Booz Allen Hamilton Holding Corp. (BAH)

Updated June 2nd, 2024 by Prakash Kolli

Key Metrics

Current Price:	$152	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$19.68B
Fair Value Price:	$119	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	06/13/24
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date[1]:**	06/28/24
Dividend Yield:	1.3%	**5 Year Price Target**	$174	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 U.S. Government. Technology consulting services include information technology, cybersecurity, cloud computing, and engineering services. The company basically provides staffing to U.S. Government clients. About 97% of revenue is derived from contracts where the U.S. Government is the end client. Revenue was 47% defense, 31% civil, 19% intelligence, and 3% global commercial in FY23. The company had $10.7B in revenue in FY24.

Booz reported results for Q4 FY 2024 and the full year on May 24th, 2024. For the quarter, revenue increased 13.9% to $2,771M from $2,433M and adjusted diluted earnings per share surged 31.7% to $1.33 from $1.01 on a year-over-year basis. Booz increased headcount to a record of 34,234 in the quarter from 31,295 in the prior year. Client staff headcount increased to 31,228 from 29,070 in the prior year. Greater head count drives revenue for the company. Contract type mix for the quarter varied as cost-reimbursable contracts was 56%, time-and-materials was 23%, and fixed-price was 21%.

For the year, revenue rose 15.2% to $10.7B from $9.3B, while adjusted diluted EPS hit $5.50 from $4.56.

Booz continues to win contracts and the backlog is ~$33.8B of which $4,822M was funded, $9,463M was unfunded, and $19,533M was priced options. The book-to-bill ratio was 0.82X in the quarter.

Booz raised guidance at 9.0% - 11.0% revenue growth and $5.80 to $6.05 adjusted diluted EPS.

Growth on a Per-Share Basis

Year[1]	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.52	$1.94	$1.67	$2.03	$2.91	$3.41	$4.37	$4.21	$4.56	$5.50	***$5.93***	***$8.71***
DPS	$0.43	$0.52	$0.60	$0.68	$0.76	$0.96	$1.24	$1.48	$1.88	$1.92	***$2.04***	***$3.00***
Shares[2]	148.0	148.9	143.5	140.0	138.7	136.3	132.6	132.2	130.8	130.8	***129.5***	***121.9***

The EPS history for Booz Allen Hamilton's short operating history as a public company has been volatile. But until several years ago the federal budget environment was unstable. However, Booz exhibited an upward trend in EPS since fiscal 2016 until 2021. We are expecting continued growth for the next several years because of growth in the backlog and U.S. federal government spending. We are now forecasting on average an 8% annual growth rate for EPS out to FY 2030. This will be driven by client demand for the company's services, around 1% decrease in share count annually, and tuck-in acquisitions. A downside risk is poor billing practices.

The company consistently repurchases shares each year but at the expense of more debt. Booz has reliably increased the dividend at a double-digit rate since FY 2012. However, we have lowered our forecast to an 8% average annual growth rate in dividend per share out to FY 2030 because the payout ratio has risen.

[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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.3	19.2	17.9	17.3	20.3	20.9	20.0	23.9	22.1	27.7	***25.7***	***20.0***
Avg. Yld.	1.9%	1.9%	1.7%	1.5%	1.7%	1.6%	1.8%	1.5%	1.9%	1.3%	***1.3%***	***1.7%***

Booz Allen Hamilton's stock price is up again since our last report on solid results. We again increased our fair value estimate to 20X, near the 10-year average. We set our FY 2025 earnings estimate to near the mid-point of initial guidance. Our fair value estimate is $119. Our 5-year price target is $174.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	28%	27%	36%	33%	26%	28%	28%	35%	41%	35%	***34%***	***34%***

