

Aerojet Rocketdyne(AJRD)

\$46.87 (As of 01/02/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Aerojet Rocketdyne has been taking notable strategic initiatives to reduce costs and serve its customers more efficiently. It is expected to win increased number of contracts related to SLS in the near future as the SLS is a top priority for the U.S. government. Its long-standing relationship with the U.S. defense giants should serve as a primary growth driver. However, of late, Aerojet Rocketdyne is facing increased competition from SpaceX and Blue Origin. It may lose a contract or more due to the intensifying competition. Its debt-to-equity ratio is higher than its industry and thus bears higher chance of insolvency. Therefore, investors may get attracted to other growth stocks in the same industry that bear low debt-to-equity ratio to avoid losses. In the past six months, shares of the company have underperformed the industry.

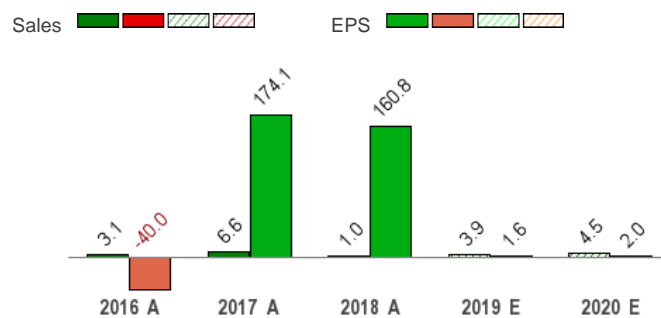
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.84 - \$30.11
20 Day Average Volume (sh)	363,485
Market Cap	\$3.7 B
YTD Price Change	2.7%
Beta	0.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.9%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	28.9
P/E F1	23.4
PEG F1	4.3
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,058 E
2019	492 A	485 A	482 A	511 E	1,969 E
2018	492 A	467 A	499 A	438 A	1,896 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.00 E
2019	\$0.44 A	\$0.50 A	\$0.35 A	\$0.55 E	\$1.96 E
2018	\$0.18 A	\$0.45 A	\$0.42 A	\$0.33 A	\$1.93 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Incorporated in 1915 and then reincorporated in 2014, this California-based Aerojet Rocketdyne Holdings, Inc. is a technology-based engineering and manufacturing company. The company develops and produces specialized propulsion systems as well as armament systems. Currently, it manufactures all four types of propulsion systems (liquid, solid, air-breathing, and electric) for space, defense, civil and commercial applications. Aerojet Rocketdyne is also a major supplier of propulsion products to top original equipment manufacturers (OEMs) such as Boeing, Lockheed Martin, Raytheon and United Launch Alliance (a joint venture between Lockheed Martin and Boeing). In fact, its products also bought by the U.S. Department of Defense (DoD), NASA and other U.S. government agencies.

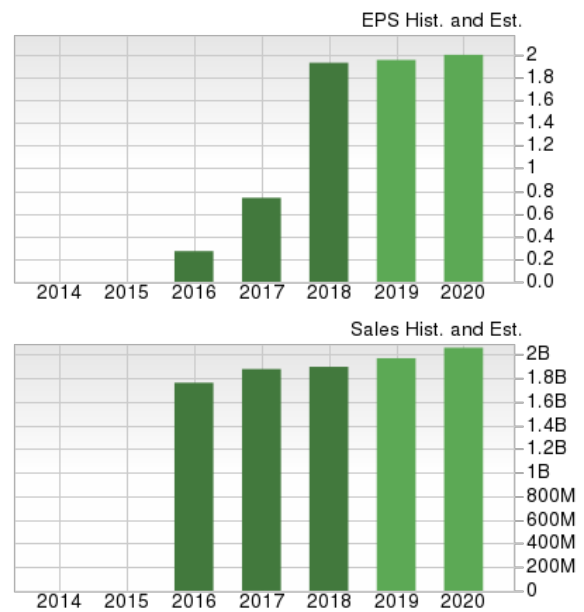
Apart from its expertise in aerospace and defense space, Aerojet Rocketdyne provides innovative solutions to its customers in the real estate markets. It currently owns 11,394 acres of land adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California east of Sacramento. The company lease approximately 0.5 million square feet of office space in Sacramento to various third parties, as of Dec 31, 2018.

