

KBR

USTRANCOM extends HomeSafe transition period & moves to phase-in approach

Maintain Rating: BUY | PO: 70.00 USD | Price: 53.05 USD

HomeSafe \$60mn mod. supports extended transition

On February 12, 2024, HomeSafe Alliance (72% KBR joint venture) was awarded a \$60mn modification contract for an additional 12 months of transition services in the rollout of the Global Household Goods Contract (GHC). Various delays in integrating MilMoves and HomeSafe Connect (HomeSafe Alliance) have pushed the contract start date to the right. The original 9-month transition period had been already extended by four months until early February at no cost. The contract modification supports 1) an up to \$5mn/month transition consideration (\$1/mo lower than original and coming down as volumes increase) and 2) extra ongoing, ad-hoc testing of IT engagements which results in an increase of \$4.00 per shipment ordered. In addition to the \$60mn modification, USTRANCOM also highlighted that the transition period will now include more rigorous testing requirements (which will be priced individually and separate to this modification).

“Phased in”: lower initial vols, higher probability of start

In line with expectations, following the transition of MilMoves contractors (Trust, now CACI), work under GHC will now be rolled out in a “condition-based, phased-in approach”. This compares to the original plan of the entire system overhaul in a “time-definite” approach. We think this approach will be lower risk and allow HomeSafe to begin work more quickly and in a more organized manner. Importantly, we highlight that KBR will not be increasing scope throughout the busy season (May 1 – Sept. 1). Whatever capabilities are active on May 1st are the only ones that will be active throughout peak season. While there will not be an increase in scope, KBR will likely benefit from an increase in volumes. Given the phased-in approach, USTRANCOM highlighted that local domestic moves are still expected to start prior to peak season 2024.

USTRANCOM committed to GHC; maintain Buy

Despite delays in the start of the program, we view this contract modification as evident that USTRANCOM is still thoroughly committed to pushing ahead on GHC. Additionally, we see the contract modification as a sign of USTRANCOM supporting KBR’s excess capacity costs through the extended transition period. We continue to think HomeSafe will be only a small revenue contributor in 2024, with a ramp up throughout 2025 and 2026. We maintain our Buy rating and our \$70 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.42	2.71	2.90	3.05	3.70
GAAP EPS	0.12	1.26	(1.73)	2.91	3.59
EPS Change (YoY)	39.9%	12.0%	7.0%	5.2%	21.3%
Consensus EPS (Bloomberg)			2.88	3.26	4.10
DPS	0.43	0.46	0.52	0.57	0.61
Valuation (Dec)					
P/E	21.9x	19.6x	18.3x	17.4x	14.3x
GAAP P/E	442.1x	42.1x	NM	18.2x	14.8x
Dividend Yield	0.8%	0.9%	1.0%	1.1%	1.1%
EV / EBITDA*	15.3x	14.4x	12.9x	11.6x	10.3x
Free Cash Flow Yield*	3.5%	4.5%	3.3%	6.5%	8.1%

* For full definitions of *IQmethod*SM measures, see page 5.

14 February 2024

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Stock Data

Price	53.05 USD
Price Objective	70.00 USD
Date Established	6-Nov-2023
Investment Opinion	B-1-7
52-Week Range	49.37 USD - 65.87 USD
Mrkt Val (mn) / Shares Out (mn)	7,162 USD / 135.0
Free Float	98.9%
Average Daily Value (mn)	64.06 USD
BofA Ticker / Exchange	KBR / NYS
Bloomberg / Reuters	KBR US / KBR.N
ROE (2023E)	27.6%
Net Dbt to Eqty (Dec-2022A)	82.8%
ESGMeter TM	High

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Timestamp: 14 February 2024 03:00AM EST

iQprofileSM KBR

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.7%	5.5%	9.1%	12.2%	14.4%
Return on Equity	20.6%	23.1%	27.6%	31.8%	38.2%
Operating Margin	3.1%	5.2%	5.9%	8.7%	8.6%
Free Cash Flow	248	325	235	462	579

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	1.0x	0.8x	1.3x	1.4x
Asset Replacement Ratio	0.2x	0.5x	0.5x	0.6x	0.6x
Tax Rate	80.6%	32.4%	NM	27.0%	25.0%
Net Debt-to-Equity Ratio	87.2%	82.8%	128.6%	119.5%	128.4%
Interest Cover	2.5x	3.9x	3.6x	5.5x	6.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	7,339	6,564	7,016	7,839	9,073
% Change	25.8%	-10.6%	6.9%	11.7%	15.7%
Gross Profit	806	828	994	1,196	1,316
% Change	21.0%	2.7%	20.0%	20.3%	10.1%
EBITDA	625	668	746	827	929
% Change	30.8%	6.9%	11.7%	10.9%	12.3%
Net Interest & Other Income	(97)	(59)	(544)	(124)	(125)
Net Income (Adjusted)	341	385	403	415	487
% Change	38.9%	12.8%	4.8%	3.1%	17.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	26	192	(227)	405	490
Depreciation & Amortization	146	137	138	136	138
Change in Working Capital	(164)	(48)	17	(3)	30
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	270	115	382	0	0
Capital Expenditure	(30)	(71)	(75)	(76)	(79)
Free Cash Flow	248	325	235	462	579
% Change	-28.5%	31.0%	-27.7%	96.8%	25.2%
Share / Issue Repurchase	(70)	(198)	(182)	(300)	(500)
Cost of Dividends Paid	(61)	(66)	(72)	(78)	(80)
Change in Debt	243	(122)	668	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	370	389	341	426	424
Trade Receivables	1,411	942	1,025	1,146	1,326
Other Current Assets	371	416	731	753	791
Property, Plant & Equipment	136	182	229	262	297
Other Non-Current Assets	3,911	3,637	3,633	3,540	3,446
Total Assets	6,199	5,566	5,960	6,126	6,285
Short-Term Debt	0	0	239	239	239
Other Current Liabilities	1,875	1,457	1,897	2,035	2,284
Long-Term Debt	1,854	1,740	1,766	1,766	1,766
Other Non-Current Liabilities	769	737	765	765	765
Total Liabilities	4,498	3,934	4,667	4,805	5,054
Total Equity	1,701	1,632	1,294	1,321	1,231
Total Equity & Liabilities	6,199	5,566	5,960	6,126	6,285

