

# Huntington Ingalls (NYSE: HII)

Sector: Aerospace and Defense



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$216.18	\$209.40	\$279.71	\$191.06	15.79	\$8.54B	1.97%	1.29

## Business Description:

Huntington Ingalls designs, manufactures, and maintains nuclear and non-nuclear ships for the U.S. government, primarily the Department of Defense (DoD), which includes the U.S. Navy and Coast Guard. HII is America's premier military shipbuilder and U.S. Navy's mission critical partner. The 134 year old company is headquartered in Newport News, VA and has 42,000 employees and 6,800 engineers/designers.

## Industry Trends:

The defense sector soared in 2019 as defense budgets increased. However, production-related issues, cancelations, and fewer orders slowed growth in the commercial aerospace sector and the global aerospace and defense industry overall. While the defense sector has continued to grow, growth in the commercial aerospace sector has slowed. Military expenses are on the rise as security threats continue to intensify. Though the A&D industry's growth is primarily led by the United States, few other regions such as China, France, India, Japan, the Middle East, and the UK, will be contributing to the industry's performance in the near term.

## Investment Thesis:

We believe HII is a strong buy due to three main reasons: its deep moat within the industry, strong financials, and being a key aspect of the Department of Defense's strategy. HII is the only company currently capable of building, refueling, and inactivating the U.S. Navy's nuclear-powered aircraft carriers. It is also the only builder of large deck amphibious assault ships and expeditionary warfare ships for the U.S. Navy. It is also the sole builder of NSCs for the Coast Guard. HII is also only one of two companies currently designing and building nuclear-powered submarines and Arleigh-Burker class destroyers for the U.S. Navy. Furthermore, HII's strong business model provides consistent free cash flow and a predictable revenue pipeline. Finally, as a key aspect of the DoD's strategy, HII will benefit as the Navy/Marine Corps is aiming to have a fleet of 355 ships by 2020. The DoD believes that power projection through sea power is a key piece in the future of warfare. Shipbuilding represents the greatest portion of the DoD's 2020 budget. We believe that HII will provide the stability our portfolio needs during these turbulent times.

## Valuation Assumptions:

WACC: 9.5%

Perpetuity Growth Rate: 2.5%

Margin of Safety: 3.0%

## 5-Year Share Price Performance:



## Competitive Advantage and Analysis:

As mentioned in the investment thesis, HII has a strong competitive advantage in relation to its closest competitors. Some of HII's closest competitors include General Dynamics, Raytheon, and BAE Systems. Despite all four of the companies being in close proximity within the defense sector, we believe HII's current backlog of \$46 billion provides predictability and stability through the next 10 years. Furthermore, HII will remain competitive through technological innovations, improving operating efficiency, and investments in its shipyards, people, and strategic M&A opportunities.

## Risks:

A few key risks that HII faces include its dependability on the U.S. government for contracts, increases in the costs of supplies, and changes to the Department of Defense's budget. However, we believe that with HII's unique capabilities and established track record, they are poised for long-term stability.

## Corporate Social Responsibility Highlights:

HII's environmental stewardship and sustainability efforts are recognized nationally and regionally. As a company, HII is committed to waste reduction and recycling and to preserving and improving air and water quality in all of the communities in which the company operates. Many HII employees volunteer their own time and energy to preserving the environment for future generations. HII is also committed to other good causes such as education, employing veterans, and diversity initiatives.

## Report Prepared By:

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Sources: Bloomberg, S&P, Value Line, HII 10-K