

Lockheed Martin (NYSE: LMT)

Sector: Industrial



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$349.13	\$313.29	\$322.19	\$237.52	25.1	\$88.9B	2.58%	.73

Business Description

Headquartered in Bethesda, Maryland, Lockheed Martin is a global security and aerospace company, principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin is the largest defense contractor for the United States of America, and plays an essential part in its national defense. Its four main business segments include aeronautics, missiles and fire control, rotary and mission systems, and space systems. Lockheed's largest source of revenue is from its F-35 program, which is the world's only fifth generation multi-role stealth fighter jet.

Industry Trends

The aerospace and defense segment within the industrials sector has outperformed the S&P 500 year-to-date because of favorable trends and catalysts. The largest trend in the industry has been increased government defense spending both domestically and abroad. Lockheed's largest customer is the Department of Defense who just increased their budget this year by 10% which has helped the entire industry. Also, international governments are being pressured to increase their defense spending. The industry has been very stable as there are few factors that could negatively affect the industry and government spending has increased.

Investment Thesis

We believe Lockheed Martin presents a strong buying opportunity because of the company's wide economic moat, industry leading relationship with the Department of Defense, increased defense spending both domestically and abroad, and the mitigated risks the company faces. On top of this, we believe based on our valuation the intrinsic value of the stock is well above the current value of the stock. Lockheed not only fits but defines the type of companies we are looking to buy outlined in the Student Managed Fund prospectus. Favorable industry trends, specifically in the segments that Lockheed Martin operates in, will continue to boost revenues and the stock higher than what the market is predicting.

Valuation Assumptions

WACC: 7%
Terminal Growth Rate: 4%
Projected Revenue Growth Rate: 6%

Key Financials

Revenue: 50.5 B
EBITDA: 6.3 B
FCF: 5.0 B
Net Income: \$4.17B

Corporate Social Responsibility

CSRHUB CSR Rating: 62 (well above average)

In 2016, Lockheed Martin had a total community impact of \$43.8 million through corporate philanthropy, sponsorship of local organizations, and employee donations to local charities. Lockheed employees also contributed 850,000 volunteer hours in their communities, consisting of community initiatives, STEM education programs, and military and veteran causes. Lockheed is also committed to those who are or have served in America's armed forces, as one in five employees is a veteran.

5-Year Stock Performance



Competitive Analysis

Lockheed Martin competes with other industrial companies for government contractors on the basis of cost, time to delivery, and other factors. The company's competition consists of a multitude of government contractors such as Raytheon, Boeing, General Dynamics, and Northrop Grumman. Because most of Lockheed's revenue comes from the government, the company must present attractive bids in order to win new projects against the competitors. Also, the government defenses spending is limited to the budget it receives each year, so a cut to defense spending would mean there would be less contract revenue available.

Competitive Advantages

LMT's competitive advantage stems from its wide array of products within their portfolio. Recently acquired Sikorsky helicopters adds to their already strong performance in the defense sector. The F-35 program is the elite fifth generation fighter jet program in the world today. This program comprises of nine partner countries, all which contribute to the development of the F-35 fighter jet. Their strong brand results in increasing global partnerships, with more countries showing interest in Lockheed's aircraft, as well as their state-of-the-art missile defense systems THAAD and PAC-3. Lockheed continues to push the boundaries of what is possible, with research and development on fiber lasers as well as robotic and unmanned, autonomous submarines for the US Navy.

Risks

Lockheed Martin faces numerous risks, including but not limited to: political, international, environmental, as well as competition and cyber security threats. President Trump has criticized the F-35 program for cost overruns and delays. A delayed government budget could also have adverse effects on Lockheed. International sales are heavily regulated, and issues can arise from political and economic factors. Lockheed deals with numerous environmental regulations and laws, which can result in additional costs and are rapidly changing. In terms of competition, Boeing is and has been trying to rival Lockheed with their own version of the F-35 fighter jet. In addition, due to the nature of their business, Lockheed Martin is the target of numerous cyber security threats. A significant breach could not only have a negative impact on the company, but on the United States as well.

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Sources: Bloomberg

