

Lockheed Martin(LMT)

\$350.50 (As of 04/03/20)

Price Target (6-12 Months): **\$372.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Lockheed Martin, being the largest defense contractor in the world, enjoys strong demand for its high-end military equipment in domestic and international markets. Expansionary budgetary provisions made by the current U.S. administration will immensely boost this defense prime's business. It continues to be a strong cash generator, which helps it take important cash deployment decisions. In a year's time, Lockheed Martin has outperformed the industry. However, the company's higher debt-to-equity ratio shows that the stock is highly leveraged when compared with its industry. Lockheed Martin also faces intense global competition for its broad portfolio of products and services. Furthermore, forced cost reduction initiatives for the F-35 program might hamper its operating results.

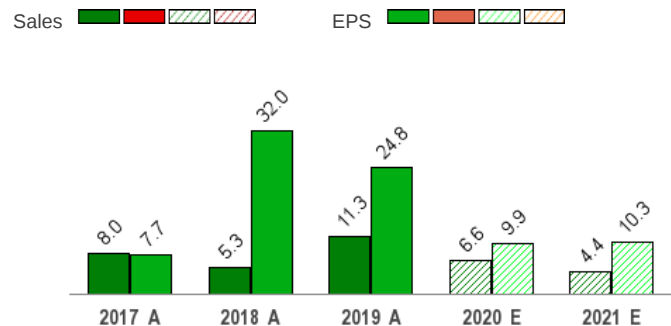
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$442.53 - \$266.11
20 Day Average Volume (sh)	2,763,975
Market Cap	\$98.7 B
YTD Price Change	-10.0%
Beta	0.96
Dividend / Div Yld	\$9.60 / 2.7%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 41% (150 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/21/2020
Earnings ESP	2.6%
P/E TTM	16.0
P/E F1	14.5
PEG F1	2.1
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,367 E	16,423 E	17,270 E	18,059 E	66,587 E
2020	15,227 E	15,536 E	16,237 E	16,832 E	63,781 E
2019	14,336 A	14,427 A	15,171 A	15,878 A	59,812 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.77 E	\$6.26 E	\$7.35 E	\$6.79 E	\$26.60 E
2020	\$5.75 E	\$5.83 E	\$6.28 E	\$6.29 E	\$24.12 E
2019	\$5.99 A	\$5.00 A	\$5.66 A	\$5.29 A	\$21.95 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 04/03/2020. The reports text is as of 04/06/2020.

Overview

Lockheed Martin Corporation is the largest defense contractor in the world. Its main areas of focus are in defense, space, intelligence, homeland security and information technology including cyber security. In 2018, 70% of the company's net sales were from the U.S. Government (including 60% from the Department of Defense (DoD), 28% were from international customers and 2% were from U.S. commercial and other customers. The company currently operates through the following four businesses: Aeronautics, Missiles and Fire Control (MFC), Rotary and Missions Systems (RMS) and Space Systems.

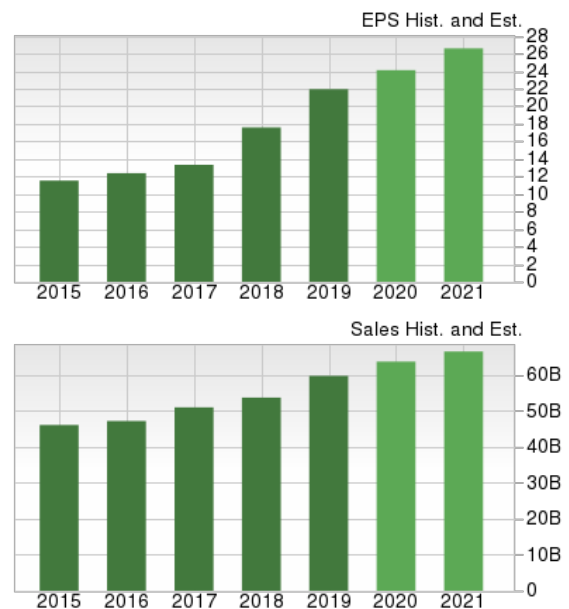
Aeronautics is engaged in the design, research and development, systems integration, production and support of advanced military aircraft and related technologies. This segment includes programs like F-35 Lightning II Joint Strike Fighter; C-130 Hercules; F-16 Fighting Falcon; F-22 Raptor; and C-5M Super Galaxy. It generated sales of \$23.69 billion in 2019, accounting for 39.6% of the total sales.

