

Aerojet Rocketdyne(AJRD)

\$50.99 (As of 02/26/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

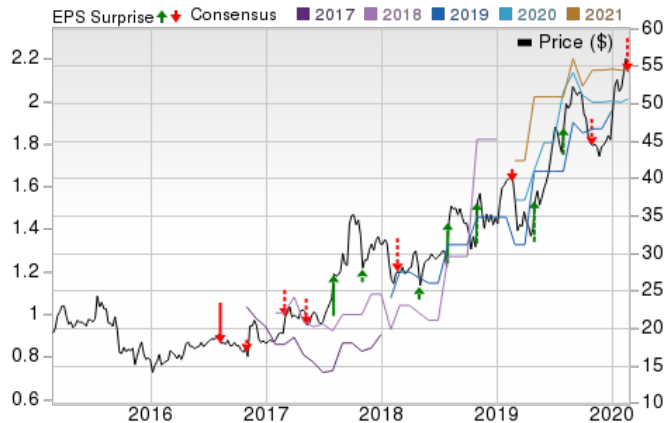
Growth: B

Momentum: F

Summary

Aerojet Rocketdyne ended the fourth quarter of 2019 with earnings missing the Zacks Consensus Estimate, while revenues beating the same. It 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. In the past year, shares of the company have outperformed the industry. However, of late, Aerojet Rocketdyne has been facing stiff competition from SpaceX and Blue Origin. It might lose a contract or more due to this 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.

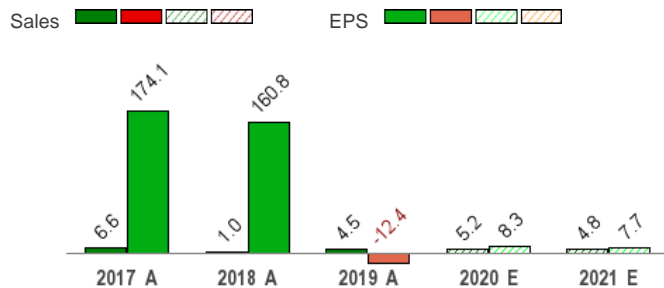
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.27 - \$30.11
20 Day Average Volume (sh)	482,388
Market Cap	\$4.0 B
YTD Price Change	11.7%
Beta	0.34
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 19% (206 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-34.8%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-5.2%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	32.1
P/E F1	27.9
PEG F1	5.1
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,186 E
2020	515 E	517 E	512 E	537 E	2,085 E
2019	492 A	485 A	482 A	523 A	1,982 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.97 E
2020	\$0.46 E	\$0.46 E	\$0.46 E	\$0.46 E	\$1.83 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 02/26/2020. The reports text is as of 02/27/2020.

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.

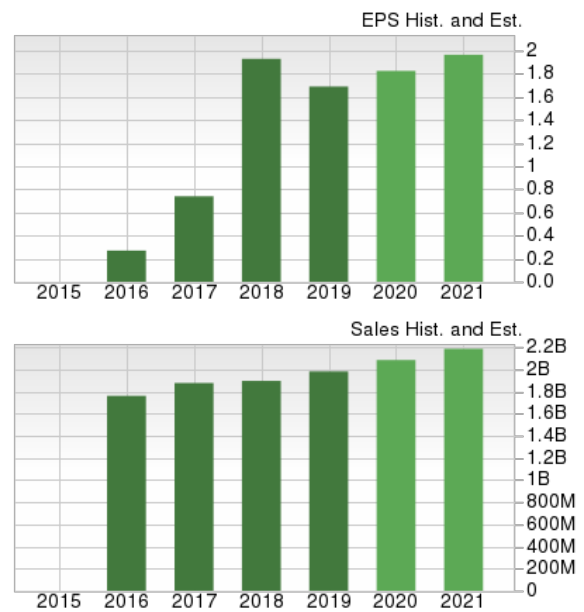
Apart from its expertise in aerospace and defense space, Aerojet Rocketdyne provides innovative solutions to its customers in the real estate markets. It currently owns 11,394 acres of land adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California east of Sacramento. The company leased 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 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 31.7% year over year, at the end of the fourth quarter. Currently, management expects to recognize approximately 36%, or \$2 billion, of the remaining performance obligations as sales over the next 12 months, an additional 23% in the following 12 months, and 41% 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. The company currently estimates to incur approximately \$197 million for the restructuring and related costs of the Phase I and II programs, which is down \$38 million compared with the initial cost projection of \$235 million.

