



Raytheon Technologies Corp. (RTX)

Updated October 22nd, 2024, by Nathan Parsh

Key Metrics

Current Price:	\$126	5 Year CAGR Estimate:	3.2%	Market Cap:	\$167 B
Fair Value Price:	\$94	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/15/24
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.7%	Dividend Payment Date:	12/12/24
Dividend Yield:	2.0%	5 Year Price Target	\$132	Years Of Dividend Growth:	30
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Sell

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 \$151 billion market cap and headquartered in Waltham, MA, is one the largest aerospace and defense companies in the world with ~\$79 billion in annual sales and a global team of 182,000 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 businesses.

On May 2nd, 2024, Raytheon Technologies increased its quarterly dividend 6.3% to \$0.63.

On October 22nd, 2024, Raytheon Technologies reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue improved 5.8% to \$20.1 billion, which was \$280 million more than expected. Adjusted earnings-per-share of \$1.45 compared to \$1.25 in the prior year and was \$0.11 ahead of estimates.

The prior quarters had seen significant impairments from the manufacturing defect in some jet engines produced by the Pratt & Whitney segment. That is largely behind the company now. Organic sales increased 8% for the period. For the quarter, organic revenue was higher by 14%, 6%, and 5% for the Pratt & Whitney, Collins Aerospace, and Raytheon segments, respectively. Raytheon Technologies' backlog at the end of the quarter was a new record \$221 billion, compared to \$206 billion in the second quarter of 2024, of which \$131 billion was from commercial aerospace and \$90 billion was from defense. The company's Q3 book-to-bill ratio was 1.80.

Raytheon Technologies provided updated guidance for 2024, with the company now expecting sales of \$79.25 billion to \$79.75 billion for the year, up from \$78.75 billion to \$79.5 billion and \$78 to \$79 billion previously. Adjusted earnings-per-share is now projected to be in a range of \$5.50 to \$5.58 for 2024, up from \$5.35 to \$5.45 and \$5.25 to \$5.40 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$2.73	\$4.27	\$4.78	\$5.06	\$5.54	\$7.77
DPS	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$2.16	\$2.01	\$2.16	\$2.36	\$2.52	\$3.53
Shares¹	909	838	809	799	861	864	1,515	1,509	1,476	1,362	1,346	1,310

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 3.3%, 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 raised its dividend for 30 years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	17.0	15.3	17.7	16.8	16.1	22.0	18.4	21.1	16.6	22.7	17.0
Avg. Yld.	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.1%	2.8%	2.0%	2.7%

Shares of Raytheon Technologies have increased another \$12, or 10.5%, since our July 27th, 2024 update. The stock has traded with an average P/E ratio of close to 18 times earnings over the past decade. We believe fair value to be closer to 17 times earnings, up from 16 previously. With shares trading at nearly 23 times estimated earnings, this implies a valuation headwind. Reverting to our target valuation would reduce annual returns by 5.7% through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35%	41%	40%	41%	37%	36%	79%	47%	45%	47%	45%	45%

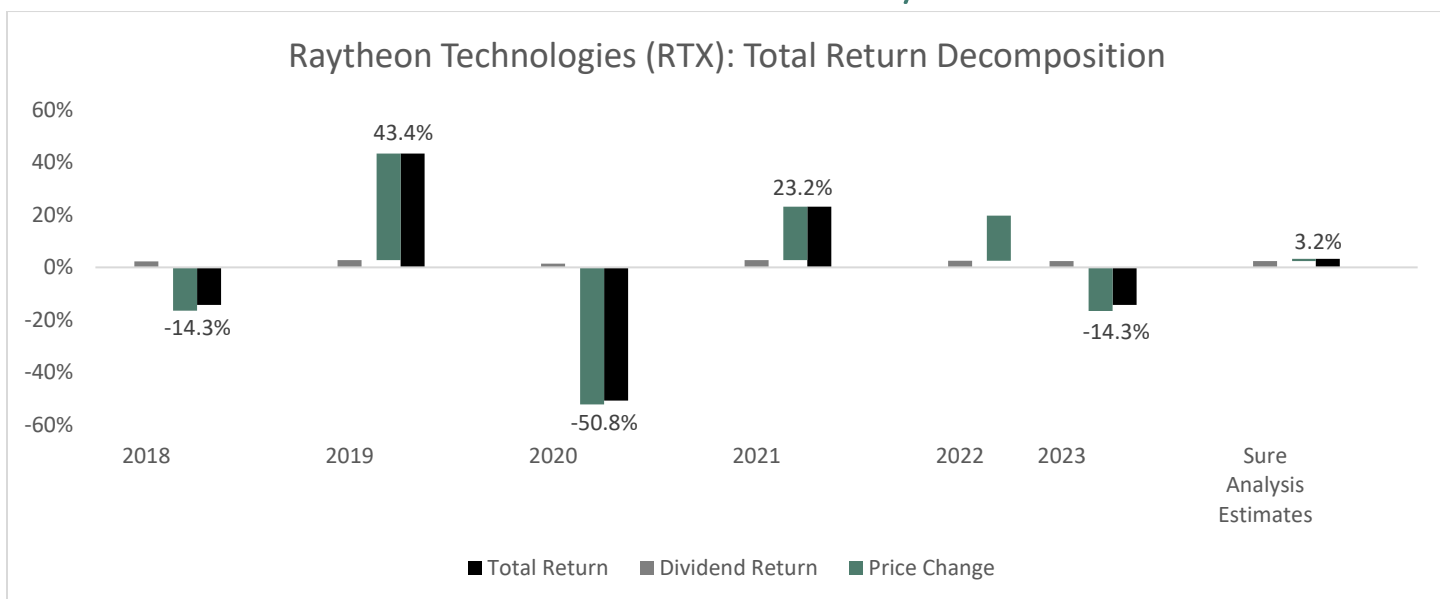
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting \$4.90, \$4.12, \$4.74, and \$5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept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