In the **MFC** business, headquartered in Dallas, some of its high-profile programs include the Terminal High Altitude Area Defense System, Joint Light Tactical Vehicle, PAC-3 Missiles, as well as logistics and other technical services from GTL. It generated sales of \$10.13 billion in 2019, constituting 16.9% of total sales.

In the **RMS** business, headquartered in Washington, DC, some of its high-profile programs include the Aegis Combat System, Littoral Combat Ship, MH-60 helicopter avionics, as well as military and commercial orders. It generated sales of \$15.12 billion in 2019, comprising 25.3% of the total sales.

Space Systems is engaged in the design, development, engineering, and production of commercial and military space systems. It generated sales of \$10.86 billion in 2019 or 18.2% of the total sales.

Lockheed Martin ended the fourth quarter (on Dec 31, 2019) with \$144 billion in backlog, up 4.8% from \$137.4 billion at the end of fourth-quarter 2018.



Reasons To Buy:

- ▲ **Solid Order Growth:** Keeping up with its trend of securing big contracts from the Pentagon, Lockheed Martin was successful in clinching several notable deals during the fourth quarter. These include a \$7-billion contract for providing the U.S. Air Force with F-22 Raptor sustainment, which provides an option for additional five-year ordering for comprehensive F-22 air vehicle sustainment. Its Aeronautics division also clinched a modification contract for the production and delivery of 14 F-35A aircraft from the 15th lot during the quarter, valued at \$831 million. The company's Sikorsky Aircraft unit also secured a deal for the production of Black Hawk helicopters, valued at \$556.2 million. Such significant contract wins bolster revenue growth prospects for Lockheed Martin over the long run, thereby enabling it to outperform the industry. Consequently, the company's total backlog increased \$6.6 billion during the fourth quarter and is now approximately \$144 billion, reaching a record level for the fifth consecutive year. Such developments may have boosted investor's confidence in the stock. In a year's time, shares of Lockheed Martin have gained 14.7% against the industry's decline of 33.6%.
- Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT program
- ▲ **F-35 - A Prime Program:** Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT programs. Notably, the F-35 program continues to be a key growth driver for the company, which recognized orders of approximately \$5 billion in the fourth quarter and added 374 production aircraft in backlog as of Dec 31, 2019. The company's Aeronautics unit witnessed 8.5% annual top-line growth in the fourth quarter, with the F-35 program being a prime contributor. Furthermore, in 2019, Lockheed Martin delivered 134 F-35 aircraft, exceeding its joint government and industry target of 131 aircraft, with approximately a 50% improvement from last year delivery figures. With the company consistently increasing production of F-35 jets, these delivery figures are expected to rise in the coming days, enabling Lockheed Martin to meet its target of achieving full-rate production for F-35 over the next few years.
- Moreover, production of the F-35 jets is expected to continue for many years ahead, given the U.S. government's current inventory target of 2,456 aircraft for the Air Force, Marine Corps and Navy. Consequently, we may expect Lockheed Martin to witness more order inflows for F-35, in coming days, which in turn should significantly bolster this defense contractor's top line.
- ▲ **Impressive Budgetary Attributes:** As part of the fiscal 2020 defense budget, \$718.3 billion is being kept as funding for the Pentagon, reflecting 5% growth over the fiscal 2019 budget. This increased spending provision highlights the U.S. government's decision to spend more on defense primes like Lockheed Martin. Notably, the budget has allotted \$11.2 billion for procurement of 78 F-35 Joint Strike Fighters. The financial plan also includes an investment plan of \$1.7 billion for the procurement of 37 AEGIS Ballistic Missile Defense and \$0.8 billion for 37 THAAD missiles. All these expansionary budgetary provisions will immensely boost this defense prime's business.
- ▲ **International Foray:** Apart from enjoying a strong forte in the domestic front, Lockheed Martin's products are also well acclaimed in the international market. In recent times, the company is witnessing increased demand for its THAAD missiles from the Kingdom of Saudi Arabia (KSA). Moreover, PAC-3 programs are undergoing production and sustainment activities in the KSA, UAE, Qatar, the Republic of Korea, Japan and Taiwan. The company's Missiles and Fire Control unit saw the highest overall growth in 2019, increasing 20% year over year. Deliveries of tactical and strike weapons, development work on new hypersonic and classified programs, and PAC-3 missile production were the strongest contributors. Further, its Space Systems unit was awarded a \$3.3-billion 10-year IDIQ contract for the combined orbital operations, logistics and resiliency, or COOLR program during the quarter, to support the nation's nuclear command and control system. Such developments should boost the company's international sales in the days ahead and aid long-term growth, with more and more nations strengthening their defense arsenals across the world.
- ▲ **Stable Cash Flow:** Lockheed Martin continues to be a strong cash generator, which helps it take important cash deployment decisions. During the fourth quarter, the company bought back 1.3 million of shares for \$490 million and paid out dividends worth \$675 million to its shareholders, reflecting an 8.5% increase year over year. Additionally, Lockheed Martin's cash from operations at the end of fourth-quarter 2019 amounted to \$7.31 billion compared with \$3.14 billion a year ago. This reflects solid operational improvements for the company. Lockheed Martin further increased its dividend by 9% and exceeded its share repurchase objective by \$200 million in the fourth quarter. This reflects the solid financial position that this jet-maker boasts, which enables it to hike its cash distribution to shareholders.
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Reasons To Sell:

