

Aerojet Rocketdyne(AJRD)

\$40.12 (As of 05/08/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

Aerojet ended first-quarter 2020 on dismal note, with earnings and revenues lagging the respective Zacks Consensus Estimate. The company's long-standing relationship with the U.S. defense giants should serve as a primary growth driver. Its current ratio being more than 1 indicates that this defense contractor is well capable of paying off its short-term obligations. In the past year, shares of the company have outperformed the industry. However, of late, Aerojet has been facing stiff competition from SpaceX and Blue Origin. A comparative analysis of the company's historical 12-month price/earnings ratio indicates a relatively gloomy picture that might be a cause for investors' concern. Tariff expansion on imports of steel and aluminum may deal a blow to the growth trajectory of defense players like Aerojet.

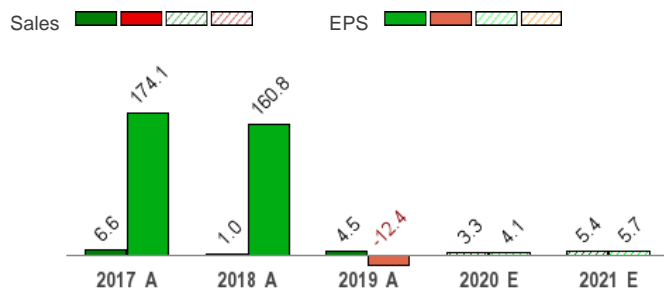
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.27 - \$34.01
20 Day Average Volume (sh)	594,066
Market Cap	\$3.3 B
YTD Price Change	-9.2%
Beta	0.44
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 14% (218 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-19.6%
Last Sales Surprise	-7.9%
EPS F1 Est- 4 week change	-9.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	27.3
P/E F1	22.8
PEG F1	4.1
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,159 E
2020	476 A	501 E	514 E	556 E	2,048 E
2019	492 A	485 A	482 A	523 A	1,982 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.86 E
2020	\$0.37 A	\$0.43 E	\$0.46 E	\$0.50 E	\$1.76 E
2019	\$0.44 A	\$0.50 A	\$0.35 A	\$0.30 A	\$1.69 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 05/08/2020. The reports text is as of 05/11/2020.

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.

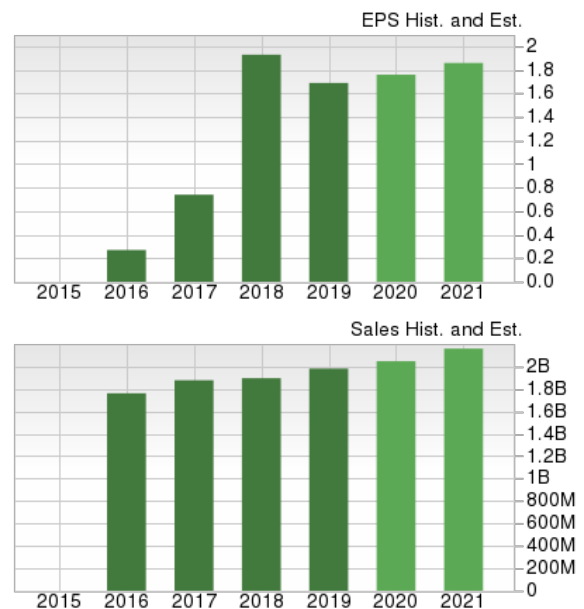
Apart from its expertise in aerospace and defense space, Aerojet Rocketdyne provides innovative solutions to its customers in the real estate markets. It currently owns 11,394 acres of land adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California east of Sacramento. The company leased office space in Sacramento to various third parties that generated \$7.5 million in revenue in 2019.

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 2019, it generated sales of \$1,974 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 \$7.5 million in 2019, representing 0.4% of total business sales.

As of Dec 31, 2019, Aerojet Rocketdyne's contract backlog (funded and unfunded) was \$5.4 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 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. Notably, as of Mar 31, 2020, Aerojet's backlog was \$5.2 billion, reflecting year-over-year growth of 37%, driven by multi-year contracts for THAAD and various Raytheon programs, mainly Standard Missile. To this end, the company expects to recognize approximately 38%, or \$2.0 billion, of the remaining performance obligations as sales over the next 12 months, an additional 24% in the following 12 months, and 38% thereafter.

Growing backlog, cost reduction initiatives and strong solvency position should bode well for Aerojet Rocketdyne

▲ Aerojet 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 reduce administrative and overhead costs. Under Phase II, approved in 2017, the company targeted to further consolidate its Sacramento, CA, and Gainesville, VA sites, while centralizing and expanding its existing presence in Huntsville, AL.

