

## RTX Corp

# 4Q23 – Earnings Beat, Initiates 2024 Guidance

Earnings Review

## 4Q23 earnings beat

RTX reported 4Q23 adjusted sales of \$19.8bn, +10% YoY, beating Bloomberg consensus of \$19.7bn. Adj. EPS was \$1.29, above consensus of \$1.24. Collins Aerospace reported adj. sales of \$7.0bn (+12% YoY), with commercial aftermarket +23%, commercial OE +17%, and military +1%. Pratt & Whitney reported adj. sales of \$6.4bn (+14% YoY). The increase was driven by commercial OE and commercial aftermarket, up +20%, +18% respectively. Pratt & Whitney's military segment was up +4%. Raytheon saw adj. sales of \$6.9bn (+3% YoY), driven by higher volume on advanced technology and air power programs.

## Initiates 2024 guidance, completes \$12.9bn share buyback

RTX initiated its full-year 2024 guidance: reported sales of \$78.0bn-\$79.0bn, (Bloomberg consensus: \$79.3bn), and Adj. EPS to \$5.25-\$5.40 (Bloomberg consensus: \$5.28). RTX also provided FCF guidance of approximately \$5.7bn. During the quarter, management executed a previously announced \$10bn share repurchase program, bringing total repurchases in 2023 to \$12.9bn. The buybacks were funded by \$10 billion of short and long-term debt, and deleveraging is expected to begin in early 2024, supported by proceeds from dispositions. Moreover, RTX initiated adj. sales and operating profit forecasts by segment: (1) Collins Aerospace: adj. sales +mid-to-high single digits YoY, organic sales +mid-to-high single digits YoY, and adj. operating profit of \$650mn-\$725mn. (2) Pratt & Whitney: Adj. sales +low double-digits, organic sales +low double-digits, and Adj. operating profit of \$400mn-\$475mn. (3) Raytheon: adj. sales down slightly to flat, organic sales +low-to-mid single digits, and adj. operating profit of \$100mn-\$200mn.

## We remain OW on bonds and Neutral on CDS

We maintain our Overweight recommendation on RTX bonds. We believe that RTX's bonds have fully priced in the risk from the powdered metal engine part issue. For reference, the RTX 5.15% due Feb-33 are offered at a G-spread of 96bps, compared to NOC 4.7% due March-33 at a G-spread of 68bps, both rated high BBB. We also recognize that the higher quality LMT (low single A) has its 5.25% due Jan-33 trading at a G-spread of 57bps. Finally, we note that low BBB Boeing (BA) has a 3.6% bond due May-34 that trades at a G-spread of 119bps, putting a floor on RTX valuations. We think that RTX's bonds are attractive relative to its peer group as management shifts the focus to debt reduction beginning in 2024.

## Cash flow from operations increase YoY

RTX reported cash flows from operations of \$4.7bn in 4Q23, up from \$4.6bn the year prior, and capital expenditures were \$805mn. Looking into 2025, RTX reaffirmed its free cash flow commitment of \$7.5bn and its capital return commitment of \$36bn-\$37bn. Cash & cash equivalents sit at \$6.6bn, up from \$6.2bn at FYE22.

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High Grade  
United States  
Aerospace & Defense

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RTX Corp (RTX) Key Data	2021A	2022A	2023A
<b>Operating (US\$ mm)</b>			
Revenues	64,388	67,074	68,920
EBITDA	9,652	10,038	11,108
<b>Balance Sheet (US\$ mm)</b>			
Cash	7,832	6,220	6,587
Total Debt	31,485	31,914	43,827
Total Leverage	3.26x	3.18x	3.95x
Net Leverage	2.45x	2.56x	3.35x

Source: Company filings &amp; BofA Global Research.

**Table 1: Ratings & Recommendations**  
Agency Ratings & BofA Recommendations

### Agency Ratings

Moody's/S&P Baa1/BBB+  
Outlooks Neg/Neg

**Source:** Moody's, S&P, BofA Global Research  
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**Table 2: Select Pricing**  
RTX Bond & CDS Pricing

Sr Unsecured RTX	Price	YTW	G-Sprd
4.125% 2028	\$96.93	4.85%	82
5.150% 2033	\$100.42	5.09%	96
4.625% 2048	\$89.33	5.41%	87
5-year CDS			47

**Source:** Bloomberg, BofA Global Research  
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## Valuation & risk

### RTX (RTX)

RTX is a leading diversified aerospace company with excellent businesses in the commercial aerospace segment, as well as the defense industry. It produces excellent margins and solid FCF, and has a massive scale. We think the bonds offer compelling relative value compared to our IG index, given the strong end market fundamentals and business mix. Despite these leading positions, it has some modest risk surrounding a defective engine part, of which the company is addressing. Furthermore, the company had engaged in an aggressive share repurchase program and debt offering, but that technical is now behind the credit story.

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### Credit opinion history

#### RTX Corp / RTX

Company	Date <sup>R1</sup>	Action	Recommendation	
RTX Corp / RTX	31-Dec-2020		Marketweight	
	25-Feb-2021	Upgrade	Overweight	
	01-Nov-2021	Restricted	NA	
	02-Dec-2021	Coverage Resumed	Overweight	
Security	Date <sup>R1</sup>	Action	Recommendation	Price
3.95, Senior, USD, 2025:B	31-Dec-2022		Overweight	
4.125, Senior, USD, 2028:B	31-Dec-2022		Overweight	
2.25, Senior, USD, 2030:B	31-Dec-2022		Overweight	
4.625, Senior, USD, 2048:B	31-Dec-2022		Overweight	
Senior Unsecured, USD, Y5:CDS	31-Dec-2022		Neutral	

Table reflects credit opinion history as of previous business day's close.<sup>R1</sup> First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

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**Neutral:** No purchase or sale of CDS is recommended.

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### Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R2</sup>	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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