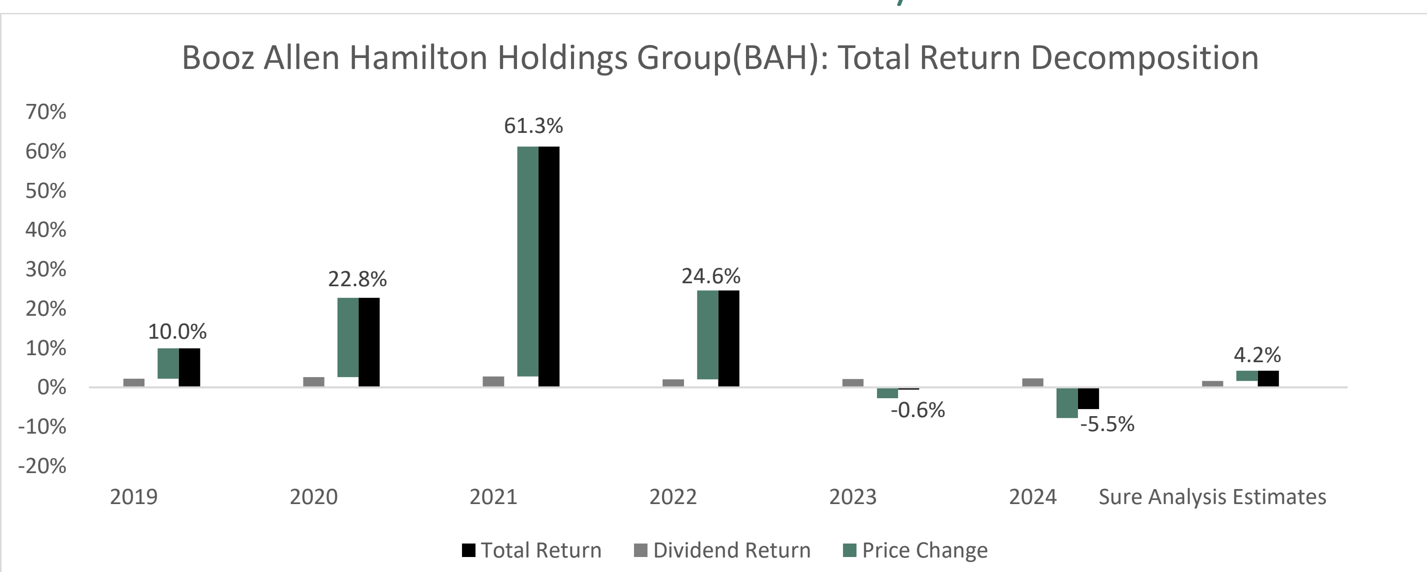
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the ~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 $61.9M in current long-term debt and $3,349.8M in long-term debt offset by $554.3M in cash and equivalents at end of the quarter. The leverage ratio is rising again and is now ~2.4X and interest coverage is ~6X.

Final Thoughts & Recommendation

At present we are forecasting on average a 4.2% annualized total return through FY 2030 from a dividend yield of 1.3%, 8.0% EPS growth, and (-4.9%) P/E multiple contraction. The passage of the debt ceiling deal and the settlement of past billing practices in a civil investigation removed overhangs on this equity. However, competition is strong, leverage is high and interest expense is trending up. At the current stock price, we have changed our rating to hold.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5275	5406	5406	5809	6168	6704	7464	7859	8364	9259
Gross Profit	2681	2826	2826	3131	3301	3604	4085	4201	4464	4954
Gross Margin	50.8%	52.3%	52.3%	53.9%	53.5%	53.8%	54.7%	53.5%	53.4%	53.5%
SG&A Exp.	2159	2320	2320	2565	2717	2933	3334	336	3633	4342
D&A Exp.	63	62	62	60	65	69	81	84	146	165
Operating Profit	459	445	445	506	520	602	669	754	685	447
Operating Margin	8.7%	8.2%	8.2%	8.7%	8.4%	9.0%	9.0%	9.6%	8.2%	4.8%
Net Profit	233	294	294	261	302	419	483	609	466	272
Net Margin	4.4%	5.4%	5.4%	4.5%	4.9%	6.2%	6.5%	7.7%	5.6%	2.9%
Free Cash Flow	274	183	183	328	291	405	423	631	657	527
Income Tax	153	85	85	165	128	97	97	54	137	97

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2864	3010	3010	3373	3607	3832	4794	5500	6026	6551
Cash & Equivalents	207	188	188	217	287	284	742	991	696	405
Accounts Receivable	318	309	309	341	395	495	475	375	465	552
Goodwill & Int. Ass.	1524	1583	1583	1843	1860	1868	1882	1888	2669	3024
Total Liabilities	2677	2602	2602	2800	3044	3156	3938	4428	4979	5559
Accounts Payable	216	247	247	269	340	418	433	372	540	598
Long-Term Debt	1613	1597	1597	1663	1819	1760	2186	2357	2800	2812
Shareholder's Equity	186	408	408	574	562	675	856	1071	1046	992
LTD/E Ratio	8.65	3.91	3.91	2.90	3.23	2.61	2.55	2.20	2.68	2.83

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.0%	10.0%	10.0%	8.2%	8.6%	11.3%	11.2%	11.2%	8.1%	4.3%
Return on Equity	130%	98.9%	98.9%	53.1%	53.1%	67.6%	63.0%	63.2%	44.1%	26.7%
ROIC	12.8%	15.5%	15.5%	12.3%	13.1%	17.4%	17.6%	17.6%	12.8%	7.1%
Shares Out.	148.7	149.1	148.0	148.9	143.5	140.0	138.7	138.7	134.9	132.7
Revenue/Share	35.08	36.11	36.11	38.66	41.74	46.83	52.85	56.66	62.02	69.76
FCF/Share	1.82	1.22	1.22	2.19	1.97	2.83	3.00	4.55	4.87	3.97

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