



Technical Update

November 28, 2021 | Lockheed Martin (LMT)



Technical Analysis Update



Companies Included in this report:



Lockheed Martin (LMT)

Lockheed Martin Corporation is a security and aerospace company. It operates through four segments. The aeronautics segment is engaged in the research, design, development, manufacture, support, and upgrade of military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. Missiles and Fire Control segment provides air and missile defense systems; fire control systems; manned and unmanned ground vehicles, and energy management solutions. Rotary and Mission Systems segment provides design, manufacture, service, and support for various military and commercial helicopters, surface ships, sea, and land-based missile defense systems, radar systems, sea, and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions. The space segment is engaged in the research and development, design, engineering, and production of satellites, missile systems, and space transportation systems.

Monthly Chart



Noting key levels

- When looking at the monthly chart it is important to remain discretionary, as in, using simplistic technical tools (supply/demand, and key points of interest).
- On the above chart, we have 4 key levels defined.
 - \$442.53 - set as the all-time highs.
 - \$390 - set as the upper resistance boundary.
 - \$320 - set as the relative lower boundary.
 - \$240 - set as the lower boundary.
- The reason we define these levels on a monthly is to coordinate key levels as we shorten the 'time' parameters. Moving forwards as we can see above the \$320 level will play the role of the demand signal (where investors, historically, have defended the price).
- Note the rising trendline (grey dotted) which correlated with the lows set in 2019 as well as 2020.

- As the current price is defined under the **50d SMA** we have one recent example of this signal (experienced at the start of 2021), where the price fell below the **50d SMA** and rallied back through in the next month.

Daily Chart



What is the ‘trend’?

- Looking at the last 2 years of daily price action we can make note of some significant measures related to price.
- Note how, as defined when analyzing the monthly chart we mentioned the relevance of the “key levels”
 - Both the \$320 and \$390 have now been converted into visual supply and demand ranges.
- A new tool we are presenting is the dashed purple line which represents a **linear regression analysis**.
 - We use this tool to help define whether the price over a given time period has trended positively or negatively.
 - As clearly defined above the last 24 months of price action has trended negatively irrespective of earnings or other secondary and tertiary factors.
- With respect to the more relevant price action, the recent earnings have shown significant weakness in investor confidence.
 - Note the large rally from (\$355.5 to \$378.9) leading into the most recent earnings report.
 - Post-report we see a large spike in daily volume correlating with a large gap down in price.
 - We see an initial low set within our previously defined demand range (above \$320) at \$324.
 - As would be expected, we see the price react to our previously defined demand range with a moderate rally back into the initial gap down range (white dashed line \$348.5).

- Note how as price confirms resistance set at \$348.5 LMT begins to trend lower once again, signaling investors are not certain price can close the above earnings gap.

Fundamental Overview (Annual)

By the Numbers	Annual	Quarterly		Current (Annual)	YoY%	5Y Trend	2016	2017	2018	2019	2020
Share Values											
Earnings Per Share - TTM				\$21.70	9.66%		\$17.49	\$13.25	\$17.44	\$21.95	\$24.30
Dividends Per Share - TTM				\$10.60	8.16%		\$5.77	\$7.46	\$8.20	\$9.00	\$9.80
Book Value Per Share				\$21.56	48.20%		\$5.23	(\$2.40)	\$4.96	\$11.17	\$21.56
Cash Flow Per Share				\$29.74	N/A		N/A	N/A	N/A	N/A	N/A
Free Cash Flow Per Share				\$12.70	-13.60%		\$9.81	\$16.42	(\$0.57)	\$14.43	\$12.70
Sales Per Share				\$232.57	9.38%		\$153.88	\$171.92	\$167.45	\$210.75	\$232.57
Profitability											
Return on Equity (ROE)				149.49	-84.37%		220.12	483.57	1855.1	275.6	149.49
Return on Assets (ROA)				15.966	-1.60%		13.532	5.738	13.094	15.711	15.966
Gross Profit Margin				15.262	-5.90%		12.834	14.854	16.002	16.162	15.262
Operating Profit Margin				13.259	-5.51%		10.743	12.452	13.474	13.989	13.259
Tax Rate				16.357	14.64%		25.501	29.173	14.9	13.962	16.357
Interest Rate - Estimated Average				4.8566	-6.26%		4.9422	4.5643	4.7363	5.1604	4.8566
Net Profit Margin				10.448	0.31%		11.222	3.9291	9.3858	10.416	10.448
Activity Ratios											
Total Asset Turnover				1.3845	2.28%		1.1473	1.1495	1.2902	1.3529	1.3845
Inventory Turnover				15.111	2.06%		8.4344	9.4474	14.978	14.799	15.111
Financial Ratios											
Long-term Debt to Capital				65.9	-18.73%		89.892	106.09	89.689	78.244	65.9
Financial Leverage (Assets/Equity)				7.8529	-80.03%		27.254	-51.134	29.891	14.138	7.8529
Fixed Charge Coverage Ratio				14.934	19.05%		7.7014	8.7404	9.5614	12.089	14.934
Dividend Payout (% of Earnings)				40.451	-1.43%		38.627	N/A	46.512	41.027	40.451
Quick Ratio				1.0538	12.08%		80043	1.0159	88123	5955	1.0538
Current Ratio				1.3908	12.03%		1.2046	1.3556	1.1184	1.2235	1.3908
Valuation											
Price / Earnings Ratio			Current	15.737		5yr Avg	16.693				
Price / Cash Flow Ratio			Current	11.751		5yr Avg	13.417				
Price / Book Value Ratio			Current	10.009		5yr Avg	38.932				
Market Capitalization / Common Equity Ratio			Current	10.009		5yr Avg	3.6841				
Dividend Yield			Current	2.9755		5yr Avg	2.6141				
Dividend Payout Per Share (% of EPS)			Current	40.33		5yr Avg	43.637				
Growth Rates											
Revenue			Current	3.2735		3yr Avg	8.6079				
Net Income			Current	-7.3559		3yr Avg	N/A				
Earnings Per Share			Current	-6.5173		3yr Avg	22.26				
Dividends Per Share			Current	8.3333		3yr Avg	N/A				
Book Value Per Share			Current	97.266		3yr Avg	N/A				
Total Shares Outstanding: 275,785,440											
Market Cap: 94,515 M											