▼ **Lower F-35s in Budget:** The Pentagon surprised many by cutting back on the number of F-35 stealth fighters in the fiscal 2020 budget from what it has asked Congress to pay for this year. Notably, the Pentagon has provisioned funding for 78 F-35 jets in the latest budget, down from the 84 fighter jets the Defense Department had projected for 2020. By lowering the F-35 count, the Pentagon has provisioned for buying eight new Boeing F-15EX jets. Such lowering the number of F-35 jets in the budget reflects a slight decline in its demand from the U.S. government, which might hurt Lockheed Martin's profitability in near-term.

F-35 program's cost issues and intense competition might hurt the company's growth trajectory.

▼ **A Highly Leveraged Stock:** Debt-to-equity is a liquidity ratio that indicates the amount of financial risk a company bears. 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.

Currently, Lockheed Martin's debt-to-equity ratio stands at 399.05% compared with its sector's level of 287.01%. This substantiates the fact that the stock is highly 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.

▼ **Cost Issues of F-35:** The F-35 program or the Joint Strike Fighter Program was conceived and developed by the U.S. and its allies to replace the ageing F-16s and other older fighter jets in their fleet. It is the largest as well as the costliest U.S. weapons system. As this program represents around 27% of the company's total sales, which are expected to go up in days ahead, any decision to cut spending or reduce planned orders could have an adverse impact on its financial results.

In fact, President Trump had earlier expressed his concerns for this program, claiming it to be an 'overly expensive' one. To this end, the company has already reduced the cost structure for this jet and now plans to reduce to \$80 million or less per plane by 2020. However, the F-35A, the most common version of the aircraft, is expected to cost \$82.4 million per unit in 2020, per a report by Reuters. Moreover, according to the Defense Department's latest annual program overview, the company must find ways to reduce the Pentagon's current \$1.1 trillion estimate to own and operate the F-35 jets. Such forced cost reduction initiatives might hamper the operating results of the company.

