



General Dynamics Corporation (GD)

Updated October 28th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$304	5 Year CAGR Estimate:	1.9%	Market Cap:	\$83.05B
Fair Value Price:	\$224	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	10/11/24
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	11/15/24
Dividend Yield:	1.9%	5 Year Price Target	\$300	Years Of Dividend Growth:	33
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

General Dynamics is a US aerospace & defense company that now operates in four business segments: Aerospace (21% of sales), Combat Systems (19%), Marine Systems (26%), and Technologies (33%). General Dynamics combined the IT and Mission Systems segments in 2020. The company's Aerospace segment is focused on business jets and services while the remainder of the company is defense. The company makes the well-known M1 Abrams tank, Stryker vehicle, *Virginia*-class submarine, *Columbia*-class submarine, and Gulfstream business jets. Based on revenue, General Dynamics is the fourth largest defense company. General Dynamics had revenue of approximately \$42.3B in 2023.

General Dynamics reported poor Q3 2024 results on October 23rd, 2024, missing estimates on higher costs and taxes. Companywide revenue rose 10.4% to \$11,671M from \$10,571M and diluted earnings per share increased 10.2% to \$3.35 from \$3.04 on a year-over-year basis. Aerospace revenue rose 22% to \$2,482M from \$2,032M in the prior year. The total backlog is \$19,796M, declining for the second straight quarter. Gulfstream's book-to-bill ratio was 1.0X. Revenue for Marine Systems increased 20% to \$3,599M from \$3,002M on the strength of the *Columbia* and *Virginia*-class submarine programs. The total segment backlog was down to \$40,471M. Combat Systems revenue was flat at \$2,224M from \$2,212M. The total backlog rose to \$17,971M on a strong 1.5X book-to-bill ratio and \$3.3B of orders. International customers and munition demand because of global conflicts are increasing revenue. Technologies revenue increased to \$3,378M from \$3,313M. The total estimated contract value was \$41.5B, and the backlog was \$14,396M. The book-to-bill ratio was healthy at 1.3X.

The companywide backlog is \$92.6B of which ~\$75B is funded and ~\$17.7B is unfunded. The book-to-bill ratio was 1.1X. The firm won large orders for fleet oilers, *Virginia*-class submarine, munitions and ordinance, and classified contracts. General Dynamics guided for revenue of ~\$48.0B and earnings per share of ~\$14.00 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.83	\$9.08	\$9.87	\$9.95	\$11.22	\$11.98	\$11.00	\$11.55	\$12.19	\$12.02	\$14.00	\$18.74
DPS	\$2.48	\$2.76	\$3.04	\$3.36	\$3.76	\$3.99	\$4.32	\$4.76	\$4.97	\$5.22	\$5.68	\$7.60
Shares¹	332	311	302	297	289	290	286	275	274	273	270	257

General Dynamics' top and bottom lines have grown due to increasing US defense spending, international sales, business jet sales and services. General Dynamics has established naval and ground platforms that support maintenance and modernization contracts as well as future prime contract wins. COVID-19 caused earnings to drop in 2020, but the firm performed better than expected in 2021 because of rising orders in the business jet market. From 2024 we forecast on average 6% annual earnings per share growth out to 2029. Operating margin expansion and a reduction of share count will support earnings per share growth. We now expect dividend growth to be about 6% going forward on average. General Dynamics is a Dividend Aristocrat, and the current payout ratio is reasonable, supporting future dividend increases.

¹ Share count in millions.

Disclosure: This analyst is long GD.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2028
Avg. P/E	15.2	15.5	14.8	20.5	17.7	14.8	13.7	16.2	18.9	21.5	21.7	16.0
Avg. Yld.	2.1%	2.0%	2.1%	1.7%	1.9%	2.3%	2.9%	2.5%	2.2%	2.0%	1.9%	2.5%

General Dynamics' stock price is up slightly despite missing estimates. We previously raised our fair value multiple to 16X, because of consistent performance. It is now closer to the 10-year average. Our 2024 earnings estimate is set at current guidance. Our current fair value estimate is \$224. Our 5-year price target is \$300.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	20259
Payout	32%	30%	31%	36%	34%	34%	39%	41%	41%	43%	41%	41%

