

L3Harris

# Another quarter, another Integrated Mission Systems miss

Maintain Rating: NEUTRAL | PO: 210.00 USD | Price: 204.64 USD

## LHX adj. EPS of \$3.35 above BofAe and Street on tax

L3Harris (NYSE: LHX) reported 4Q23 adjusted EPS of \$3.35, above BofAe of \$3.28 and BBG consensus of \$3.31, mainly driven by lower-than-expected tax rate. Integrated Mission Systems (IMS) reported another quarter of lackluster results, with 4Q23 revenue of \$1,627mn (down 6% Y/Y; vs. BofAe \$1,706mn) on lower ISR aircraft modernization offset by Commercial Aviation Solutions and Maritime. As in prior quarters, the IMS segment continues to lag the broader LHX portfolio. The segment was the only to miss our sales and operating income expectations in 4Q23. IMS adjusted margins (excluding impairments) were weaker than expected (11.9% vs. BofAe 13.9%) despite LHX citing improved program performance.

## Strength at Space & Airborne and Communications

Space & Airborne Systems (SAS) revenue was up 6% to \$1.8bn on Space, Mission Networks, and Intel and Cyber programs. SAS margins of 10.6% came in above BofAe 10.5% despite an increase in lower margin space work. Communication Systems (CS) benefited from inorganic growth related to the TDL acquisition coupled with higher night-vision volumes, resulting in sales growth of 14% Y/Y to \$1.4bn. CS margins were softer than expected (26.1% vs. BofAe 27.3%) partially offset by TDL contribution and efficiencies from volume. Aerojet Rocketdyne reported sales of \$597mn and operating margins of 11.1% on execution across missile and space platforms.

## 2024 sales outlook falls largely short of BofAe

LHX provided the following 2024 outlook: \$20.7-21.3bn sales (vs. BofAe \$21.4bn vs. consensus \$21.3bn), 15% operating margin with \$3.15bn operating income at midpoint (vs. BofAe \$3.20bn vs. consensus \$3.13bn), \$12.40-12.80 adj. EPS (vs. BofAe \$13.05 vs. consensus \$13.06), and FCF of ~\$2.2bn (in line with BofAe and consensus). Aside from FCF, we find LHX's 2024 outlook rather disappointing. We believe these items along with a lack of progress on IMS will be poorly received by the market. We maintain our Neutral rating as poor performance is in our view balanced by strong defense demand both domestically and abroad.

26 January 2024

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### Stock Data

Price	204.64 USD
Price Objective	210.00 USD
Date Established	1-Aug-2023
Investment Opinion	B-2-7
52-Week Range	160.25 USD - 219.31 USD
Mkt Val (mn) / Shares Out (mn)	38,788 USD / 189.5
Free Float	99.5%
Average Daily Value (mn)	261.70 USD
BofA Ticker / Exchange	LHX / NYSE
Bloomberg / Reuters	LHX US / LHX.N
ROE (2023E)	12.6%
Net Dbt to Eqty (Dec-2022A)	33.2%
ESGMeter™	High

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Timestamp: 26 January 2024 08:44AM EST

## Price objective basis & risk

### L3Harris (LHX)

Our PO of \$210 is based on an 15.8x 2024E P/FCF multiple. The P/FCF multiple reflects a 0.8x relative multiple to the S&P 500 on '25 estimates. Improved sentiment on defense spending offset by operational hurdles is reflected through a relative valuation in line with the LHX and defense historical average, in our view.

Upside risk to our PO could result from LHX winning more content on new and existing programs vs. our expectations. Downside risk to our PO could result from continued supply chain challenges and LHX not integrating LLL and HRS as we expect. Integration challenges could put a strain on cash and impact our FCF estimates.

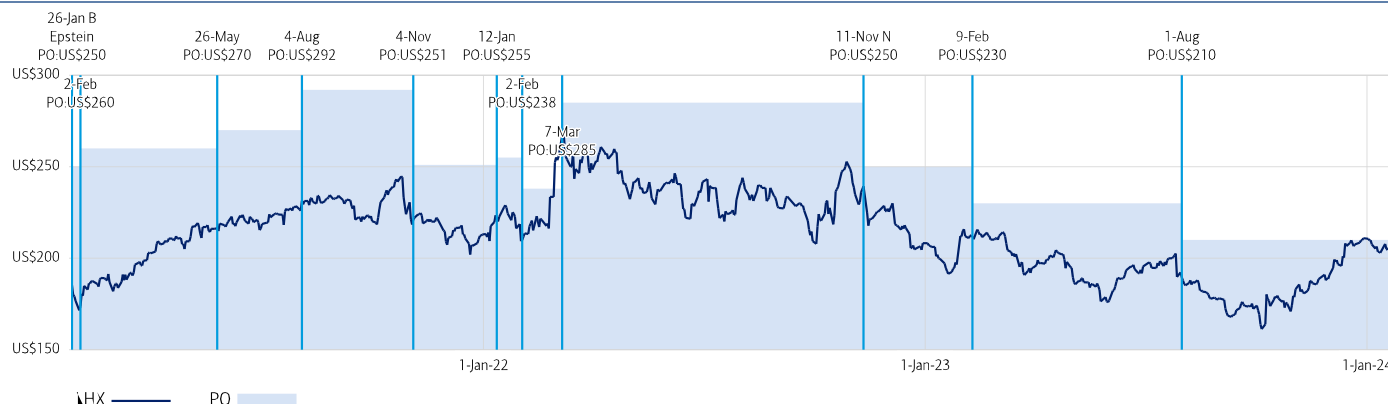
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### L3Harris (LHX) Price Chart



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

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### Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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