Aerojet Rocketdyne operates through two business segments, namely, Aerospace & Defense and Real Estate.

The **Aerospace & Defense** segment deals with the company's Aerojet Rocketdyne subsidiary. Notably, this segment is engaged in technology-based designing, developing and manufacturing aerospace, and defense products and systems. In 2018, it generated sales of \$1,888.1 million, representing 99.6% of total business sales.

The **Real Estate** segment includes the activities of the company's Easton subsidiary, which focuses on the re-zoning, entitlement, sale, and leasing of its excess real estate assets. This division generated sales of \$7.8 million in 2018, representing 0.4% of total business sales.

As of Sep 30, 2019, Aerojet Rocketdyne's contract backlog (funded and unfunded) was \$4.5 billion. Its funded backlog, which includes only amounts for which funding has been authorized by a customer and a purchase order has been received, totaled \$2.1 billion.



Reasons To Buy:

- ▲ With an experience of supplying some of the world's most technologically advanced propulsion systems for over 70 years, Aerojet Rocketdyne serves a broad range of customers. The company's long-standing relationship with the U.S. defense giants should serve as a primary growth driver, given growing demand in the rocket and missile propulsion markets. Courtesy of this increasing demand, the company continues to expand its strong legacy propulsion franchises on the Standard Missile, Patriot Advanced Capability-3 (PAC-3), Terminal High Altitude Area Defense (THAAD) and Guided Multiple Launch Rocket System (GMLRS) missile propulsion systems. Solid contract wins for these programs bolstered the company's backlog by 22% year over year in the third quarter. Currently, management expects to recognize approximately 42% of its backlog or \$2 billion as sales from conversion over the next 12 months, an additional 25% in the following 12 months and 33% thereafter.
- ▲ Aerojet Rocketdyne has been taking notable strategic initiatives to reduce costs and serve its customers more efficiently. In this regard, it is imperative to mention its Competitive Improvement Program (CIP), Phase I of which was initiated in 2015, aimed at optimization of facilities and footprint reduction; product affordability; and reduced administrative and overhead costs. In April 2017, management approved Phase II of CIP. Under Phase II, the company targeted to further consolidate its Sacramento, CA, and Gainesville, VA sites, while centralizing and expanding its existing presence in Huntsville, AL.
- ▲ In 2018, Aerojet Rocketdyne completed facility construction of a new Advanced Manufacturing Facility in Huntsville, AL, to produce high-value non-energetic sub-assemblies for Standard Missile and THAAD; completing the transition of defense manufacturing out of the Sacramento facility. These production consolidation activities should help to reduce its costs and strengthen competitiveness. Once fully implemented, the CIP is expected to save \$230 million annually for Aerojet Rocketdyne. Such cost reductions should enable the company to improve its existing products and innovate new ones.
- ▲ Aerojet Rocketdyne's propulsion systems have been powering NASA launch vehicles and spacecraft since the inception of the U.S. space program. While the company's booster, upper stage and Orion vehicle propulsion systems are currently baselined on the new space launch system (SLS) vehicle, upper stage and booster engines are in development for future SLS variants. The company is expected to win increased number of contracts related to SLS in the near future as the SLS is a top priority for the U.S. government and the fiscal 2020 defense budget provisions for a total of \$14.1 billion investment in space capabilities. Currently, the company is engaged in critical research and development of the propulsion system that will power the Boeing XSP advance reusable launcher. Such efforts might boost Aerojet Rocketdyne's revenues generated from NASA.

Growing demand in propulsion market, cost reduction initiatives and positive budgetary provisions for SLS should bode well for Aerojet Rocketdyne

Reasons To Sell:

- ▼ Debt-to-equity is a liquidity ratio that indicates the amount of financial risk a company bear. A company with a higher debt-to-equity ratio shows deteriorating solvency for a company. This is because while debt brings with it the capacity to spend a little bit more, it also carries the burden of repayment with additional interest in the future. As a result, prudent investors try to avoid companies with large debt loads since they are more vulnerable during economic downturns.