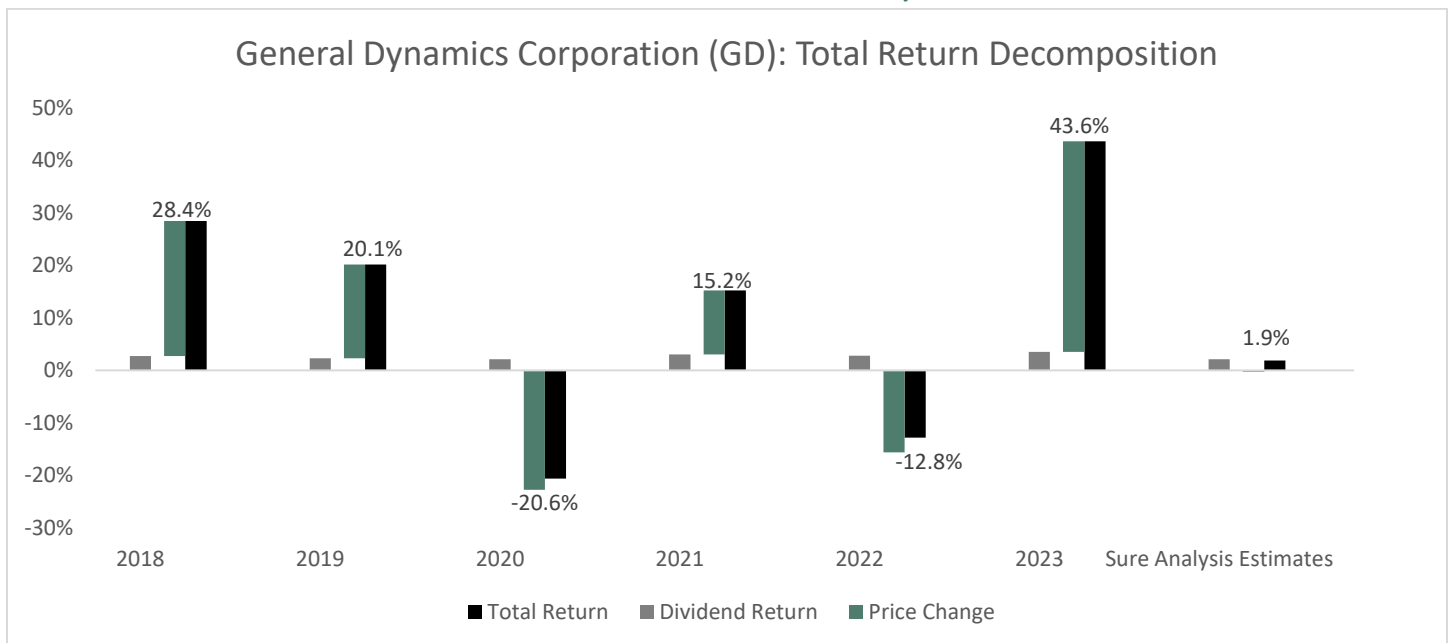
General Dynamics is an entrenched military prime contractor. It has ground and marine platforms that serve as the backbone for the US Army, US Navy, and militaries around the world. This leads to a competitive advantage as these platforms have decades long life cycles and General Dynamics has expertise and experience to perform sustainment and modernization. These characteristics lead to a good degree of recession resistance. However, the company faces risks in program cuts, reduction in federal spending, and cyclical nature of the business jet market. General Dynamics is increasing its exposure to information technology and cybersecurity. These are competitive fields with lower margins.

General Dynamics' short-term and current long-term debt is \$2,005M and long-term debt is \$7,262M offset by \$2,101M in cash and equivalents. Interest coverage is about 11.9X and the leverage ratio is now about 1.55X.

Final Thoughts & Recommendation

At present, we are forecasting 1.9% annualized total return through 2029 from a dividend yield of 1.9%, 6% EPS growth, and (-5.9%) P/E multiple contraction. International vehicle, ammunition, and business jet sales are driving top line growth. The backlog is robust for the Aviation and Combat Systems segments, too. General Dynamics is a Dividend Aristocrat, and the dividend safety is solid. However, at the current stock price, we changed our rating to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	30852	31781	30561	30973	36193	39350	37925	38469	39407	42272
Gross Profit	5873	6232	5665	6242	6657	6987	6325	6408	6622	6672
Gross Margin	19.0%	19.6%	18.5%	20.2%	18.4%	17.8%	16.7%	16.7%	16.8%	15.8%
SG&A Exp.	1984	1937	1921	2006	2263	2417	2192	2245	2411	2427
D&A Exp.	496	481	453	441	763	829	878	890	884	863
Operating Profit	3889	4295	3744	4236	4394	4570	4133	4163	4211	4245
Op. Margin	12.6%	13.5%	12.3%	13.7%	12.1%	11.6%	10.9%	10.8%	10.7%	10.0%
Net Profit	2533	3036	2572	2912	3345	3484	3167	3257	3390	3315
Net Margin	8.2%	9.6%	8.4%	9.4%	9.2%	8.9%	8.4%	8.5%	8.6%	7.8%
Free Cash Flow	3307	2038	1771	3448	2458	1994	2891	3384	3465	3806
Income Tax	1129	1183	977	1165	727	718	571	616	646	669

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	35337	31997	33172	35046	45408	49349	51308	50073	51585	54810
Cash & Equivalents	4388	2785	2334	2983	963	902	2824	1603	1242	1913
Acc. Receivable	4050	3446	3399	3617	3759	3544	3161	3041	3008	3004
Inventories	7812	7723	5118	5303	5977	6306	5745	5340	6322	8578
Goodwill & Int.	12643	12206	12123	12616	22179	21992	22170	22076	22158	22242
Total Liabilities	23508	21259	22871	23611	33676	35371	35647	32432	33017	33511
Accounts Payable	2057	1964	2538	3207	3179	3162	2952	3167	3398	3095
Long-Term Debt	3893	3399	3888	3982	12417	11930	12998	11495	10496	9261
Total Equity	11829	10738	10301	11435	11732	13978	15661	17641	18568	21299
LTD/E Ratio	0.33	0.32	0.38	0.35	1.06	0.85	0.83	0.65	0.57	0.43

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.2%	9.0%	7.9%	8.5%	8.3%	7.4%	6.3%	6.4%	6.7%	6.2%
Return on Equity	19.2%	26.9%	24.4%	26.8%	28.9%	27.1%	21.4%	19.5%	18.7%	16.6%
ROIC	14.8%	20.3%	18.2%	19.7%	16.9%	13.9%	11.6%	11.2%	11.6%	11.1%
Shares Out.	332	311	302	297	289	290	287	282	278	276
Revenue/Share	90.39	97.29	98.46	101.67	120.98	135.30	131.72	136.41	141.65	153.33
FCF/Share	9.69	6.24	5.71	11.32	8.22	6.86	10.04	12.00	12.46	13.80

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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