To this end, in 2019, Aerojet initiated recurring production activity at its new Advanced Manufacturing Facility in Huntsville, AL, wherein the company is now producing high-value non-energetic subassemblies for Standard Missile and THAAD. As of Dec 31, 2019, the company incurred restructuring and related costs of the Phase I and II programs of approximately \$197.0 million, down \$38.0 million compared with its initial cost estimate of \$235 million. Such initiatives will enable the company to upgrade its existing products and innovate new ones, and in turn, boost investors' confidence in this stock. Evidently, in the past year, Aerojet Rocketdyne's shares have gained 11.1% against the industry's 37.6% decline.

▲ Aerojet's cash and cash equivalents were \$906 million at the end of first quarter 2020, compared with \$936 million as of Dec 31, 2019. Its long-term debt was \$389 million as of Mar 31, 2020, while current debt stands at \$289 million. Although the company's cash and cash equivalent has declined sequentially, the long-term and current debt values of the company lie below its current cash reserve. This is good news in terms of the company's solvency level, considering the fact that the COVID-19 led uncertainty is causing cash crunch for companies as they face manufacturing and supply halt.

Moreover, the company's current ratio of 1.67 as of Mar 31, 2020, came in higher than the prior-quarter level of 1.63. Also, the ratio being more than 1 indicates that this defense contractor is well capable of paying off its short-term obligations. Further, Aerojet's debt-to-capital ratio of 0.52 as of Mar 31 declined sequentially from 0.54. Such favorable financial ratio also indicates the company's strong solvency position, at least in the near term.

Reasons To Sell:

- ▼ A comparative analysis of the company's historical 12-month Price/Earnings ratio indicates a relatively gloomy picture that might be a cause for investors' concern. Consequently, the stock currently has a trailing 12-month Price/Earnings ratio of 28.21. The level compares unfavorably when compared to its historical levels and lies above the five-year mid-point of 28.14. Also, the company's Price/Earnings ratio has been above the industry's Price/Earnings ratio of 11.34 in the past year.
- ▼ In recent times, the company has been 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's manufacturing methodologies. Such intensifying competition may cause Aerojet to lose a contract or more, which in turn might hurt its top-line performance.
- ▼ In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, stating that from Feb 8, steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concern by saying that such a tariff will raise cost and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, growth prospects for aerospace and defense equipment stocks like Aerojet seem bleak.

Intensified competition and unfavorable valuation poses major risk for Aerojet Rocketdyne

Last Earnings Report

Aerojet Rocketdyne Q1 Earnings Lag Estimates, Fall Y/Y

Aerojet Rocketdyne reported first-quarter 2020 earnings per share (EPS) of 37 cents, which missed the Zacks Consensus Estimate of 46 cents by 19.6%. The bottom line also declined 21.3% year over year from 47 cents reported in the year-ago quarter.

Operational Performance

The company's first-quarter revenues of \$476.1 million declined 3.2% from the year-ago quarter's \$491.7 million. Moreover, the top line lagged the Zacks Consensus Estimate of \$517 million by 7.9%. The decrease in net sales was primarily led by a decline in space program sales.

Aerojet Rocketdyne's backlog at the end of first-quarter 2020 totaled \$5.2 billion, lower than \$5.4 billion at the end of 2019. Of this, funded backlog amounted to \$3.3 billion compared with \$2.1 billion at 2019-end.

Total operating expenses decreased 2.2% to \$419 million in the first quarter. Meanwhile, operating income of \$57.1 million declined 9.8% from \$63.3 million a year ago.

Segmental Performance

Aerospace & Defense: Revenues at this segment declined 3.2% year over year to \$474.4 million from the previous year's \$490 million.

Real Estate: The segment generated revenues of \$1.7 million, which remained in line with the year-ago quarter's figure.

Financial Update

Aerojet Rocketdyne exited the first quarter with cash and cash equivalents of \$902.6 million, down from \$932.6 million as of Dec 31, 2019.

Long-term debt amounted to \$345.3 million, down from \$352.3 million as of Dec 31, 2019.

Operating cash outflow from continuing operations summed \$17.1 million as of Mar 31, 2020, compared with cash outflow of \$95.4 million in the year-ago period.

Free cash outflow at the end of the reported quarter was \$20.1 million compared with \$19.2 million a year ago.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-7.91%
EPS Surprise	-19.57%
Quarterly EPS	0.37
Annual EPS (TTM)	1.52

Recent News

On **Mar 13, 2020**, Aerojet Rocketdyne announced that its Board of Directors authorized and approved a new share repurchase program allowing the company to repurchase its outstanding common stock with an aggregate market value of up to \$100 million, from time to time, over a period of up to 18 months.

Valuation

Aerojet Rocketdyne's shares are down 9.2% in the year-to-date period and up 11.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 46.1% and 33.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 37.6% and 28.5%, respectively.

The S&P 500 index is down 8.3% in the year-to-date period and up 6.2% in the past year.

