ZACKS | Our Research. Your Success.

Mar 04, 2020

Textron Inc. (TXT)

$40.50 (As of 03/03/20)

Price Target (6-12 Months): **$43.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/02/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: B	**3-Hold** VGM:A Momentum: C

Summary

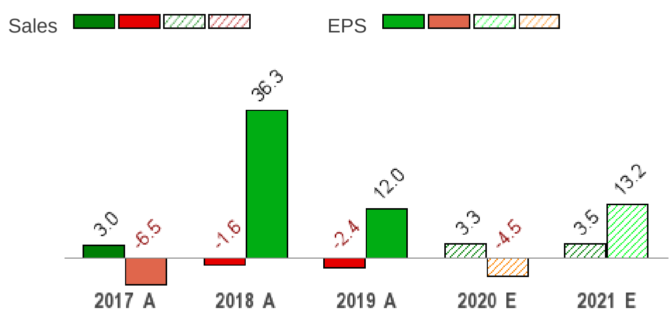
Textron has been innovating products to capture more shares in the market place. It continues to witness notable order inflows, which in turn should boost its revenue growth along with expanding global footprint, moving ahead. As the current U.S. administration is in favor of investing heavily on the nation's defense, it's a golden era for the U.S. defense majors like Textron. However, Textron operates in a highly competitive market, which makes it necessary for the company to keep upgrading its technology to remain competitive in the market, thereby necessitating heavy research and development expenditure. Furthermore, the certification procedure for its Citation Longitude was delayed by 18 months, which has led to a rise in overall costs. Its shares have also underperformed the industry in the past twelve months.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$58.00 - $38.41**
20 Day Average Volume (sh)	**1,715,216**
Market Cap	**$9.2 B**
YTD Price Change	**-9.2%**
Beta	**1.70**
Dividend / Div Yld	**$0.08 / 0.2%**
Industry	**Aerospace - Defense**
Zacks Industry Rank	**Bottom 30% (179 out of 255)**
Last EPS Surprise	**2.8%**
Last Sales Surprise	**4.6%**
EPS F1 Est- 4 week change	**0.7%**
Expected Report Date	**04/15/2020**
Earnings ESP	**3.3%**
P/E TTM	**10.8**
P/E F1	**11.3**
PEG F1	**0.9**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					14,577 E
2020	3,075 E	3,356 E	3,620 E	4,030 E	14,081 E
2019	3,109 A	3,227 A	3,259 A	4,035 A	13,630 A

EPS Estimates

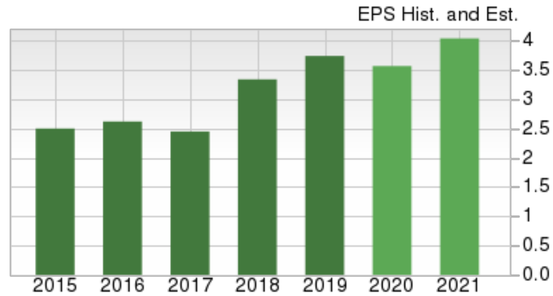
	Q1	Q2	Q3	Q4	Annual*
2021					$4.04 E
2020	$0.53 E	$0.80 E	$0.99 E	$1.28 E	$3.57 E
2019	$0.76 A	$0.93 A	$0.95 A	$1.11 A	$3.74 A

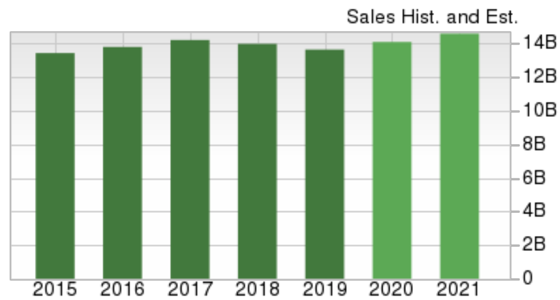
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

Textron Inc., incorporated in 1923, is a global multi-industry company that manufactures aircraft, automotive engine components and industrial tools. It also offers solutions and services for aircraft, fastening systems, and industrial products and components. Its products include commercial and military helicopters, light- and mid-size business jets, plastic fuel tanks, automotive trim products, golf carts and utility vehicles, turf-car equipment, industrial pumps and gears, engineered fastening systems and solutions, and other industrial products. It is also a commercial finance company in select markets. Textron is known globally for its most recognizable and valuable brand names, such as Bell Helicopter, Cessna Aircraft Company, Jacobsen, Kautex, E-Z-GO and Greenlee.





Textron operates through five segments – Bell, Textron Systems, Textron Aviation, Industrial and Finance.

The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2019 were $3,254 million, representing 23.9% of the top line.