- Looking at the quick view investors should note a few significant changes in Lockheed Martin's fundamental valuation.
- First is the notable declines in both **Return on Equity (ROE)**, as well as a significant decline in **Financial Leverage (Assets/Equity)**.
- While most other metrics are progressing normally we also see significant declines in growth rates; Investors should note significant losses in **Revenue**, **Net Income**, **Earnings Per Share (EPS)** as well as **Dividends Per Share (DPS)** relative to their 5-year averages.
- The one positive metric for Lockheed Martin is the significant rise in **Book Value Per Share**, from a 5 year average of 16.098 to a current rate of 97.266.

What Changed?

- Looking deeper into the Q3 filings, the company expected to see lower 2022 revenues as a result of declining government spending and purported secondary effects from the ongoing state of emergency.
- The company however has returned value to investors from both dividends and share repurchase programs.
- Also as a result of the crisis which began in early 2020, Lockheed Martin is reporting a heavy backlog of orders.

Summary

Overall Lockheed Martin has more than a few hurdles to jump through to return investor confidence and return their share price to what it was before the crisis of 2020. Investors should keep a keen eye on improving fundamentals moving forwards as Lockheed Martin attempts to fulfill the current backlog of orders and expand their operations into the hypersonics arena.

References

8/21/50/100/200dSMA: The Simple Moving Average is calculated by summing the closing prices of the security for a period of time and then dividing this total by the number of time periods. Sometimes called an arithmetic moving average, the SMA is basically the average stock price over time. As a trend develops, the moving average will slope in the direction of the trend, showing the trend direction and some indication of its strength based on the slope steepness.

Linear Regression: Linear regression analyzes two separate variables in order to define a single relationship. In chart analysis, this refers to the variables of price and time. Investors and traders who use charts recognize the ups and downs of price printed horizontally from day-to-day, minute-to-minute, or week-to-week, depending on the evaluated time frame.

Return on Equity: Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits.

Financial Leverage: Leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital. Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets.

Revenue: Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold. It is the top line (or gross income) figure from which costs are subtracted to determine net income. Revenue is also known as sales on the income statement.

Net Income: Net income (NI), also called net earnings, is calculated as sales minus the cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses. It is a useful number for investors to assess how much revenue exceeds the expenses of an organization. This number appears on a company's income statement and is also an indicator of a company's profitability.

Earnings Per Share: Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's

profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution.

Dividend Per Share: Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time, usually a year, by the number of outstanding ordinary shares issued.

Book Value Per Share: Book value per share (BVPS) is the ratio of equity available to common shareholders divided by the number of outstanding shares. This figure represents the minimum value of a company's equity and measures the book value of a firm on a per-share basis.

Links:

- [The Linear Regression of Time and Price \(investopedia.com\)](https://investopedia.com/terms/L/linear-regression-of-time-and-price/)
- [Return on Equity \(ROE\) Definition \(investopedia.com\)](https://investopedia.com/terms/R/return-on-equity-roe-definition/)
- [Leverage Definition: What Is Financial Leverage? \(investopedia.com\)](https://investopedia.com/terms/L/leverage-definition-what-is-financial-leverage/)
- [Revenue Definition \(investopedia.com\)](https://investopedia.com/terms/R/revenue-definition/)
- [Net Income \(NI\) \(investopedia.com\)](https://investopedia.com/terms/N/net-income-ni/)
- [Earnings Per Share \(EPS\) Definition \(investopedia.com\)](https://investopedia.com/terms/E/earnings-per-share-eps-definition/)
- [Dividend Per Share \(DPS\) Definition \(investopedia.com\)](https://investopedia.com/terms/D/dividend-per-share-dps-definition/)
- [Book Value Per Share \(BVPS\) Definition \(investopedia.com\)](https://investopedia.com/terms/B/book-value-per-share-bvps-definition/)

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