As of Q3 2024, Raytheon Technologies held \$6.7 billion in cash, \$51.8 billion in current assets, and \$164.8 billion in total assets against \$52.2 billion in current liabilities and \$102 billion in total liabilities. Long-term debt stood at \$42 billion.

Final Thoughts & Recommendation

We continue to be enthused on a number of fronts about Raytheon Technologies, including the storied histories of the combined companies, the resilient businesses, and the tremendous backlog. The impact of the Pratt engine defect negatively impacted results last year, but that appears to be behind the company. We are forecasting annual total returns of 3.2% through 2029, down from 4.8% previously. Our forecast stems from a 7% growth rate and a 2.0% dividend yield, offset by a mid-single-digit headwind from multiple compression. We have raised our five-year price target \$3 to \$132, but now rate shares of the company as a sell due to projected results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	57,900	56,098	57,244	59,837	34,701	45,349	56,587	64,388	67,074	68,920
Gross Profit	17,002	15,667	15,773	15,636	7,236	10,751	8,531	12,491	13,668	12,089
Gross Margin	29.4%	27.9%	27.6%	26.1%	20.9%	23.7%	15.1%	19.4%	20.4%	17.5%
SG&A Exp.	6,172	5,886	5,958	6,429	2,864	3,711	5,540	5,224	5,663	5,809
D&A Exp.	1,820	1,863	1,962	2,140	1,896	2,708	4,156	4,557	4,108	4,211
Operating Profit	9,593	7,291	8,221	8,138	2,877	4,914	1,294	4,958	5,414	3,561
Op. Margin	16.6%	13.0%	14.4%	13.6%	8.3%	10.8%	2.3%	7.7%	8.1%	5.2%
Net Profit	6,220	7,608	5,055	4,552	5,269	5,537	(3,519)	3,864	5,197	3,195
Net Margin	10.7%	13.6%	8.8%	7.6%	15.2%	12.2%	-6.2%	6.0%	7.7%	4.6%
Free Cash Flow	5,134	4,294	1,793	3,237	4,455	6,664	1,639	4,629	4,393	4,717
Income Tax	2,244	2,111	1,697	2,843	1,098	421	575	786	700	456

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	91206	87484	89706	96920	134211	139615	162153	161404	158864	161869
Cash & Equivalents	5,229	7,075	7,157	8,985	6,152	4,937	8,802	7,832	6,220	6,587
Acc. Receivable	10,448	10,653	11,481	12,595	14,271	8,743	9,254	9,661	9,108	10,838
Inventories	7,642	8,135	8,704	9,881	10,083	9,047	9,411	9,178	10,617	11,777
Goodwill & Int.	42,976	42,904	42,743	43,793	74,536	61,082	94,824	92,952	90,663	89,098
Total Liabilities	58,502	58,518	60,241	65,368	93,492	95,289	88,269	86,705	84,650	100,424
Accounts Payable	6,250	6,875	7,483	9,579	11,080	7,816	8,639	8,751	9,896	10,698
Long-Term Debt	19,701	20,425	23,901	27,485	45,537	43,252	31,823	31,485	31,914	43,827
Total Equity	31,213	27,358	27,579	29,610	38,446	41,774	72,163	73,068	72,632	59,798
LTD/E Ratio	0.63	0.75	0.87	0.93	1.18	1.04	0.44	0.43	0.44	0.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%	2.4%	3.2%	2.0%
Return on Equity	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%	5.3%	7.1%	4.8%
ROIC	11.7%	14.9%	9.8%	8.1%	7.3%	6.4%	-3.6%	3.6%	4.9%	3.0%
Shares Out.	909	838	809	799	861	864	1,515	1,509	1,476	1,362
Revenue/Share	63.51	63.52	69.29	74.88	42.84	52.49	41.68	42.68	45.14	48.01
FCF/Share	5.63	4.86	2.17	4.05	5.50	7.71	1.21	3.07	2.96	3.29

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

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