The **Textron Systems** unit is a provider of integrated fastening systems solutions, which include fasteners, engineered assemblies and automation equipment. Segment revenues in 2019 were $1,325 million, contributing 9.7% to the top line.

Textron Aviation's principal markets are general aviation aircraft, business jets and commercial transportation. Segment revenues in 2019 were $5,187 million, contributing 38% to the top line.

The **Industrial** segment manufactures and sells miscellaneous industrial products, such as golf carts, off- road utility vehicles, plastic fuel systems, and industrial pumps and gears. Segment revenues in 2019 were $3,798 million, accounting for 27.9% of the top line.

Textron Financial Corporation (TFC) is a commercial finance business with operations in aircraft finance, asset-based lending and structured finance. Segment revenues in 2019 were $66 million, constituting 0.5% of the top line.

Reasons To Buy:

> Textron's solid order growth along with new product launch will improve its growth trajectory.

- Textron continues to witness notable order inflows, which in turn should boost its revenue growth moving ahead. In the fourth quarter, Czech Republic signed a Letter of Offer and Acceptance for purchasing a mixed fleet of Textron's AH-1Z AND UH-1Y helicopters, manufactured by its Bell segment. Moreover, its subsidiary, Airborne Tactical Advantage Company, secured a deal under the U.S. Air Force's Combat Air Forces (CAF) Contracted Air Support (CAS) program. Per the deal terms, it will deliver full-service commercial Adversary Air (ADAIR) and Contracted Close Air Support (CCAS) sorties with ATAC's F1 Mirage and L-39 Albatros fighter aircraft, and Valkyrie's A-27 Tucano trainer aircraft. These order flows not only strengthen Textron's revenue generating capacity but also expands its footprint globally, courtesy of solid demand for its products outside the domestic market.

  Also, Textron's Bell segment delivered first 12 of its Bell 505 helicopters to Horizon International Flight Academy, per an agreement signed in November at the Dubai Air Show. With these deliveries along with that of its 407 and 429 models, the company's Bell revenues grew 16% on a year-over-year basis. Such contract wins eventually translating into successful deliveries bolster the company's revenue growth. Looking ahead, Textron expects a ramp up of its commercial deliveries, which should further boost its top line.

- Textron has been innovating new products to capture more shares in the market place. In this regard, it is imperative to mention that the company's V-280 tiltrotor delivered performance milestones beyond expectations in 2019. It achieved a cruising speed of more than 300 knots and executed numerous, consecutive multi-sortie days of flight operations. The V-280 tiltrotor also delivered low-speed agility to meet the Army's Level 1 Handling Qualities requirements.

  Meanwhile, Textron's Citation Longitude secured Federal Aviation Administration type certification for the Cessna Citation Longitude in September 2019 and made 13 aircraft deliveries in the fourth quarter. The company is also engaged in the advanced development of its new high-wing, two new turboprop programs, the Cessna SkyCourier and Denali. Successful certification approval of these programs along with wide acceptance by customers are expected to improve Textron's position in the aerospace-defense space and consequently attract solid orders.

- As the current U.S. administration is in favor of investing heavily on the nation's defense, it's a golden era for the U.S. defense majors like Textron. Management at Textron is optimistic about the company's growth potential, considering the funding allotted in the fiscal 2020 budget for both the long-range assault aircraft and the attack reconnaissance aircraft programs. To this end, it is imperative to mention that the U.S. Army has selected Bell along with four other defense contractors to proceed through the next phase of the Future Attack Reconnaissance Aircraft program. Such contract wins for its varied defense products indicate at the company reaping the benefits of the expanding defense budget of the nation.

Reasons To Sell:

> A comparative analysis of Textron’s historical EV/EBITDA ratio reflects a relatively gloomy picture that might be a cause of concern for investors. Moreover, it faces stringent competition.

- The company operates in a highly competitive market. Some competitors may have more extensive or specialized business segments. Meanwhile, others may develop their own products and directly compete with the company for sales. Thus, it has to keep upgrading its technology to remain competitive in the market, thereby necessitating heavy research and development expenditure.

- Per a report by Flight Global, the certification procedure for the company's Citation Longitude was originally expected in 2017. However, the completion of this procedure was delayed by approximately 18 months due to issues pertaining to the Federal Aviation Administration (FAA)’s flammability requirements for the Longitude's fuel tank. As a result of this technical issue, the number of ground and flight test conditions required to cater to the issue nearly doubled. Also, the eighteen-month delay led to a rise in overall costs for the company. This may have caused Textron’s investors to lose confidence in this stock. Evidently, in a year’s time, shares of the company have lost 14.8% against the industry's 5.9% growth.

