Raytheon Technologies Corp. (RTX)

Updated October 24th, 2023, by Nathan Parsh

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$114 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/16/23
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	12/14/23
Dividend Yield:	3.0%	**5 Year Price Target**	$112	**Years Of Dividend Growth:**	29
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 $114 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 now has three segments: Collins Aerospace Systems, Pratt & Whitney, and Raytheon, which is composed of the former Raytheon Intelligence & Space and Raytheon Missiles & Defense segments.

On April 24th, 2023, Raytheon Technologies increased its quarterly dividend 7.3% to $0.59.

On October 2th, 2023, Raytheon Technologies announced third quarter results for the period ending September 30th, 2023. For the quarter, revenue declined 21% to $13.5 billion. Adjusting for the Pratt engine defect impact, sales increased 11.8% to $19 billion. Adjusted earnings-per-share of $1.25 compared unfavorably to $1.29 in the prior year, but this was $0.03 more than anticipated.

Raytheon Technologies reported that it found a manufacturing defect in some jet engines produced by the Pratt & Whitney segment during the last quarter. The Pratt powder metal defect was a sales charge of $5.4 billion in the third quarter, which reduced operating profit by $2.9 billion. This was in-line with prior guidance. Organic sales were higher by 12% for the period. For the quarter, results were up 17%, 18%, and 3% in the Collins Aerospace, Pratt & Whitney, Raytheon segments, respectively. Raytheon Technologies' backlog at the end of the quarter was a record $190 billion, compared to $185 billion in the second quarter of 2023, of which $115 billion was from commercial aerospace and $75 billion was from defense. The company's book-to-bill ratio was 1.19 for the period. The company also announced that it would be conducting a $10 billion accelerated share repurchase program almost immediately.

Raytheon Technologies updated its guidance for 2023, with the company now expecting sales of $68.5 billion to $67.5 billion. Adjusted earnings-per-share is now projected in a range of $4.98 to $5.02, compared to $4.95 to $5.05 and $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	***1,448***	***1,425***

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

[1] In millions.

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

Raytheon Technologies Corp. (RTX)

Updated October 24th, 2023, by Nathan Parsh

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. The company has 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	***15.6***	***16.0***
Avg. Yld.	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.1%	***3.0%***	***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 $77, or 8.2%, since our July 25th, 2023 update. With shares trading at 15.6 times estimated earnings, this implies a small valuation tailwind. Reverting to our target valuation would add 0.5% to annual returns 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%***

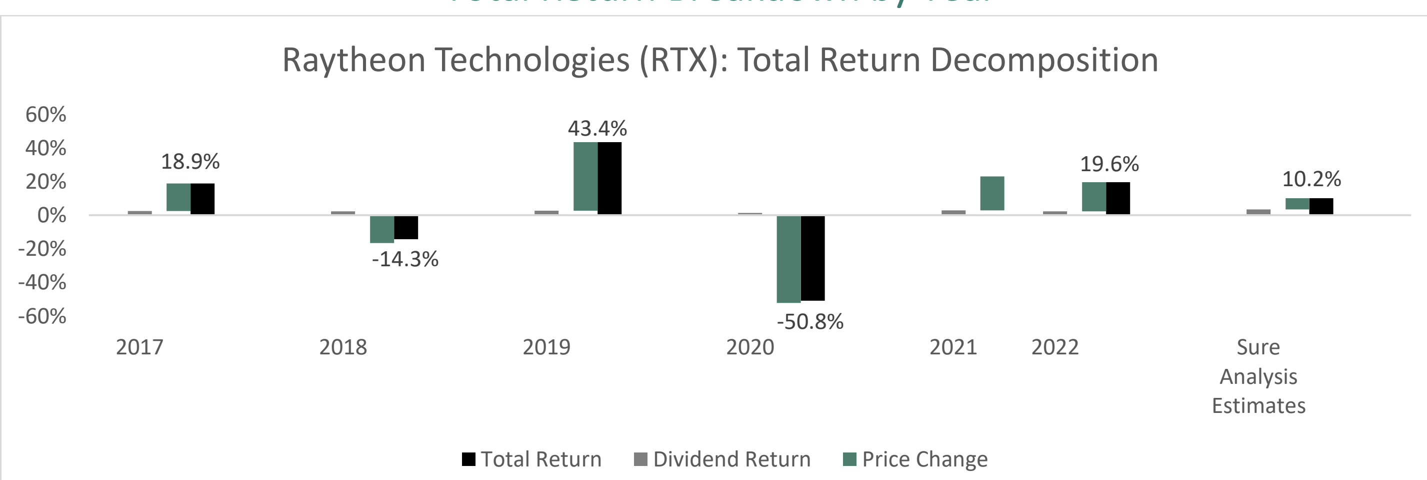
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting $4.90, $4.12, $4.74, and $5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept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

As of Q1 2023, Raytheon Technologies held $5.5 billion in cash, $46.5 billion in current assets, and $162.4 billion in total assets against $45 billion in current liabilities and $91.2 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. The impact of the Pratt engine defect has negatively impacted results, but the company has been accurate in the cost of the issue so far. This will need to be monitored in future quarters. Still, we are forecasting a 10.2% annual total return through 2028, up from 8.3% previously. Our forecast stems from a 7% growth rate, a 3.0% dividend yield, and a small benefit from multiple expansion. We maintain our five-year price target of $112, but we now rate shares of the company as a buy due to projected results.

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 October 24th, 2023, by Nathan Parsh

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.