

Huntington Ingalls Industries

4Q Beat on one-timers, soft margin outlook for FY2024

Maintain Rating: UNDERPERFORM | PO: 210.00 USD | Price: 260.48 USD

Growth across segments, beat driven by one-timers

HII reported 4Q2023 EPS of \$6.90 vs. BBG: \$4.26 vs. 4Q22: \$3.07 (4Q23 up 125.0% Y/Y). The beat was mainly driven by favorable one-timers across segments, we estimate the one-timer favorable gains resulted in a \$120mn tailwind. Excluding the one-timers we estimate 4Q2023 Adj. Proforma EPS of ~\$4.40, inline BofA expectations. While the favorable gains are a positive for the quarter, Ingalls Shipbuilding did miss the delivery of the LPD 29. The delivery was integral to meeting FY2023 outlook without one-time favorable adjustments. We maintain our Underperform rating.

Favorable one-timers by segment

Ingalls' Shipbuilding - \$70.5mn Court judgement against Bolivarian Republic of Venezuela, to recover unpaid prior repair work on foreign-built frigates. We estimate 4Q2023 Adj. Pro-form margins of <8% excluding \$70.5mn from sale of a court judgment against Venezuela vs. BofAe: 8.4% vs. 4Q22: 7.6%.

Mission Technologies – \$49.5mn favorable settlement of an insurance claim related to Hydroid acquisition. We estimate 4Q2023 Adj. Pro-form margins of ~0.3% excl. a favorable settlement of an insurance claim related to Hydroid acquisition) vs. BofAe: 3.6% vs. 4Q22: 2.5%.

FY2024 Outlook mostly in line with BofAe, softer margins

Shipbuilding revenue 2024e \$8.8-9.1bn vs. BofAe: \$8.9bn, outyears growth at 4% vs. BofAe: 3% & Operating margin 7.6-7.8% vs. BofAe: 8.3%.

Mission Tech - revenue \$2.7-2.75bn vs. BofAe: \$2.73bn, outyears growth at 5% vs. BofA: 5% & EBITDA margin 8.0-8.5% vs. BofAe: 8.6%. FCF \$600-700mn vs. BofAe \$623mn

Exhibit 1: HII 4Q2023 Quick Take of Results

HII reported 4Q2023 EPS of \$6.90 vs. BBG: \$4.26

Quick-take of results vs. Expectations:	
EPS	4Q23: \$6.90 vs. BofAe: \$4.39 vs. BBG: \$4.26 vs. 4Q22: \$3.07 (4Q23 up 125.0% Y/Y)
Revenue	4Q23: \$3,177mn vs. BofAe: \$2,812mn vs. BBG: \$2,778mn vs. 4Q22: \$2,812mn (4Q23 up 13.0% Y/Y)
Operating Margin	4Q23: 9.8% vs. BofAe: 7.5% vs. 4Q22: 3.7%
Revenue by segment	Ingalls Shipbuilding: 4Q23: \$800mn vs. BofAe: \$669mn vs. 4Q22: \$658mn Newport News: 4Q23: \$1,665mn vs. BofAe: \$1,560mn vs. 4Q22: \$1,584mn Mission Tech: 4Q23: \$745mn vs. BofAe: \$624mn vs. 4Q22: \$602mn Intersegment eliminations: 4Q23: \$-33mn vs. BofAe: \$-41mn vs. 4Q22: \$-32mn
Op. segment margin	Ingalls Shipbuilding: 4Q23: 21.1% vs. BofAe: 8.4% vs. 4Q22: 7.6% Newport News: 4Q23 Actual: 6.6% vs. BofAe: 9.8% vs. 4Q22: 5.1% Technical Solutions (HIITS): 4Q23 Actual: 6.8% vs. BofAe: 3.6% vs. 4Q22: 2.5%
FCF	4Q23 Actual: \$434mn vs. BofAe: \$219mn vs. BBG: \$252mn vs. 4Q22: \$508mn (declined 14.6% Y/Y)
Backlog	4Q23: \$48bn vs. 3Q23: \$49bn vs. 4Q22: \$47bn (flat Y/Y)

Source: BofA Global Research, Company Filings

BofA GLOBAL RESEARCH

01 February 2024

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Stock Data

Price	260.48 USD
Price Objective	210.00 USD
Date Established	22-Feb-2023
Investment Opinion	B-3-7
52-Week Range	188.51 USD - 263.00 USD
Mrkt Val (mn) / Shares Out (mn)	10,347 USD / 39.7
Free Float	98.2%
Average Daily Value (mn)	61.82 USD
BofA Ticker / Exchange	HII / NYS
Bloomberg / Reuters	HII US / HII.N
ROE (2023E)	15.9%
Net Dbt to Eqty (Dec-2022A)	69.9%
ESGMeter™	High

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Timestamp: 01 February 2024 09:54AM EST

LPD – Landing Platform Docks

Price objective basis & risk

Huntington Ingalls Industries (HII)

We derive our PO of \$210 using a P/FCF multiple of 0.7x relative to the S&P 500 on 2024 estimates, resulting in a 13.5x multiple. This is below the historical average of 0.8x and factors in robust Navy exposure in a rising defense spending environment offset by persistent supply chain and labor challenges.

Upside risks to our PO are: if the US government's "pivot to the Pacific" strategy involves procuring more ships than we forecast and margins continue to expand beyond expected. Higher share repurchases could provide upside to reported EPS. Accretive acquisitions could increase future expected earnings.

Downside risks to our PO are: Cost overruns derail the company's plan to maintain operating margins above 9%. The Navy takes a budget cut and reduces current fleet procurement. Weaker than expected synergies from announced acquisitions.

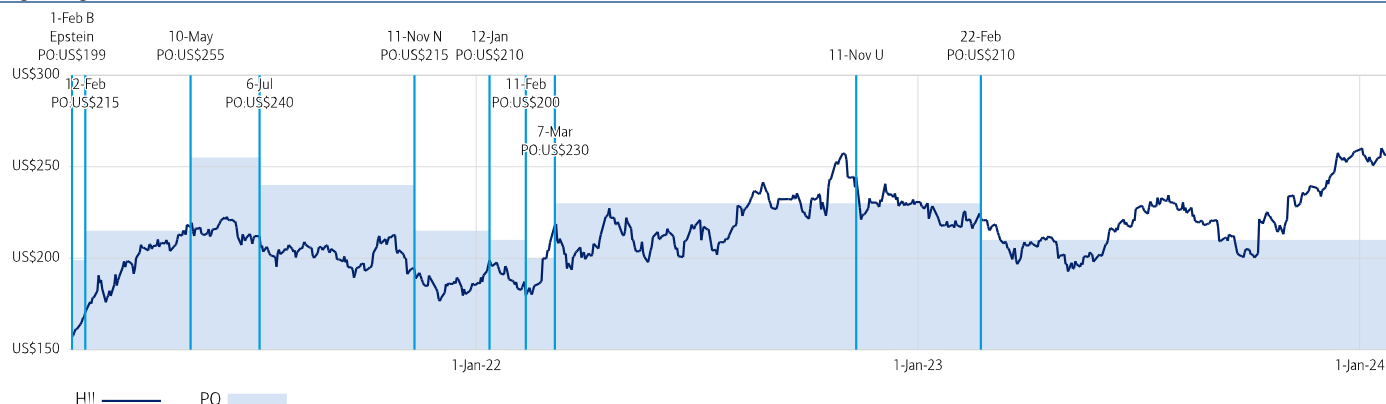
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Huntington Ing Ind (HII) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

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