- Textron had a notable long-term debt of $2,563 million as of Jan 4, 2020. The company's interest expense also increased a massive 8.1% year over year to $146 million, at the end of 2019. Such rising debt levels and other expenses can turn out to be a major headwind for the company, going ahead, as it may require Textron to dedicate a substantial portion of its cash flow from operations to payments on the existing indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes.

Last Earnings Report

Textron's Q4 Earnings Top Estimates, Revenues Rise Y/Y

Quarter Ending	12/2019
Report Date	Jan 29, 2020
Sales Surprise	4.64%
EPS Surprise	2.78%
Quarterly EPS	1.11
Annual EPS (TTM)	3.75

Textron Inc. reported fourth-quarter 2019 adjusted earnings of $1.11 per share, which surpassed the Zacks Consensus Estimate of $1.08 by 2.8%. The bottom line however declined 3.5% from $1.15 in the year-ago quarter.

Including a one-time special charge, the company posted GAAP earnings of 87 cents per share compared with $1.02 generated in the year-ago-quarter.

This year-over-year decline can be attributed to lower segment profit recorded by the company in the quarter under review.

For 2019, Textron generated adjusted earnings of $3.50 per share, which missed the Zacks Consensus Estimate of $3.71 by 5.7%. The bottom line also declined 27.5% from $4.83 last year.

Revenues

Total revenues came in at $4,035 million, which surpassed the Zacks Consensus Estimate of $3,856 million by 4.6%. Moreover, the reported figure increased 7.6% from the year-ago quarter's $3,750 million on higher contributions from the company's segments, except Industrial segments.

Manufacturing revenues increased 7.6% to $4,016 million, while revenues at the Finance division grew 5.6% to $19 million.

Segmental Performance

Textron Aviation: In the quarter under review, revenues at this segment rose 11.4% to $1,729 million from $1,552 million in the year-ago quarter. The growth can be attributed to higher volume and mix.

The company delivered 71 jets, up from 63 in the year-ago quarter. It also delivered 59 commercial turboprops, down from 67 in fourth-quarter 2018.

The segment registered profits of $134 million in the quarter, up from $170 million in the year-ago quarter, owing to the mix of products sold and an unfavorable impact from inflation, net of pricing. The order backlog at the end of the quarter was $1.7 billion.

Bell: Revenues from this segment were $961 million, up 16.2% from the year-ago quarter's $827 million, primarily due to higher commercial volume.

The segment delivered 76 commercial helicopters in the quarter, up from 46 last year.

Segment profits were up 9.3% to $118 million on account of higher commercial volume. Bell's order backlog at the end of the quarter was $6.9 billion, up $1.3 billion sequentially.

Textron Systems: Revenues at this segment came in at $399 million, up from $345 million a year ago. The downside can be primarily attributed to higher volume.

Segmental profits decreased 10.8% year over year to $33 million in the fourth quarter.

Textron Systems' backlog at the end of the fourth quarter was $1.2 billion, lower than $1.4 billion at the end of the previous quarter.

Industrial: Revenues at this segment declined 8% to $927 million, primarily due to lower volume and mix, primarily at Textron Specialized Vehicles.

Moreover, segmental profits declined from $73 million in the fourth quarter of 2018 to $44 million on account of lower volume at Textron Specialized Vehicles.

Finance: Revenues at this segment increased to $19 million from $18 million in the year-ago quarter. Segmental profits increased by $2 million from fourth-quarter 2018.

Financials

As of Jan 4, 2020, cash and cash equivalents totaled $1,181 million compared with $987 million as of Dec 29, 2018.

Cash inflow from operating activities amounted to $960 million at the end of 2019 compared with cash inflow of $1,127 million at the end of the prior-year period.

Capital expenditures were $339 million in 2019 compared with $369 million in 2018.

Long-term debt was $2,563 million as of Jan 4, 2020, compared with $2,808 million as of Dec 29, 2018.

Guidance

Textron issued its guidance for 2020. The company currently expects full-year earnings from continuing operations in the range of $3.5-$3.7 per share.

The Zacks Consensus Estimate for current-year earnings is $3.61, which lies just above the midpoint of the guided range.

Textron also gave its expectation for manufacturing cash flow before pension contributions in the range of $700-$800 million.

Valuation

Textron's shares are down 12.4% in the past six months period and down 24.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 11.6% and 16.1% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.1% and 10.5%, respectively.

The S&P 500 index is up 1.9% in the past six months period and up 8.5% in the past year.

The stock is currently trading at 11.1X forward 12-month earnings, which compares to 19.5X for the Zacks sub-industry, 19X for the Zacks sector and 17.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.3X and as low as 10.9X, with a 5-year median of 15.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $43 price target reflects 11.8X earnings value.

