Raytheon Technologies Corp. (RTX)

Updated July 25th, 2023, by Nathan Parsh

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$124 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/17/23
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	09/07/23
Dividend Yield:	2.8%	**5 Year Price Target**	$112	**Years Of Dividend Growth:**	29
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $124 billion market cap and headquartered in Waltham, MA, is one the largest aerospace and defense companies in the world with ~$73 billion in annual 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 24th, 2023, Raytheon Technologies increased its quarterly dividend 7.3% to $0.59.

On July 25th, 2023, Raytheon Technologies reported Q2 results for the period ending June 30th, 2023. For the quarter, revenue increased 12.3% to $18.3 billion, which was $620 million more than expected. Adjusted earnings-per-share of $1.29 compared favorably to $1.16 in the prior year and was $0.11 above estimates better than expected.

Organic sales were higher by 13% for the quarter. For the quarter, results were up 17%, 15%, 13%, and 2% in the Collins Aerospace, Pratt & Whitney, Missiles & Defense, and Intelligence & Space segments, respectively. Raytheon Technologies' backlog at the end of the quarter was a record $185 billion, compared to $180 billion in the first quarter of 2023, of which $112 billion was from commercial aerospace and $73 billion was from defense. The company's book-to-bill ratio was 1.17 for the period. The stock fell as much as 15% following the earning release after Raytheon Technologies reported that it found a manufacturing defect in some jet engines produced by the Pratt & Whitney segment. The defect does not impact air safety, but will result in reducing expected free cash flow for the year to $4.3 billion from prior guidance of $4.8 billion.

Raytheon Technologies updated its guidance for 2023, with the company now expecting sales of $73 billion to $74 billion, up from $72.0 billion to $73.0 billion, previously. Adjusted earnings-per-share is now projected in a range of $4.95 to $5.05, up from $4.90 to $5.05, previously. At the midpoint, this would be a 4.6% improvement from 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$6.21	$6.82	$6.29	$6.61	$6.60	$7.61	$8.26	$2.73	$4.27	$4.78	***$5.00***	***$7.01***
DPS	$2.20	$2.36	$2.56	$2.62	$2.72	$2.84	$2.94	$2.16	$2.01	$2.16	***$2.36***	***$3.31***
Shares[1]	917	909	838	809	799	861	864	1,515	1,509	1,476	***1,469***	***1,455***

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 the company's earnings-per-share fell by an average rate of 2.9%, though this is misleading due to the spinoff. 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

[1] In millions.

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

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given the size of the business along with the recent uncertainty related to the worldwide COVID-19 pandemic. The company has now raised its dividend for 29 years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16	16.4	17.0	15.3	17.7	16.8	16.1	22.0	18.4	21.1	***17.0***	***16.0***
Avg. Yld.	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.1%	***2.8%***	***3.0%***

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 declined $17, or 16.7%, since our April 25th, 2023 update. With shares trading at 17 times estimated earnings, this implies a small valuation headwind. Reverting to our target valuation would decrease annual returns by 1.2% through 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	35%	41%	40%	41%	37%	36%	79%	47%	45%	***47%***	***47%***

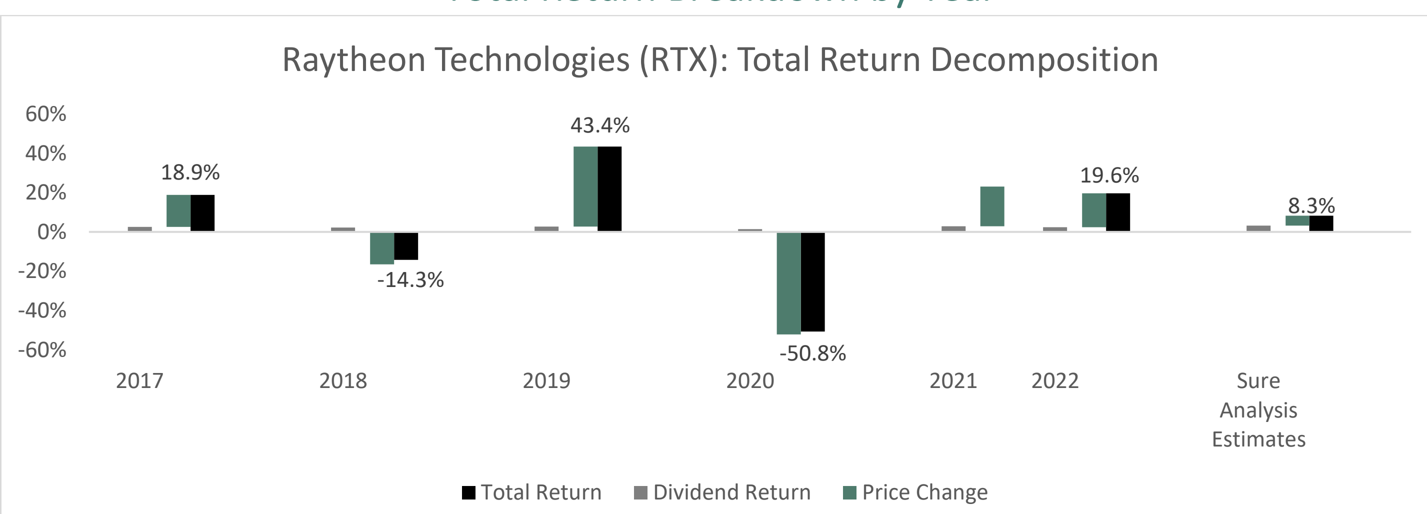
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting $4.90, $4.12, $4.74, and $5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept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