▼ **Rising Competition:** Lockheed Martin faces intense competition for its broad portfolio of products and services, both in the domestic front as well as the global market. Particularly, it faces competitive threat from various smaller competitors, particularly in some of its services businesses. Moreover, information technology procurements are increasingly focusing on price over other competitive factors.

Last Earnings Report

Lockheed Martin Beats on Q4 Earnings, Sales Top Estimates

Lockheed Martin reported fourth-quarter 2019 earnings of \$5.29 per share, which surpassed the Zacks Consensus Estimate of \$4.99 by 6%. The bottom line also improved 20.5% from \$4.39 registered in the year-ago quarter. This year-over-year upside can be attributed to solid sales and operating profit growth.

For 2019, earnings were \$21.95 per share, which surged 24.8% from \$17.59 in the year-ago quarter. Moreover, full-year earnings figure exceeded the Zacks Consensus Estimate of \$21.64 by 1.4%.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	3.94%
EPS Surprise	6.01%
Quarterly EPS	5.29
Annual EPS (TTM)	21.94

Operational Highlights

In the reported quarter, net sales amounted to \$15.88 billion, which outshined the Zacks Consensus Estimate of \$15.28 billion by 3.9%. The reported figure also increased 10.2% from \$14.41 billion recorded a year ago. Notably, all the segments registered year-over-year growth in sales during the fourth quarter.

The company recorded operating profit of \$1.64 billion compared with the year-ago quarter's figure of \$1.51 billion.

In 2019, total revenues increased 11.3% year over year to \$59.81 billion. Full-year revenues surpassed the Zacks Consensus Estimate of \$59.19 billion by 1%.

Backlog

Lockheed Martin ended the fourth quarter (on Dec 31, 2019) with \$144 billion in backlog, up 4.8% from \$137.4 billion at the end of fourth-quarter 2019. Of this, the Aeronautics segment accounted for \$55.6 billion, while Rotary and Mission Systems contributed \$34.3 billion. While Space Systems accounted for \$28.3 billion, Missiles and Fire Control segment contributed \$25.8 billion.

Segmental Performance

Aeronautics: Sales increased 8.5% year over year to \$6.38 billion, primarily driven by higher net sales from the F-35 program owing to increased volume on sustainment and development contracts. Also, higher sales from classified programs contributed to this segment's top-line growth.

While operating profit improved 8.5% year over year to \$679 million, operating margin remained flat at 10.6%.

Missiles and Fire Control: Quarterly sales increased 14.1% year over year to \$2.77 billion owing to higher sales from tactical and strike missiles programs. Also, higher sales from integrated air and missile defense programs along with increased sensors and global sustainment programs contributed to this unit's top-line growth.

While operating profit declined 7.45% year over year to \$348 million, operating margin contracted 290 bps to 12.6%.

Rotary and Mission Systems: Quarterly sales of \$3.89 billion improved 7.6% from the prior-year quarter on account of higher net sales for training and logistics (TLS) programs, increased sales for C6ISR programs and higher sales for integrated warfare systems and sensors (IWSS) programs.

Operating profit increased 22.1% year over year to \$353 million, while operating margin improved 110 bps to 9.1%.

Space Systems: Sales improved 14% year over year to about \$2.84 billion in the fourth quarter. The uptick was driven by higher net sales from government satellite programs, Global Positioning System (GPS) III as well as strategic and missile defense programs.

Operating profit also increased 16% to \$260 million, while operating margin remained improved 20 basis points to 9.2% in the reported quarter.

Financial Condition

Lockheed Martin's cash and cash equivalents totaled \$1.51 billion as of Dec 31, 2019, compared with \$0.77 billion at the end of 2018. Long-term debt was \$11.4 billion, lower than the prior year-end level of \$12.60 billion.

Cash from operations at the end of fourth-quarter 2019 amounted to \$7.31 billion compared with \$3.14 billion a year ago.

