

Rocket Lab

Ascent: more positive catalysts on the horizon suggest selloff is overdone

Reiterate Rating: BUY | PO: 10.00 USD | Price: 4.29 USD

SDA proves to be valuable growth avenue, like Beta award

In 4Q23, Rocket Lab (NASDAQ: RKLB) was awarded the prime contractor role for the Space Development Agency's (SDA) Tranche 2 Transport Layer-Beta program. The award, which amounts to \$515mn, calls for RKLB to design, manufacture, and operate 18 satellites. We think the SDA will continue to be a strong pipeline for future opportunities to win work both on the Launch Services side (with the entry into service of the Neutron medium launch vehicle) and the Space Systems side (with the unveiling of the full family suite of spacecraft ([see 4Q23 recap](#))).

Reiterate Buy rating and \$10 PO

In our view, the selloff of shares YTD (-22% vs. S&P 500 up 8%) is overdone. We acknowledge that potential unforeseen hiccups will weigh on shares (i.e., launch/mission failure). However, we expect 2024 to be characterized by a strong funnel of positive catalysts on the horizon, including Neutron's path toward entry into service and further potential SDA awards. We reiterate our Buy rating and \$10 PO as we continue to see RKLB as the strongest space pure play on the market.

Liquidity less of concern with \$355mn convertible offering

Previously, most of the public space names struggled from a liquidity perspective. We believe RKLB has amply derisked these concerns with its recent \$355mn convertible senior notes offering. The funds will be used for internal investments and any potential M&A opportunities, which would further vertically integrate its supply chain. We expect any M&A could also increase the potential content that RKLB could win on upcoming programs, especially within SDA's Proliferated Warfighter Space Architecture (PWSA). We lower our EPS estimates to reflect the higher interest expense. See details inside.

Neutron development: moving toward hot fire testing

Neutron continues to execute on key milestones, as some flight hardware shifts from production and into integration. Testing is also well underway, with simulated flights for avionics and hardware as well as canard testing and validation. Fairing and tank development and production also continues on pace, with carbon composite structures assembly expected to pick up in the coming months. The most noteworthy development is the Archimedes engine's progress toward hot fire testing, with engine component production almost entirely complete. With regard to launch infrastructure, RKLB is in the process of standing up testing infrastructure at the Stennis facility in Mississippi. Company language indicates that hot fire testing could commence as early as 2Q24.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.29)	(0.38)	(0.45)	(0.21)	(0.18)
EPS Change (YoY)	-11.5%	-31.0%	-18.4%	53.3%	14.3%
Consensus EPS (Bloomberg)			(0.35)	(0.08)	0.20
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	NM	327.5x	37.8x
Free Cash Flow Yield*	-7.1%	-7.3%	-7.0%	-2.3%	-0.1%

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

14 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	397.6	398.8
2025E Rev (m)	762.3	763.8
2026E Rev (m)	1,117.3	1,118.3
2024E EPS	-0.35	-0.45
2025E EPS	-0.11	-0.21
2026E EPS	-0.03	-0.18

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Stock Data

Price	4.29 USD
Price Objective	10.00 USD
Date Established	27-Nov-2023
Investment Opinion	C-1-9
52-Week Range	3.62 USD - 8.05 USD
Mrkt Val (mn) / Shares Out (mn)	2,098 USD / 489.1
Free Float	63.3%
Average Daily Value (mn)	47.54 USD
BofA Ticker / Exchange	RKLB / NAS
Bloomberg / Reuters	RKLB US / RKLB.OQ
ROE (2024E)	-34.3%
Net Dbt to Eqty (Dec-2023A)	-13.5%
ESGMeter TM	Medium

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Timestamp: 14 March 2024 03:00AM EDT

iQprofileSM Rocket Lab

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-14.2%	-20.7%	-24.8%	-11.6%	-11.4%
Return on Equity	-19.7%	-29.7%	-34.3%	-15.9%	-16.3%
Operating Margin	-64.1%	-72.7%	-49.8%	-11.3%	-6.5%
Free Cash Flow	(149)	(154)	(146)	(47)	(2)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.3x	1.8x	1.8x	1.8x	1.6x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-21.2%	-13.5%	-10.6%	-4.7%	-5.0%
Interest Cover	-17.3x	-41.9x	-11.8x	-4.2x	-3.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	211	245	399	764	1,118
% Change	239.0%	15.9%	63.1%	91.5%	46.4%
Gross Profit	19	51	100	260	414
% Change	NM	170.7%	94.0%	160.6%	59.4%
EBITDA	(39)	(91)	(108)	6	53
% Change	12.2%	-135.8%	-18.6%	NM	765.8%
Net Interest & Other Income	2	(1)	(17)	(20)	(20)
Net Income (Adjusted)	(136)	(183)	(219)	(107)	(93)
% Change	-15.5%	-34.3%	-20.1%	51.4%	12.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(136)	(183)	(219)	(107)	(93)
Depreciation & Amortization	33	30	31	33	42
Change in Working Capital	(48)	(7)	96	87	114
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	45	61	0	0	0
Capital Expenditure	(42)	(55)	(55)	(60)	(66)
Free Cash Flow	-149	-154	-146	-47	-2
% Change	-52.8%	-3.1%	4.7%	67.6%	94.8%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	243	163	76	29	26
Trade Receivables	0	0	0	0	0
Other Current Assets	0	0	0	0	0
Property, Plant & Equipment	102	145	169	196	220
Other Non-Current Assets	645	633	477	390	276
Total Assets	989	941	722	615	523
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	163	223	0	0	0
Long-Term Debt	100	88	0	0	0
Other Non-Current Liabilities	53	76	0	0	0
Total Liabilities	316	387	0	0	0
Total Equity	673	555	722	615	523
Total Equity & Liabilities	989	941	722	615	523

