



Huntington Ingalls Industries Inc. (HII)

Updated May 7th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$233	5 Year CAGR Estimate:	4.3%	Market Cap:	\$9.14B
Fair Value Price:	\$201	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/30/25
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	06/13/25
Dividend Yield:	2.3%	5 Year Price Target	\$257	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Sector:	Industrials	Rating:	Hold

Overview & Current Events

Huntington Ingalls Industries was spun out of Northrop Grumman in a tax-free transaction on March 31, 2011. Shareholders received one share in the new company for every six shares of Northrop Grumman owned. Today, the company primarily builds nuclear and non-nuclear ships for the U.S. Navy. The company reports three business segments: Newport News Shipbuilding, Ingalls Shipbuilding, and Mission Technologies. Newport News builds nuclear powered aircraft carriers and submarines. Ingalls builds surface combatant ships, amphibious assault ships, and Coast Guard cutters. Mission Technologies provides fleet maintenance and modernization, IT support, nuclear management and operations, and unmanned systems. The company had approximately \$11.5B in revenue in 2024.

Huntington Ingalls reported Q1 2025 results on May 1st, 2025. Companywide revenue fell 2.5% to \$2,734M from \$2,805M and diluted earnings per share declined 2.1% to \$3.79 from \$3.87 on a year-over-year basis on lower sales in all three segments and offset by better operating margins. However, labor shortages and supply chain disruptions have been impacting the business. Companywide operating margins increased 19 bps to 6.3% from 6.1%.

Revenue from Ingalls Shipbuilding decreased 2.7% to \$637M from \$655M and operating margins fell 194 bps to 7.2% from 9.2% in the prior year driven by higher volumes in amphibious assault ships. Newport News revenue dropped 2.6% to \$1,396M from \$1,434M in comparable periods on higher *Columbia*-class but reduced aircraft carrier and service support volumes. Operating margins gained 37 bps to 6.1% from 5.7%. Revenue for Mission Technologies decreased 2.0% to \$735M from \$750M on lower volumes in C5ISR contracts, offset by cyber, electronic warfare & space gains. Operating margins increased 171 bps to 5.4% from 3.7%.

Huntington Ingalls' total backlog now stands at \$48.0B. Huntington Ingalls kept 2025 guidance for ship building revenue of \$8.9B - \$9.1B and margins of 5.5% to 6.5%.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$8.36	\$12.14	\$10.46	\$19.11	\$14.01	\$17.14	\$13.50	\$14.44	\$17.07	\$13.96	\$14.39	\$18.37
DPS	\$1.70	\$2.10	\$2.52	\$3.02	\$3.61	\$4.23	\$4.23	\$4.72	\$5.02	\$5.02	\$5.40	\$6.57
Shares	48.3	47.2	45.8	43.8	41.4	40.6	40.3	40.1	39.9	39.4	39.0	37.1

Huntington Ingalls' historical adjusted earnings per share has been volatile due to pension adjustments, goodwill, and divestments. But the Pentagon is spending heavily on aircraft carriers, nuclear submarines, and amphibious assault ships. The U.S. Navy has a goal of 381 manned and 134 unmanned ships by 2034. Huntington Ingalls should experience slow top and bottom line growth due to the sale of ships and submarines. However, labor shortages and supply chain disruptions have caused ship building schedules to fall behind by one to two years in some cases, impacting margins.

We are forecasting on average 5% annual growth in earnings per share out to 2030 on higher revenue and improving margins. The share count should trend lower as well. However, the firm must improve operational performance.

Huntington Ingalls has paid a growing dividend at a double-digit rate albeit off a low base since 2012. The dividend growth rate is slowing, and we now anticipate a 4% rate on average out to 2030. The forward payout ratio is about 38%, which leaves room for future increases and provides confidence about the safety.

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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.7	12.7	20.1	12.2	15.7	10.8	14.2	15.0	15.2	13.5	16.2	14.0
Avg. Yld.	1.4%	1.2%	1.1%	1.6%	1.6%	2.1%	2.5%	2.1%	1.9%	2.8%	2.3%	2.6%

Huntington Ingalls stock price is up significantly again since our last report on mixed results and optimism about ship building. We set our 2025 estimated earnings per share to match consensus. Our fair value multiple is 14X, which is near the trailing average for the past 10 years. Our current fair value estimate is \$201. Our 5-year price target is \$257.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	20%	17%	24%	16%	26%	25%	35%	33%	29%	38%	38%	36%