Intensified competition and unfavorable valuation poses major risk for Aerojet Rocketdyne

Currently, Aerojet Rocketdyne's debt-to-equity ratio stands at 120.22% compared with its sub-industry's 70.58%. This substantiates the fact that the stock is leveraged when compared to its industry and thus bears higher chance of insolvency. Therefore, investors may get attracted to other growth stocks in the same industry that bear low debt-to-equity ratio to avoid losses.

- ▼ Aerojet Rocketdyne expects that approximately 24% of its future Aerospace and Defense segment environmental remediation costs might not be reimbursable. Although the company is in negotiations with the U.S. government to recover environmental expenditures, in excess of the reimbursement ceiling identified in the Northrop Agreement and Global Settlement, there can be no assurances of such a recovery.
 - ▼ Of late, the company is facing increasing competition from entrepreneurs such as SpaceX and Blue Origin, which are in the process of developing liquid fuel propulsion capabilities and primarily focused on the development of space propulsion systems for heavy lift launch vehicles. These new entrepreneurs are trying to compete primarily on price front, thus weighing on the existing cost paradigms and Aerojet Rocketdyne's manufacturing methodologies. Such intensifying competition may cause Aerojet Rocketdyne to lose a contract or more, which in turn should hurt its top-line performance. Evidently, shares of the company have risen only 1.2% compared with the industry's 12% growth in the past six months.
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Last Earnings Report

Aerojet Rocketdyne Q3 Earnings Miss, Revenues Down Y/Y

Aerojet Rocketdyne Holdings, Inc reported third-quarter 2019 adjusted earnings of 35 cents per share, which missed the Zacks Consensus Estimate of 46 cents by 23.9%. The bottom line also slumped 60.3% from 88 cents in the year-ago quarter.

Barring one-time adjustments, the company reported GAAP earnings of 39 cents per share, reflecting a decline of 52.4% from 82 cents in the prior-year quarter. This decrease can be attributed to declining sales and lower operating income in the quarter under review.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-4.67%
EPS Surprise	-23.91%
Quarterly EPS	0.35
Annual EPS (TTM)	1.62

Operational Performance

Aerojet Rocketdyne's third-quarter revenues of \$481.8 million declined 3.4% from the year-ago quarter's \$498.8 million. The top line also missed the Zacks Consensus Estimate of \$505 million by 4.6%.

Total backlog at the end of third-quarter 2019 was \$4.5 billion compared with \$4.1 billion as of December 31, 2018. Of this, funded backlog amounted to \$2.1 billion compared with \$1.8 billion at 2018 end.

Total operating expenses grew 9.3% year over year to \$426.7 million in the third quarter. Meanwhile, operating income of \$55.1 million plunged 49.1% from \$108.3 million a year ago.

Segmental Performance

Aerospace & Defense: Revenues at this segment declined 3.5% year over year at \$480 million. This can be primarily attributed to a decrease of \$27.9 million in space programs, particularly the RS-68 program.

Meanwhile, the segment's margin contracted 820 basis points (bps) to 13.5%.

Real Estate: The segment generated revenues of \$1.8 million compared with the year-ago quarter's \$1.6 million.

Financial Update

Aerojet Rocketdyne exited the third quarter with cash and cash equivalents of \$797 million, up from \$735.3 million as of Dec 31, 2018.

Long-term debt amounted to \$359.2 million as of Sep 30, 2019, up from \$352.3 million as of Dec 31, 2018.

Net cash provided by operating activities amounted to \$96.4 million as of Sep 30, 2019, compared with \$97 million in the year-ago period.

Free cash flow at the end of the first nine months of 2019 was \$80.1 million compared with \$76.1 million in the same period last year.

Valuation

Aerojet Rocketdyne's shares are up 1.2% in the past six months period and up 38.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 12% and 6.8% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 48% and 32.4%, respectively.

The S&P 500 index is up 10.3% in the past six months period and 30.2%, respectively, in the past year.

The stock is currently trading at 26.03X forward 12-month earnings, which compares to 20.16X for the Zacks sub-industry, 16.9X for the Zacks sector and 19.24X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38X and as low as 15.45X, with a 5-year median of 24.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 27.77X earnings value.