The table below shows summary valuation data for TXT

Valuation Multiples -TXT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.1	19.45	19.04	17.66
	5-Year High	23.29	22.54	21.54	19.34
	5-Year Low	10.87	14.52	14.26	15.18
	5-Year Median	15.16	17.14	16.9	17.46
P/S F12M	Current	0.65	1.37	1.22	3.26
	5-Year High	1.22	1.64	1.39	3.43
	5-Year Low	0.6	0.95	0.8	2.54
	5-Year Median	0.85	1.27	1.09	3.01
P/B TTM	Current	1.68	30.99	14.45	4.14
	5-Year High	3.35	36.57	5.26	4.54
	5-Year Low	1.68	7.33	9.22	2.85
	5-Year Median	2.31	14.46	14.45	3.62

As of 03/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (179 out of 255)

Top Peers

Leidos Holdings, Inc. **(LDOS)**	Outperform
Airbus Group **(EADSY)**	Neutral
Embraer-Empresa Brasileira de Aeronautica **(ERJ)**	Neutral
General Dynamics Corporation **(GD)**	Neutral
L3Harris Technologies Inc **(LHX)**	Neutral
Lockheed Martin Corporation **(LMT)**	Neutral
Northrop Grumman Corporation **(NOC)**	Neutral
The Boeing Company **(BA)**	Underperform

Industry Comparison Industry: Aerospace - Defense

Industry Peers

	TXT Neutral	X Industry	S&P 500	GD Neutral	LMT Neutral	NOC Neutral
VGM Score	A	-	-	B	C	B
Market Cap	9.24 B	12.80 B	21.37 B	46.64 B	106.40 B	55.22 B
# of Analysts	4	4.5	13	8	9	7
Dividend Yield	0.20%	1.05%	2.04%	2.53%	2.54%	1.60%
Value Score	A	-	-	B	D	C
Cash/Price	0.15	0.04	0.05	0.02	0.01	0.04
EV/EBITDA	7.28	12.56	12.65	9.97	12.80	16.38
PEG Ratio	0.90	2.14	1.87	1.60	2.27	NA
Price/Book (P/B)	1.68	3.93	2.96	3.44	33.57	6.26
Price/Cash Flow (P/CF)	7.19	14.35	11.68	10.81	14.35	11.94
P/E (F1)	11.31	16.38	16.98	12.64	15.62	14.20
Price/Sales (P/S)	0.68	1.20	2.44	1.19	1.78	1.63
Earnings Yield	8.81%	5.84%	5.87%	7.91%	6.40%	7.04%
Debt/Equity	0.59	0.66	0.70	0.66	3.60	1.60
Cash Flow ($/share)	5.63	2.18	7.01	14.89	26.30	27.58
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	9.06%	13.39%	10.85%	7.05%	16.29%	23.28%
Proj. EPS Growth (F1/F0)	-4.61%	13.18%	6.36%	6.38%	10.04%	9.35%
Curr. Cash Flow Growth	0.31%	3.16%	6.07%	3.16%	18.08%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	3.22%	6.40%	8.52%	6.36%	9.70%	14.43%
Current Ratio	2.06	1.21	1.23	1.18	1.22	1.13
Debt/Capital	37.06%	43.17%	42.57%	39.89%	78.24%	61.48%
Net Margin	5.98%	6.01%	11.57%	8.85%	10.42%	6.64%
Return on Equity	16.16%	16.94%	16.66%	26.70%	198.95%	39.51%
Sales/Assets	0.92	0.92	0.54	0.81	1.24	0.84
Proj. Sales Growth (F1/F0)	3.31%	4.84%	4.01%	3.66%	6.11%	5.46%
Momentum Score	C	-	-	C	B	D
Daily Price Chg	-3.04%	-0.82%	-2.60%	-2.41%	-1.04%	-1.97%
1 Week Price Chg	-14.27%	-14.08%	-12.06%	-14.88%	-13.54%	-9.91%
4 Week Price Chg	-20.43%	-12.06%	-10.01%	-10.29%	-12.39%	-8.96%
12 Week Price Chg	-8.25%	-9.51%	-7.46%	-10.77%	-1.83%	-4.38%
52 Week Price Chg	-24.50%	2.87%	2.54%	-4.15%	23.43%	16.44%
20 Day Average Volume	1,715,216	750,866	2,406,738	1,757,652	1,330,445	1,048,562
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.71%	0.00%	-0.06%	0.61%	0.14%	0.00%
(F1) EPS Est 12 week change	-5.62%	0.00%	-0.39%	-1.50%	-0.44%	0.67%
(Q1) EPS Est Mthly Chg	1.11%	0.00%	-0.45%	-0.50%	0.00%	0.74%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.