



Northrop Grumman Corporation (NOC)

Updated May 3rd, 2025 by Prakash Kolli

Key Metrics

Current Price:	\$491	5 Year CAGR Estimate:	4.0%	Market Cap:	\$70.73B
Fair Value Price:	\$411	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/24/25 ¹
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date:	06/14/25
Dividend Yield:	1.7%	5 Year Price Target	\$549	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Sector:	Industrials	Rating:	Hold

Overview & Current Events

Northrop Grumman Corporation is one of the five largest U.S. aerospace and defense contractors based on revenue. The company reports four business segments: Aeronautics Systems (aircraft and UAVs), Mission Systems (radars, sensors and systems for surveillance and targeting), Defense Systems (sustainment and modernization, directed energy, tactical weapons), and Space Systems (missile defense, space systems, hypersonics and space launchers). Northrop Grumman completed its acquisition of Orbital ATK in 2018 and divested IT Services in 2021. Northrop Grumman makes the B-2 Spirit, E-2D, E-8C, RQ-4 Global Hawk, MQ-4C Triton, MQ-8B/C Fire Scout, and B-21. The company also provides content on the F-35 and F/A-18. It won the contract for the GPI. The company had revenue of over \$41.0B in 2024.

Northrop Grumman reported results for Q1 FY 2025 on April 22nd, 2025. Companywide revenue declined 7% to \$9,468M from \$10,133M and diluted earnings per share fell 47% to \$3.32 from \$6.32 on a year-over-year basis on a loss provision for the B-21, lower volumes, and higher interest rates.

Revenue for Aeronautics Systems fell 8% to \$2,814M from \$3,044M in the prior year due to lower volumes in B-21, F-35, and restricted programs. Revenue for Defense Systems grew 4% to \$1,805M from \$1,737M in comparable quarters due to higher sales in the Sentinel and ammunition programs, offset by the SiAW program. Revenue for Mission Systems increased 6% to \$2,568M in the quarter from \$3,149 in the prior year due to higher volumes on radar, electronic warfare self-protection, and maritime programs, offset by restricted advanced microelectronics programs. Revenue for Space Systems decreased 18% to \$2,710M in Q4 2024 from \$3,098M in Q4 2023 due to the wind down of restricted space and NGI programs, and lower volumes on restricted, CRS, and the SDA programs.

The total backlog is a record ~\$92.8B at the end of the quarter of which \$39.9B is funded. The firm won \$10.8B in contract awards in the quarter including large ones for restricted programs and the F-35.

The company updated guidance to \$42.0B to \$42.5B in sales and \$24.95 to \$25.35 earnings per share in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$10.39	\$12.19	\$11.47	\$21.33	\$21.21	\$23.65	\$25.63	\$25.54	\$23.29	\$26.08	\$24.15	\$32.32
DPS	\$3.10	\$3.50	\$3.90	\$4.70	\$5.16	\$5.67	\$6.28	\$6.76	\$7.34	\$8.05	\$8.24	\$11.03
Shares²	192	181	176	175	170	168	161	156	152	147	144	131

Northrop Grumman's earnings have increased substantially over time driven by top line growth from contract wins, modernization and upgrades, services, and acquisitions. A significant reduction in the share count has helped drive earnings per share gains as well. Looking forward, the company will achieve both revenue and EPS growth through its involvement in the F-35, B-2, E2-2D, B-21, GPI, and space platforms. We previously reduced our estimate of average annual EPS growth to 6% out to 2030 due to slowing growth and higher costs. Northrop Grumman has paid a growing dividend for 21 years. However, we have reduced our expected growth rate to 6%, matching that of EPS.

¹ Estimated based on prior years. Northrop Grumman has not yet announced the next quarterly dividend.

² Share count in millions.

Disclosure: This analyst is long NOC.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.1	17.4	23.0	16.8	17.9	13.8	13.6	18.3	20.1	18.0	20.3	17.0
Avg. Yld.	1.9%	1.6%	1.5%	1.7%	1.7%	1.7%	1.8%	1.4%	1.6%	1.7%	1.7%	2.0%

Northrop Grumman's stock price is up slightly since our last report on mixed results and weak guidance. We updated our 2025 earnings estimate to the mid-point of guidance. The stock trades higher than our fair value multiple of 17X, slightly below the trailing 10-year average. Our current fair value is now \$411. Our current 5-year price target is now \$549.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	30%	29%	34%	25%	24%	24%	25%	26%	32%	31%	34%	34%