Once fully implemented, the CIP is expected to save \$230 million annually for Aerojet Rocketdyne. Such cost reductions will enable the company to improve 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 37.8% compared with its industry's rise of 11.5%.
- ▲ 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 117.24% compared with its sub-industry's 68.29%. This substantiates the fact that the stock is leveraged when compared with its industry and thus, bears higher chance of insolvency. Therefore, investors might get attracted to other growth stocks in the same industry that bear low debt-to-equity ratio to avoid losses.

- ▼ 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 Rocketdyne's manufacturing methodologies. Such intensifying competition may cause Aerojet Rocketdyne 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 Rocketdyne seem bleak.
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Last Earnings Report

Aerojet Rocketdyne Q4 Earnings Down Y/Y, Sales Up

Aerojet Rocketdyne Holdings, Inc. reported fourth-quarter 2019 adjusted earnings of 27 cents per share, which declined 18.2% from 33 cents in the year-ago quarter.

The Zacks Consensus Estimate for earnings was pegged at 46 cents per share.

Including one-time adjustments, the company reported GAAP earnings of 30 cents per share, reflecting a rise of 3.4% from 29 cents in the prior-year quarter. This upside can be attributed to improved year-over-year sales in the quarter under review.

For 2019, the company reported earnings of \$1.56 per share, which came in 19.2% lower than the prior-year figure of \$1.93.

Operational Performance

Aerojet Rocketdyne's fourth-quarter sales of \$523 million increased 19.4% from the year-ago quarter figure of \$437.9 million. The top line also surpassed the Zacks Consensus Estimate of \$504 million by 3.8%.

For 2019, the company recorded sales of \$1.98 billion, which beat the Zacks Consensus Estimate of \$1.96 billion by 1%. The full-year top line improved 4.5% from \$1.90 billion recorded in the year-ago period.

Total backlog at the end of 2019 was \$5.4 billion compared with \$4.1 billion as of Dec 31, 2018. Of this, funded backlog amounted to \$2.1 billion compared with \$1.9 billion at 2018-end. The upside in backlog was driven by large multi-year awards on the Standard Missile and THAAD programs.

Total operating expenses grew 23.8% year over year to \$474.3 million in the fourth quarter. Operating income of \$48.7 million declined 11% from \$54.7 million a year ago.

Segmental Performance

Aerospace & Defense: Revenues at this segment improved 19.8% year over year to \$520.9 million. This can be primarily attributed to an increase in defense programs including the Patriot Advanced Capability-3, Guided Multiple Launch Rocket System and hypersonic booster programs. Also, an increase in space programs driven by growth in the RS-25 program contributed to this segment's sales growth.

Real Estate: The segment generated revenues of \$2.1 million compared with the year-ago quarter's \$3 million.

Financial Update

Aerojet Rocketdyne exited 2019 with cash and cash equivalents of \$932.6 million, up from \$735.3 million as of Dec 31, 2018.

Long-term debt amounted to \$352.3 million as of Dec 31, 2019, same as of Dec 31, 2018.

Net cash provided by operating activities amounted to \$261.2 million as of Dec 31, 2019, compared with \$252.7 million in the year-ago period.

Free cash flow at the end of 2019 was \$218.3 million compared with \$209.5 million at the end of 2018.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	3.71%
EPS Surprise	-34.78%
Quarterly EPS	0.30
Annual EPS (TTM)	1.59

Valuation

Aerojet Rocketdyne's shares are down 0.4% in the past six months period and up 37.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 1.4% but down 2.9% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.5% but down 0.3%, respectively.

The S&P 500 index is up 8.8% in the past six months period and 11.2%, respectively, in the past year.