The stock is currently trading at 23.1X forward 12-month earnings, which compares to 20.3X for the Zacks sub-industry, 19.6X for the Zacks sector and 21.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.1X and as low as 15.5X, with a 5-year median of 24.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 24.4X 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	23.09	20.29	19.61	21.16
	5-Year High	37.11	20.29	20.94	21.16
	5-Year Low	15.45	12.99	14.17	15.19
	5-Year Median	24.13	17.1	17.06	17.44
P/S F12M	Current	1.56	0.76	1.05	3.3
	5-Year High	2.13	1.29	1.49	3.44
	5-Year Low	0.53	0.76	0.92	2.54
	5-Year Median	1.08	1.03	1.18	3.01
EV/EBITDA TTM	Current	9.93	6.95	10.09	10.75
	5-Year High	20.92	12.02	14.98	12.86
	5-Year Low	5.39	6.27	7.38	8.28
	5-Year Median	9.11	8.77	10.43	10.77

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AeroVironment Inc (AVAV)	Outperform	3
AAR Corp (AIR)	Neutral	3
Astronics Corporation (ATRO)	Neutral	3
CurtissWright Corporation (CW)	Neutral	3
Kratos DefenseSecurity Solutions Inc (KTOS)	Neutral	3
L3Harris Technologies Inc (LHX)	Neutral	3
Hexcel Corporation (HXL)	Underperform	5
Triumph Group Inc (TGI)	Underperform	5

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	AJRD	X Industry	S&P 500	ATRO	AVAV	KTOS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	A	F	D
Market Cap	3.26 B	1.05 B	20.19 B	269.56 M	1.47 B	1.85 B
# of Analysts	2	3	14	1	3	4
Dividend Yield	0.00%	0.00%	2.12%	0.00%	0.00%	0.00%
Value Score	F	-	-	B	D	D
Cash/Price	0.28	0.11	0.06	0.12	0.20	0.11
EV/EBITDA	8.80	7.16	11.95	3.96	20.60	27.33
PEG Ratio	4.21	3.55	2.60	NA	1.26	NA
Price/Book (P/B)	5.28	1.86	2.75	0.70	3.00	3.19
Price/Cash Flow (P/CF)	15.25	6.57	10.78	4.34	33.85	28.61
P/E (F1)	23.18	18.55	19.85	NA	31.53	43.97
Price/Sales (P/S)	1.66	0.66	2.03	0.37	4.59	2.54
Earnings Yield	4.24%	4.24%	4.83%	-30.56%	3.17%	2.26%
Debt/Equity	0.63	0.35	0.75	0.48	0.02	0.58
Cash Flow (\$/share)	2.72	2.02	7.01	2.02	1.81	0.60
Growth Score	D	-	-	A	F	D
Hist. EPS Growth (3-5 yrs)	37.62%	13.43%	10.87%	-20.14%	78.84%	34.33%
Proj. EPS Growth (F1/F0)	4.14%	-16.99%	-9.87%	-394.51%	9.79%	15.44%
Curr. Cash Flow Growth	-8.04%	9.60%	5.88%	-23.43%	37.03%	70.51%
Hist. Cash Flow Growth (3-5 yrs)	70.16%	4.37%	8.55%	-8.28%	14.56%	9.95%
Current Ratio	1.67	2.39	1.24	2.84	7.56	2.86
Debt/Capital	38.69%	31.14%	44.23%	32.59%	1.52%	37.72%
Net Margin	6.80%	5.34%	10.68%	-12.89%	9.15%	1.74%
Return on Equity	21.60%	8.64%	16.36%	3.26%	6.62%	4.39%
Sales/Assets	0.74	0.74	0.55	0.93	0.60	0.61
Proj. Sales Growth (F1/F0)	3.33%	0.00%	-2.26%	-31.59%	13.85%	5.44%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	3.36%	2.99%	2.40%	9.82%	2.01%	15.37%
1 Week Price Chg	-1.94%	4.42%	0.53%	10.53%	6.38%	3.65%
4 Week Price Chg	-4.64%	-0.77%	2.68%	-8.31%	3.85%	17.82%
12 Week Price Chg	-25.28%	-30.00%	-19.20%	-65.53%	-12.43%	-16.66%
52 Week Price Chg	9.45%	-30.34%	-8.44%	-77.89%	-6.59%	-3.09%
20 Day Average Volume	594,066	184,180	2,398,409	340,595	172,302	741,665
(F1) EPS Est 1 week change	-1.95%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.04%	-6.52%	-6.95%	-66.67%	0.00%	-4.82%
(F1) EPS Est 12 week change	-12.98%	-26.87%	-15.68%	-174.66%	3.19%	-32.48%
(Q1) EPS Est Mthly Chg	-8.27%	-12.30%	-13.12%	NA	0.00%	-5.88%

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	F
Growth Score	D
Momentum Score	D
VGM Score	F

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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