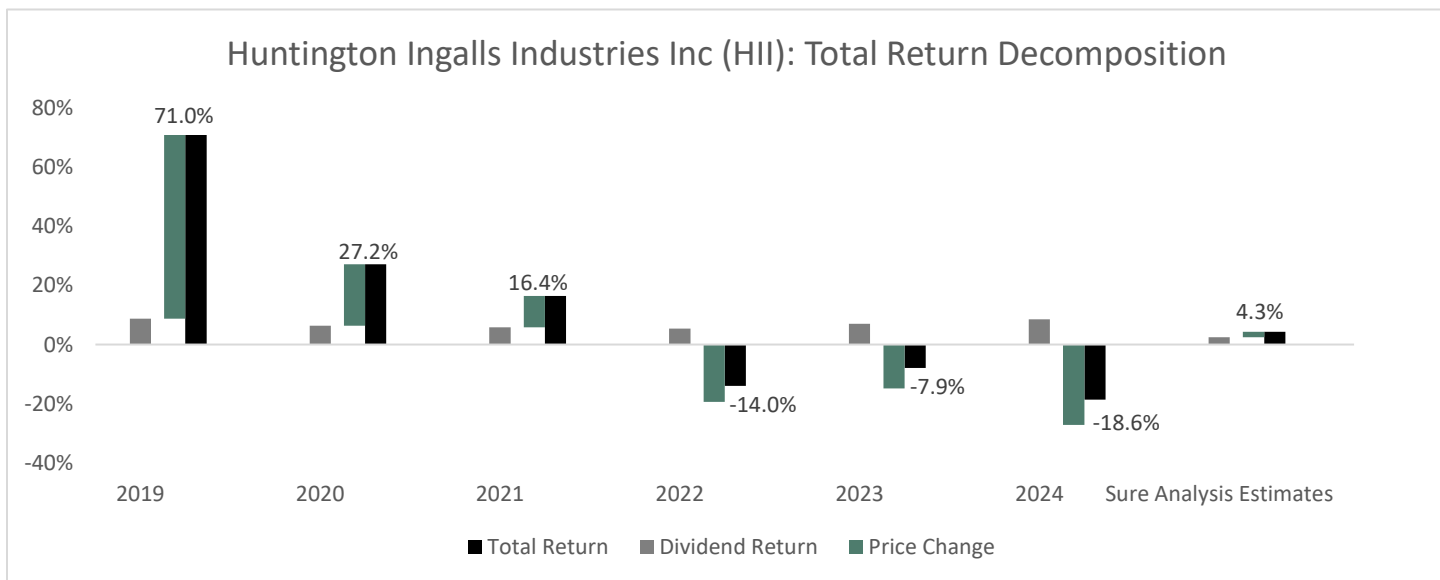
As a U.S. prime defense contractor, Huntington Ingalls has an entrenched position in its end markets. The company's main competitive advantage is the expertise it brings in designing and fabricating bespoke ships for the U.S. Navy. This expertise is not easy to recreate. Indeed, in the U.S., the company is the only provider of nuclear aircraft carriers, one of two providers of nuclear submarines and the only provider of amphibious assault ships. These platforms have decades long life cycles and Huntington Ingalls has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company does face risks in program cuts because of changes to future naval requirements, and federal budget cuts due to new administrations.

Current debt is \$503M and long-term debt is \$2,699M not including pension plan liabilities. Cash and equivalents on hand is \$167M. Debt rose because of the Alion Technologies and South Carolina production facility acquisitions.

Final Thoughts & Recommendation

At present we are forecasting a 4.3% annualized total return through 2030 from a dividend yield of 2.3%, 5% EPS growth, and -2.9% P/E multiple contraction. Currently, labor shortages, supply chain disruptions, and operational performance are impacting the firm. However, the firm may benefit from the administration's shipbuilding policies. Because of the share price gain, we have changed our rating to Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	7020	7068	7441	8176	8899	9361	9524	10676	11454	11535
Gross Profit	1503	1623	1628	1791	1531	1670	1368	1440	1646	1450
Gross Margin	21.4%	23.0%	21.9%	21.9%	17.2%	17.8%	14.4%	13.5%	14.4%	12.6%
SG&A Exp.	669	768	759	871	788	904	898	924	1022	973
D&A Exp.	180	186	205	203	227	247	293	358	347	326
Operating Profit	834	870	869	934	743	767	472	517	744	486
Operating Margin	11.9%	12.3%	11.7%	11.4%	8.3%	8.2%	5.0%	4.8%	6.5%	4.2%
Net Profit	404	573	479	836	549	696	544	579	681	550
Net Margin	5.8%	8.1%	6.4%	10.2%	6.2%	7.4%	5.7%	5.4%	5.9%	4.8%
Free Cash Flow	673	537	432	451	366	740	429	482	678	26
Income Tax	228	211	293	135	134	114	78	140	172	93

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6024	6352	6374	6383	7031	8157	10627	10857	11215	12141
Cash & Equivalents	894	720	701	240	75	512	627	467	430	831
Accounts Receivable	236	318	442	252	318	397	433	636	461	212
Inventories	285	210	183	128	136	137	161	183	186	208
Goodwill & Int. Ass.	1451	1782	1725	1755	1865	2129	3787	3637	3509	3400
Total Liabilities	4534	4699	4616	4867	5443	6256	7819	7368	7122	7475
Accounts Payable	317	316	375	562	497	460	603	642	554	598
Long-Term Debt	1273	1278	1279	1283	1286	1686	3298	2905	2445	3203
Shareholder's Equity	1490	1653	1758	1516	1588	1901	2808	3489	4093	4666
LTD/E Ratio	0.85	0.77	0.73	0.85	0.81	0.89	1.17	0.83	0.60	0.69

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	28.3%	9.2%	8.2%	13.1%	7.5%	9.3%	5.8%	5.4%	6.2%	4.7%
Return on Equity	13.9%	39.9%	35.4%	51.1%	28.1%	36.5%	23.1%	18.4%	18.0%	12.6%
ROIC	48.3	21.5%	19.4%	28.6%	16.1%	20.1%	11.2%	9.3%	10.5%	7.6%
Shares Out.	46.8	46.2	45.1	41.9	40.8	40.0	40.3	40.1	39.9	39.4
Revenue/Share	13.93	230.57	214.95	186.67	162.47	149.75	236.33	266.23	287.07	292.77
FCF/Share	28.3%	18.23	8.84	10.30	9.43	11.38	10.65	12.02	16.99	0.66

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

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