During the reported quarter, the company repurchased 1.3 million shares for \$490 million compared with 2.25 million shares for \$666 million a year ago.

Lockheed Martin paid out dividends worth \$675 million to its shareholders in the fourth-quarter compared with the year-ago figure of \$622 million.

Guidance

Lockheed Martin issued its financial guidance for full year 2020. The company expects to generate revenues of \$62.75-\$64.25 billion. On the bottom-line front, it expects to deliver earnings per share in the \$23.65- \$23.95 band.

The company also expects to generate cash from operations of more than \$7.6 billion during the year.

Recent News

On **Apr 1, 2020**, Lockheed Martin won a contract for manufacturing the 17th and 18th lots of Joint Air-to-Surface Standoff Missile (JASSM). Work related to the deal will be executed in Orlando, FL.

Valued at \$818.2 million, the contract was awarded by the Air Force Life Cycle Management Center, Eglin Air Force Base, FL. The contract is scheduled to be completed by Oct 31, 2024.

On **Mar 31, 2020**, Lockheed Martin's Aeronautics business division won a \$4.71-billion modification contract to procure 78 F-35 combat jets and associated aircraft red gear. This deal will cater to the U.S. Air Force, Marine Corps and Navy.

On **Mar 19, 2020**, Lockheed Martin's business unit, Space Systems, clinched a modification contract for submarine-launched ballistic missile (model) Trident II D5 production and deployed systems support. Work related to the deal is scheduled to be over by September 2024.

Valued at \$601.3 million, the contract was awarded by the Strategic Systems Programs, Washington DC. Majority of the task will be completed in Magna, UT and Sunnyvale, CA. The contract will cater to the U.S. Navy and government of the United Kingdom.

On **Feb 26, 2020**, Lockheed Martin received a direct commercial sale contract from the United Arab Emirates Air Force and Air Defence (AFAD) for expedited delivery of Sniper Advanced Targeting Pods (ATP), spares and upgrades. This contract marks the first integration of Sniper ATP on the Mirage aircraft. Deliveries of Sniper ATPs and spares will support the UAE AFAD's requirement to provide precision targeting capability for their existing Mirage 2000 fleet.

On **Feb 7, 2020**, Lockheed Martin signed a memorandum of understanding (MoU) with Navratna Defence PSU Bharat Electronics Limited (BEL) to explore industrial opportunities in the F-21 programme today at DefExpo 2020. Lockheed Martin is strengthening and growing its partnerships with the Indian industry to support the company's F-21 proposal for the Indian Air Force.

On **Feb 7, 2020**, Lockheed Martin delivered the second of two KC-130J Super Hercules aerial refuelers to representatives from France's Armée de l'Air on Feb. 4, at its Aeronautics facility in Marietta, Georgia.

Valuation

Lockheed Martin's shares are down 10% in the year-to-date period but up 14.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 32.8% and 36.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 33.6% while the sector is down 33.4%.

The S&P 500 index is down 22.7% in the past year-to-date period and down 14.3% in the past year.

The stock is currently trading at 14.2X of forward 12-month earnings, which compares to 16.X for the Zacks sub-industry, 15.3X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.4X and as low as 11.7X, with a 5-year median of 18.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$372 price target reflects 15X forward 12-month earnings.

The table below shows summary valuation data for LMT

Valuation Multiples - LMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.15	15.98	15.3	15.73
	5-Year High	25.36	22.54	21.54	19.34
	5-Year Low	11.69	14.52	14.26	15.18
	5-Year Median	18.1	17.14	16.9	17.44
P/S F12M	Current	1.54	1.08	0.89	2.72
	5-Year High	2.01	1.64	1.39	3.43
	5-Year Low	1.24	0.95	0.8	2.54
	5-Year Median	1.56	1.27	1.09	3
EV/EBITDA TTM	Current	11.29	12.79	10.66	9.2
	5-Year High	15.29	19.43	16.88	12.87
	5-Year Low	7.79	8.12	7.15	8.27
	5-Year Median	12.04	11.65	10.05	10.79