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

Company Sector

Aerospace

Company Description

Rocket Lab is a small-lift launch service provider focused on meeting the demand of small satellite manufacturers and operators with payloads less than 320 kg. Currently, the company's Electron vehicle is the most affordable and reliable small-lift launcher commercially available to U.S. and allied customers on a cost per kg basis. Rocket Lab is also seeking to expand into medium-lift launch services and satellite component manufacturing. The company is headquartered in Long Beach, California.

Investment Rationale

Rocket Lab presents one of the most affordable and consistent launch services available to U.S. customers. The efforts toward reusability and manufacturing satellite components will provide increased exposure to the growing small satellite market. The company is also poised to benefit from greater U.S. government work with the opening of Launch Complex 2 in Virginia.

Stock Data

Average Daily Volume 11,213,559

Quarterly Earnings Estimates

	2023	2024
Q1	-0.10A	-0.11E
Q2	-0.10A	-0.11E
Q3	-0.08A	-0.11E
Q4	-0.10A	-0.11E

Reiterate \$10 PO

Our PO of \$10 is based on a long-term DCF of base, bull, and bear cases for different revenue and cash generation scenarios between now and 2035. Our DCF factors in a 14.5% discount rate and assigns 33% probability to the base case, 33% probability to the bull case, and a 33% probability to the bear case.

Lowering EPS estimates on \$355mn convertible

We are lowering our 2024 and outyear EPS estimates mainly to reflect the impact of interest expense related to the recent convertibles issuance. In early February, Rocket Lab closed the private offering of \$355mn of 4.25% convertible senior notes due 2029. We cut 2024e EPS to \$(0.45) from \$(0.35), 2025e to \$(0.21) from \$(0.11), and 2026e to \$(0.18) from \$(0.03).

Price objective basis & risk

Rocket Lab (RKLB)

Our PO of \$10 is based on a long-term DCF of base, bull, and bear cases for different revenue and cash generation scenarios between now and 2035. Our DCF factors in a 14.5% discount rate and assigns 33% probability to the Base case, 33% probability to the Bull case, and a 33% probability to the Bear case. We employ a lower discount rate relative to peers to account for the company's more mature launch capabilities. In our view, the equal weighting fairly reflects current investor risk appetite, momentum for new technology space stocks, and the perceived viability of Rocket Lab's business model compared to peers.

Downside risks to our PO are production delays, constellation launch market remaining captive to certain providers, setbacks to the economic recovery, inability to achieve M&A synergies, and setbacks to Neutron vehicle development.

Upside risks to our PO are better-than-expected cost cutting and margin expansion, well integrated M&A activity, market share gains in satellite components and services, higher reutilization levels, and better-than-expected commercialization of the Neutron launch vehicle.

Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	GE Aerospace	GE	GE 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
	Textron	TXT	TXT 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
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	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
RSTR				
	Cadre Holdings Inc	CDRE	CDRE 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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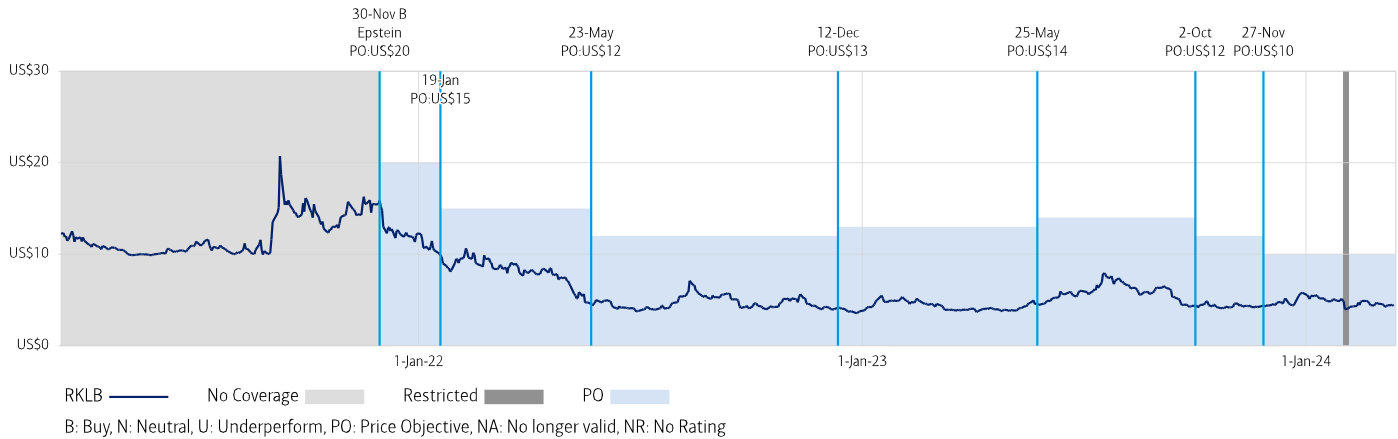
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Rocket Lab (RKLB) Price Chart



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

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%

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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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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