The table below shows summary valuation data for AJRD

Valuation Multiples - AJRD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.03	20.16	16.9	19.24
	5-Year High	38	20.63	21.56	19.34
	5-Year Low	15.45	14.51	14.28	15.17
	5-Year Median	24.52	17.81	16.85	17.44
P/S F12M	Current	1.87	1.81	1.2	3.46
	5-Year High	2.02	1.82	1.37	3.46
	5-Year Low	0.53	1.09	0.79	2.54
	5-Year Median	0.9	1.41	1.04	3
EV/EBITDA TTM	Current	10.69	12.81	12.55	12.01
	5-Year High	11.89	13.16	13.08	12.86
	5-Year Low	5.39	8.85	7.18	8.49
	5-Year Median	8.02	10.19	9.77	10.66

As of 01/02/2019

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

AAR Corp. (AIR)	Neutral
AeroVironment, Inc. (AVAV)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
Hexcel Corporation (HXL)	Neutral
Kratos Defense & Security Solutions, Inc. (KTOS)	Neutral
L3Harris Technologies Inc (LHX)	Neutral
Triumph Group, Inc. (TGI)	Neutral
Astronics Corporation (ATRO)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	AJRD Neutral	X Industry	S&P 500	ATRO Underperform	AVAV Neutral	KTOS Neutral
VGM Score	C	-	-	B	D	D
Market Cap	3.69 B	1.55 B	23.76 B	863.18 M	1.51 B	1.96 B
# of Analysts	2	3	13	2	3	5
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	C	-	-	C	D	F
Cash/Price	0.23	0.03	0.04	0.03	0.20	0.10
EV/EBITDA	10.81	13.56	13.97	10.52	21.07	43.60
PEG Ratio	4.30	2.22	2.02	1.82	1.55	4.91
Price/Book (P/B)	6.51	3.16	3.38	2.15	3.08	3.45
Price/Cash Flow (P/CF)	15.77	14.76	13.70	11.14	34.79	50.81
P/E (F1)	23.66	19.04	18.83	18.19	38.63	36.83
Price/Sales (P/S)	1.94	1.77	2.68	1.11	4.53	2.81
Earnings Yield	4.27%	5.25%	5.30%	5.51%	2.59%	2.71%
Debt/Equity	0.71	0.37	0.72	0.42	0.01	0.59
Cash Flow (\$/share)	2.97	2.52	6.94	2.51	1.81	0.36
Growth Score	B	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	41.45%	12.34%	10.56%	-19.77%	96.15%	21.38%
Proj. EPS Growth (F1/F0)	2.30%	9.43%	7.41%	77.65%	-6.32%	48.81%
Curr. Cash Flow Growth	70.48%	11.25%	14.83%	28.11%	37.03%	-27.55%
Hist. Cash Flow Growth (3-5 yrs)	4.56%	4.32%	9.00%	14.18%	14.56%	-7.79%
Current Ratio	1.54	2.24	1.23	2.96	10.18	2.84
Debt/Capital	41.43%	29.72%	42.92%	29.72%	1.38%	38.17%
Net Margin	7.34%	7.81%	11.08%	12.68%	11.60%	2.04%
Return on Equity	27.14%	9.39%	17.10%	7.98%	8.59%	4.54%
Sales/Assets	0.74	0.75	0.55	1.00	0.64	0.62
Proj. Sales Growth (F1/F0)	4.50%	4.03%	4.20%	4.30%	14.30%	16.08%
Momentum Score	F	-	-	A	A	F
Daily Price Chg	2.65%	0.73%	0.33%	0.04%	1.99%	2.25%
1 Week Price Chg	-1.29%	-0.54%	0.13%	-1.05%	-2.13%	-2.04%
4 Week Price Chg	5.99%	1.40%	3.31%	-4.51%	2.24%	7.13%
12 Week Price Chg	-1.76%	3.24%	9.70%	-3.39%	14.68%	-2.80%
52 Week Price Chg	43.95%	31.30%	30.28%	-2.07%	-5.97%	41.33%
20 Day Average Volume	363,485	99,657	1,603,615	243,613	159,472	720,231
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.31%	0.00%
(F1) EPS Est 12 week change	-4.77%	-0.88%	-0.57%	-16.18%	-1.21%	-2.41%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-22.86%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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