As of 04/03/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (150 out of 253)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
General Dynamics Corporation (GD)	Neutral
Huntington Ingalls Industries, Inc. (HII)	Neutral
Northrop Grumman Corporation (NOC)	Neutral
Safran SA (SAFRY)	Neutral
Textron Inc. (TXT)	Neutral
The Boeing Company (BA)	Underperform
Airbus Group (EADSY)	Underperform

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	LMT Neutral	X Industry	S&P 500	EADSY Underperform	GD Neutral	NOC Neutral
VGM Score	D	-	-	B	B	B
Market Cap	98.74 B	7.37 B	16.73 B	42.02 B	36.47 B	52.57 B
# of Analysts	8	5	13	1	8	6
Dividend Yield	2.74%	0.91%	2.53%	0.00%	3.25%	1.68%
Value Score	D	-	-	B	B	C
Cash/Price	0.02	0.05	0.06	0.26	0.02	0.04
EV/EBITDA	11.96	8.83	10.55	9.03	8.12	15.73
PEG Ratio	2.05	1.30	1.71	NA	1.30	NA
Price/Book (P/B)	31.18	2.68	2.28	6.26	2.68	5.96
Price/Cash Flow (P/CF)	13.33	8.83	8.96	5.80	8.44	11.37
P/E (F1)	14.53	13.60	14.34	NA	10.21	13.62
Price/Sales (P/S)	1.65	0.83	1.78	0.53	0.93	1.55
Earnings Yield	6.88%	6.69%	6.84%	-6.30%	9.79%	7.34%
Debt/Equity	3.60	0.82	0.70	2.62	0.66	1.60
Cash Flow (\$/share)	26.30	2.33	7.01	2.33	14.89	27.58
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	16.29%	14.14%	10.95%	6.43%	7.05%	23.28%
Proj. EPS Growth (F1/F0)	9.89%	11.99%	1.08%	-166.41%	2.75%	8.59%
Curr. Cash Flow Growth	18.08%	4.55%	5.92%	11.92%	3.16%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	9.70%	6.45%	8.55%	5.74%	6.36%	14.43%
Current Ratio	1.22	1.22	1.24	0.91	1.18	1.13
Debt/Capital	78.24%	47.20%	42.29%	72.37%	39.89%	61.48%
Net Margin	10.42%	6.01%	11.69%	-1.88%	8.85%	6.64%
Return on Equity	198.95%	16.94%	16.74%	51.85%	26.70%	39.51%
Sales/Assets	1.24	0.84	0.54	0.61	0.81	0.84
Proj. Sales Growth (F1/F0)	6.64%	1.17%	1.56%	-21.68%	1.32%	5.29%
Momentum Score	D	-	-	D	F	D
Daily Price Chg	-0.98%	-1.36%	-1.59%	-3.23%	-1.75%	-0.22%
1 Week Price Chg	19.63%	19.68%	12.26%	18.13%	14.11%	9.90%
4 Week Price Chg	-8.89%	-28.03%	-22.86%	-54.59%	-23.07%	-4.32%
12 Week Price Chg	-15.53%	-39.03%	-30.01%	-64.12%	-30.80%	-15.78%
52 Week Price Chg	16.96%	-19.64%	-23.87%	-59.17%	-25.71%	15.72%
20 Day Average Volume	2,763,975	1,622,820	4,256,776	1,622,085	2,926,132	1,649,249
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	-1.01%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.14%	-4.29%	-140.48%	-3.29%	-0.12%
(F1) EPS Est 12 week change	-0.57%	-5.02%	-5.40%	-140.48%	-4.67%	0.11%
(Q1) EPS Est Mthly Chg	0.09%	-0.29%	-5.90%	NA	-5.80%	-0.18%

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	C
Momentum Score	D
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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