As of Q1 2023, Raytheon Technologies held $5.4 billion in cash, $45.9 billion in current assets, and $162.2 billion in total assets against $41.8 billion in current liabilities and $88.1 billion in total liabilities. Long-term debt stood at $32.7 billion.

Final Thoughts & Recommendation

We continue to be enthused on a number of fronts about Raytheon Technologies, including the storied histories of the companies, the resilient businesses, and the tremendous backlog. Following the double-digit decline after the earnings report, the valuation is much more attractive as well. The impact of the engine defect will need to be monitored in future quarters. We are forecasting an 8.3% annual total return through 2028, up from 4.4% previously. Our forecast stems from a 7% growth rate and a 2.8% dividend yield offset by the potential for a valuation headwind. We maintain our five-year price target of $112 and continue to rate shares as a hold due to projected results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	56,600	57,900	56,098	57,244	59,837	34,701	45,349	56,587	64,388	67,074
Gross Profit	16,132	17,002	15,667	15,773	15,636	7,236	10,751	8,531	12,491	13,668
Gross Margin	28.5%	29.4%	27.9%	27.6%	26.1%	20.9%	23.7%	15.1%	19.4%	20.4%
SG&A Exp.	6,364	6,172	5,886	5,958	6,429	2,864	3,711	5,540	5,224	5,663
D&A Exp.	1,735	1,820	1,863	1,962	2,140	1,896	2,708	4,156	4,557	4,108
Operating Profit	8,549	9,593	7,291	8,221	8,138	2,877	4,914	1,294	4,958	5,414
Op. Margin	15.1%	16.6%	13.0%	14.4%	13.6%	8.3%	10.8%	2.3%	7.7%	8.1%
Net Profit	5,721	6,220	7,608	5,055	4,552	5,269	5,537	(3,519)	3,864	5,197
Net Margin	10.1%	10.7%	13.6%	8.8%	7.6%	15.2%	12.2%	-6.2%	6.0%	7.7%
Free Cash Flow	4,586	5,134	4,294	1,793	3,237	4,455	6,664	1,639	4,749	4,393
Income Tax	1,999	2,244	2,111	1,697	2,843	1,098	421	575	786	700

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	90,594	91,206	87,484	89,706	96,920	134,211	139,615	162,153	161,404	158,864
Cash & Equivalents	4,619	5,229	7,075	7,157	8,985	6,152	4,937	8,802	7,832	6,220
Acc. Receivable	11,458	10,448	10,653	11,481	12,595	14,271	8,743	9,254	9,661	9,108
Inventories	10,330	7,642	8,135	8,704	9,881	10,083	9,047	9,411	9,178	10,617
Goodwill & Int.	43,689	42,976	42,904	42,743	43,793	74,536	61,082	94,824	92,952	90,663
Total Liabilities	57,264	58,502	58,518	60,241	65,368	93,492	95,289	88,269	86,705	84,650
Accounts Payable	6,965	6,250	6,875	7,483	9,579	11,080	7,816	8,639	8,751	9,896
Long-Term Debt	20,241	19,701	20,425	23,901	27,485	45,537	43,252	31,823	31,485	31,914
Total Equity	31,866	31,213	27,358	27,579	29,610	38,446	41,774	72,163	73,068	72,632
LTD/E Ratio	0.64	0.63	0.75	0.87	0.93	1.18	1.04	0.44	0.43	0.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%	2.4%	3.2%
Return on Equity	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%	5.3%	7.1%
ROIC	11.0%	11.7%	14.9%	9.8%	8.1%	7.3%	6.4%	-3.6%	3.6%	4.9%
Shares Out.	917	909	838	809	799	861	864	1,515	1,509	1,476
Revenue/Share	61.85	63.51	63.52	69.29	74.88	42.84	52.49	41.68	42.68	45.14
FCF/Share	5.01	5.63	4.86	2.17	4.05	5.50	7.71	1.21	3.15	2.96

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