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Engineering & Construction

Company Description

KBR is a global provider of science, technology, and engineering solutions to government and commercial customers. Key capabilities include: scientific R&D, defense systems engineering, operational support, information technology, and sustainable technologies.

The company operates in two business segments: Government Solutions (GS) and Sustainable Technology Solutions (STS). The Government Solutions segment accounts for 75% of sales and 70% of EBITDA.

Investment Rationale

After a multi-year transformation, the Government Solutions segment represents 80% of sales. KBR is well positioned to benefit from US bipartisan support to systems modernization to face near-peer threats. We also see strength in IT & modernization efforts from civil agencies (incl. NASA) and international militaries (UK & Australia). Additionally, Sustainable Technology Solutions has a strong ESG profile with focus on sustainability, net-zero carbon solutions, high-tech and digital solutions.

Stock Data

Average Daily Volume 1,207,554

Quarterly Earnings Estimates

	2022	2023
Q1	0.62A	0.67A
Q2	0.76A	0.74A
Q3	0.65A	0.75A
Q4	0.69A	0.72E



Price objective basis & risk

KBR (KBR)

Our PO of \$70 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on 2024 estimates. This equals a 13x EV/EBITDA multiple. We think KBR should trade slightly below the primes as strong US and int'l security demand for innovative tech and solutions, exposure to sustainable tech and funds, and solid FCF are offset by a continued lumpy award environment, labor and supply chain pressures, headline risk from political control impacting short cycle defense spending, and macroeconomic pressure on timing of sustainable technology projects.

Downside risks: cuts to the US Government budget vs. anticipated, increased competition from non-traditional players, problems integrating M&A, hiring the right personnel, containing costs, executing on fixed price contracts, sustaining reputational risk and earning future awards. On Sustainable Technologies, risks include slower than expected adoption of sustainable technologies, or higher than expected competition, and thus, lower than expected profitability.

Upside risks: better than anticipated budget allocated to innovative technologies and modernization, inexpensive and well-integrated M&A activity, unexpected capital return to shareholders in the form of dividends or share buybacks, market share gains, and better than expected margin expansion. On Sustainable Technologies, upside risks include faster than expected adoption of sustainable technologies, market share gains, and higher than expected profitability.

Analyst Certification

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US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein

UNDERPERFORM

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	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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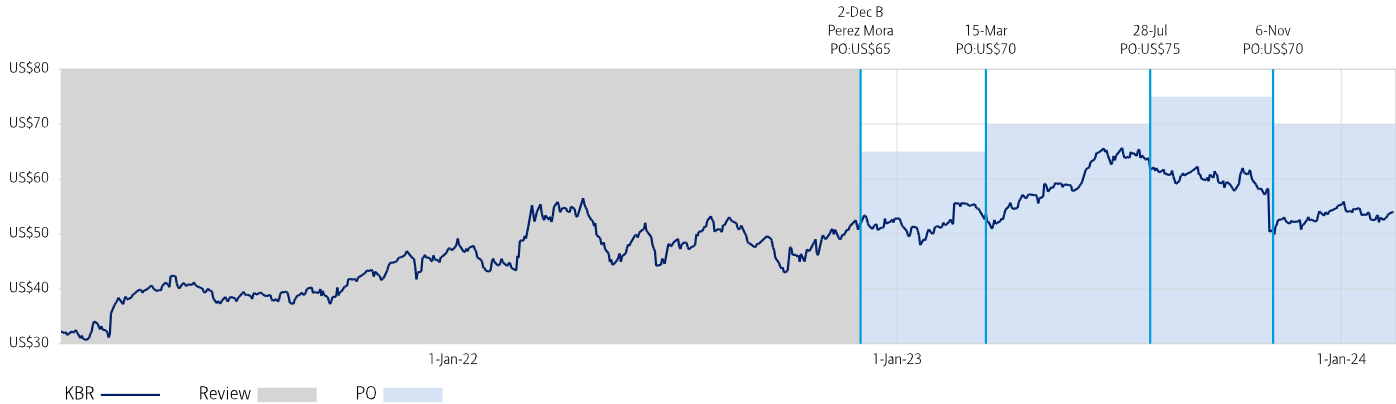
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KBR (KBR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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