The stock is currently trading at 26.5X forward 12-month earnings, which compares to 19.1X for the Zacks sub-industry, 19.8X for the Zacks sector and 17.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38X and as low as 15.5X, with a 5-year median of 24.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$54 price target reflects 28.1X 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	26.51	19.08	19.84	17.88
	5-Year High	38	20.63	21.54	19.34
	5-Year Low	15.45	14.51	14.26	15.18
	5-Year Median	24.52	18.01	16.87	17.47
P/S F12M	Current	1.93	1.75	1.28	3.29
	5-Year High	2.13	1.9	1.39	3.43
	5-Year Low	0.53	1.09	0.8	2.54
	5-Year Median	1.04	1.47	1.09	3
EV/EBITDA TTM	Current	12.87	12.31	17.14	12
	5-Year High	13.32	13.17	17.14	12.87
	5-Year Low	5.39	9.02	7.27	8.48
	5-Year Median	8.03	10.32	9.99	10.77

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 254)



Top Peers

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	AJRD Neutral	X Industry	S&P 500	ATRO Underperform	AVAV Neutral	KTOS Neutral
VGM Score	D	-	-	C	D	D
Market Cap	4.01 B	1.33 B	22.59 B	663.75 M	1.33 B	1.73 B
# of Analysts	2	3	13	2	3	4
Dividend Yield	0.00%	0.00%	1.92%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.22	0.05	0.04	0.03	0.19	0.08
EV/EBITDA	11.14	12.07	13.29	8.46	18.00	38.91
PEG Ratio	4.97	3.07	1.93	2.19	1.37	4.96
Price/Book (P/B)	6.96	3.01	3.03	1.65	2.72	3.00
Price/Cash Flow (P/CF)	18.75	13.31	12.33	8.56	30.68	26.84
P/E (F1)	27.33	21.94	17.79	21.94	34.14	37.22
Price/Sales (P/S)	2.03	1.73	2.47	0.86	4.00	2.41
Earnings Yield	3.59%	4.56%	5.60%	4.56%	2.93%	2.72%
Debt/Equity	0.68	0.33	0.70	0.42	0.01	0.58
Cash Flow (\$/share)	2.72	2.53	7.02	2.51	1.81	0.60
Growth Score	B	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	40.53%	14.73%	10.85%	-19.77%	96.15%	21.38%
Proj. EPS Growth (F1/F0)	7.99%	8.83%	6.79%	7.69%	-6.51%	27.94%
Curr. Cash Flow Growth	-8.04%	9.60%	6.53%	28.11%	37.03%	70.51%
Hist. Cash Flow Growth (3-5 yrs)	70.16%	4.66%	8.38%	14.18%	14.56%	-7.79%
Current Ratio	1.63	2.34	1.22	2.96	10.18	2.86
Debt/Capital	40.43%	29.72%	42.37%	29.72%	1.38%	37.72%
Net Margin	7.12%	6.73%	11.57%	6.73%	11.60%	1.74%
Return on Equity	24.42%	9.39%	16.80%	6.21%	8.59%	4.39%
Sales/Assets	0.76	0.75	0.54	1.00	0.64	0.61
Proj. Sales Growth (F1/F0)	5.20%	0.31%	4.06%	-5.35%	14.10%	8.21%
Momentum Score	F	-	-	C	A	D
Daily Price Chg	-0.29%	-0.74%	-0.98%	-5.41%	-6.53%	7.93%
1 Week Price Chg	-3.16%	-1.99%	-0.94%	-2.54%	0.33%	-0.83%
4 Week Price Chg	-3.43%	-11.18%	-6.27%	-21.27%	-17.02%	-13.86%
12 Week Price Chg	16.90%	-6.78%	-3.33%	-25.04%	-9.37%	-5.63%
52 Week Price Chg	37.37%	0.28%	6.81%	-40.21%	-30.95%	-5.82%
20 Day Average Volume	482,388	153,703	2,109,774	193,123	211,552	1,025,166
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.20%	-16.24%
(F1) EPS Est 4 week change	-5.19%	0.00%	-0.08%	-11.31%	-0.20%	-16.24%
(F1) EPS Est 12 week change	-5.19%	-0.95%	-0.22%	-36.23%	-1.41%	-19.34%
(Q1) EPS Est Mthly Chg	-7.64%	0.00%	-0.61%	NA	3.60%	-47.37%

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	D
Growth Score	B
Momentum Score	F
VGM Score	D

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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