill & Int.	13431	12976	12643	12206	12123	12616	22179	21992	22170	22076
Total Liabilities	22919	20993	23508	21259	22871	23611	33676	35371	35647	32432
Accounts Payable	2469	2216	2057	1964	2538	3207	3179	3162	2952	3167
Long-Term Debt	3908	3909	3893	3399	3888	3982	12417	11930	12998	11495
Total Equity	11390	14501	11829	10738	10301	11435	11732	13978	15661	17641
LTD/E Ratio	0.34	0.27	0.33	0.32	0.38	0.35	1.06	0.85	0.83	0.65

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.0%	6.8%	7.2%	9.0%	7.9%	8.5%	8.3%	7.4%	6.3%	6.4%
Return on Equity	-2.7%	18.2%	19.2%	26.9%	24.4%	26.8%	28.9%	27.1%	21.4%	19.5%
ROIC	-2.0%	14.0%	14.8%	20.3%	18.2%	19.7%	16.9%	13.9%	11.6%	11.2%
Shares Out.	354	353	332	311	302	297	289	290	287	282
Revenue/Share	87.71	87.50	90.39	97.29	98.46	101.67	120.98	135.30	131.72	136.41
FCF/Share	6.14	7.57	9.69	6.24	5.71	11.32	8.22	6.86	10.04	12.00

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

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