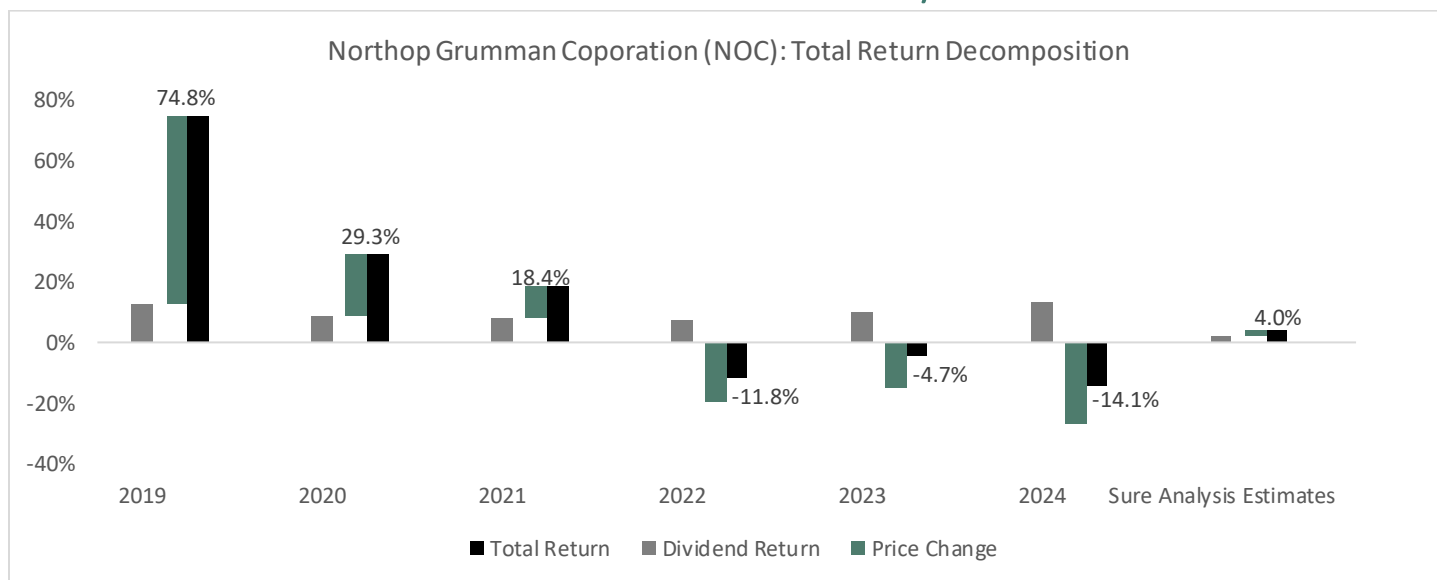
As a prime U.S. defense contractor, Northrop Grumman has an entrenched position in many of its end markets. Of note are the B-2, B-21, E-2D, E-8C, Global Hawk and Triton platforms. Few companies have the technical expertise and classified workforce to build these platforms. In addition, these platforms have decades long life cycles and Northrop Grumman has the 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 and changing administrations that could lead to revenue declines caused by new priorities to the defense budget.

Debt increased due to the Orbital ATK acquisition, which the company is paying down. Long-term debt is now at \$14,167M offset by \$1,685M in cash and equivalents. Interest coverage is 7.82X and the leverage ratio is 2.36X.

Final Thoughts & Recommendation

At present we are forecasting a 4.0% annualized total return through 2030 from a dividend yield of 1.7%, 6% EPS growth, and (-3.5%) P/E multiple contraction. The company's balance sheet is solid, and the credit rating was upgraded. Global conflicts are benefitting sales volumes, and the firm was selected to produce the Glide Phase Interceptor (GPI). However, manufacturing and material cost overages for the B-21 are affecting profitability. The dividend yield is low, but the dividend safety is high as illustrated by the modest payout ratio. We maintained our rating of this high-quality stock at a 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	23526	24706	26004	30095	33841	36799	35667	36602	39290	41033
Gross Profit	5642	5909	5930	6791	7259	7478	7268	7474	6551	8362
Gross Margin	24.0%	23.9%	22.8%	22.6%	21.5%	20.3%	20.4%	20.4%	16.7%	20.4%
SG&A Exp.	2566	2632	2712	3011	3290	3413	3597	3873	4014	3992
D&A Exp.	467	456	475	800	1018	1267	1239	1342	1338	1370
Operating Profit	3076	3277	3218	3780	3969	4065	3671	3601	2537	4370
Op. Margin	13.1%	13.3%	12.4%	12.6%	18.8%	11.0%	10.3%	9.8%	6.5%	10.6%
Net Profit	1990	2043	2869	3229	2248	3189	7005	4896	2056	4174
Net Margin	8.5%	8.3%	11.0%	10.7%	10.7%	8.7%	19.6%	13.4%	5.2%	10.2%
Free Cash Flow	1691	1893	1685	2578	3033	2885	2152	1466	2100	2621
Income Tax	800	638	1360	513	300	539	1933	940	290	842

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	24424	25614	35128	37653	41089	44469	42579	43755	46544	49359
Cash & Equivalents	2319	2541	11225	1579	2245	4907	3530	2577	3109	4353
Acc. Receivable	2841	3299	1054	1448	1326	1501	1467	1511	1454	1272
Inventories	807	816	398	654	783	759	811	978	1109	1455
Goodwill & Int.	12460	12450	12507	20044	19748	18301	18090	17900	17822	17766
Total Liabilities	18902	20355	27996	29466	32270	33890	29653	28443	31749	34069
Accounts Payable	1282	1554	1661	2182	2226	1806	2197	2587	2110	2599
Long-Term Debt	6386	7058	14399	13883	12770	14261	12777	12877	13786	14692
Total Equity	5522	5259	7132	8187	8819	10579	12930	15312	14795	15290
D/E Ratio	1.16	1.34	2.02	1.70	1.45	1.3	0.99	0.84	0.94	0.96

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.8%	8.2%	9.4%	8.9%	5.7%	7.5%	16.1%	11.3%	4.6%	8.7%
Return on Equity	31.2%	37.9%	46.3%	42.2%	26.4%	32.9%	59.6%	34.7%	13.7%	27.7%
ROIC	15.9%	16.9%	17.0%	14.8%	10.3%	13.7%	27.3%	18.2%	7.4%	14.3%
Shares Out.	181.3	175.1	174.1	170	167	168	161	156	152	147
Revenue/Share	122.79	136.88	148.09	172.37	199.06	219.56	221.67	235.23	258.49	278.57
FCF/Share	8.83	10.49	9.60	14.77	17.84	17.21	13.37	9.42	13.82	17.79

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

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