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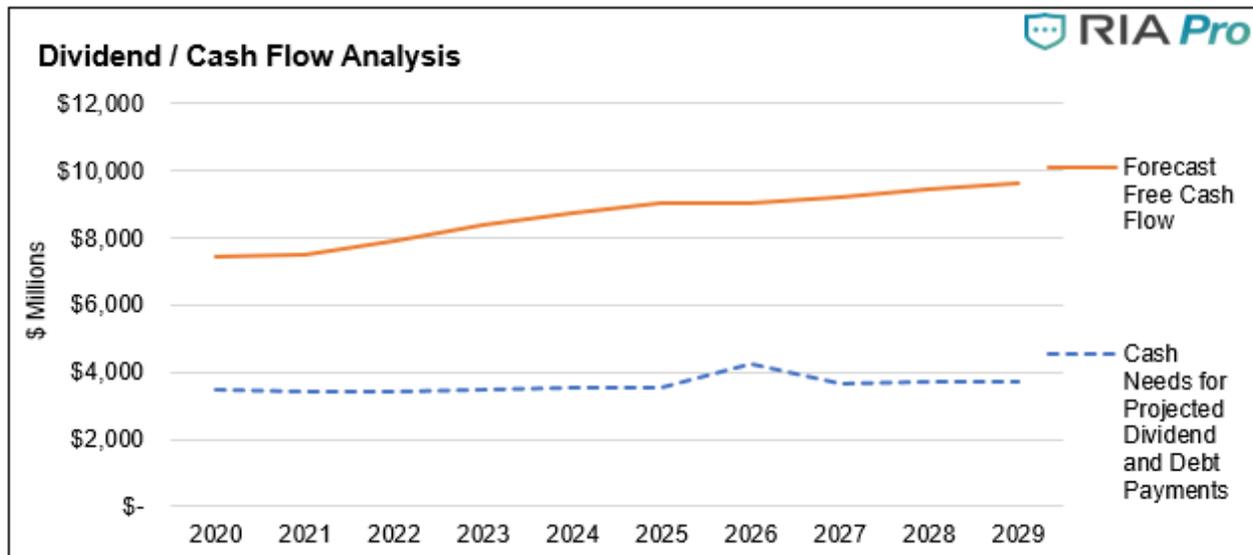
In this edition of the Value Seeker Report, we analyze an investment opportunity in Raytheon Technologies Corporation ([NYSE: RTX](#)) using fundamental and technical analysis. We currently own a 0.5% position of RTX in our Equity Model.

## Overview

- Raytheon Technologies Corporation ([RTX](#)) is an aerospace and defense company that serves customers across the world. RTX belongs to the Industrials sector and has a market cap of \$108B.
- In April 2020, the legacy companies of United Technologies and Raytheon Corporation completed a "merger of equals" to become one of the largest aerospace and defense companies in the world. Pro-forma results for the combined entity yield total revenue of \$74B in 2019.
- RTX reports revenue in four segments: Collins Aerospace (33%), Pratt & Whitney (27%), Raytheon Missiles & Defense (21%), and Raytheon Intelligence & Space (19%). Within these segments, RTX serves customers in three distinct areas of the market - Commercial, Military, and Government.
- RTX's stock is currently trading at \$71.14 per share. Using our forecasts, we arrive at an intrinsic value of \$68.34 per share. This implies a downside of 3.9% on the investment.

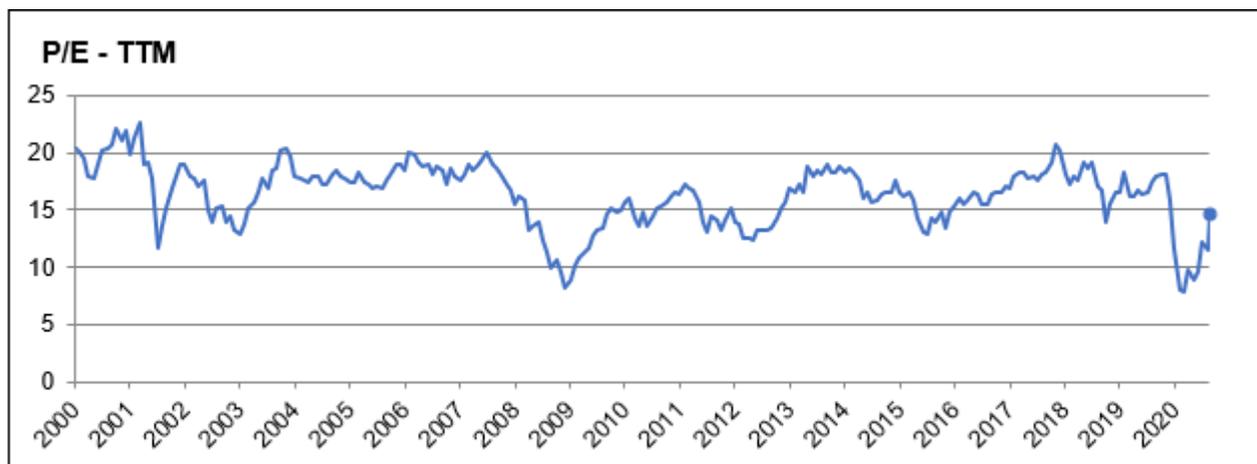
## Pros

- RTX expects to capitalize on substantial cost synergies from the recent merger. The company is working on almost 550 synergy projects, and management forecasts that RTX will unlock over \$1B in gross run-rate cost savings.
- In an effort to weather the pandemic and come out leading its peer group, RTX is taking actions to further cut costs and preserve cash while ensuring the health and safety of its employees. The company has announced \$2B of cost initiatives and \$4B of cash initiatives year-to-date.
- Both legacy firms paid investors a healthy dividend prior to the merger. After the deal closed in April 2020, Management elected to set RTX's dividend below that of either legacy company. However, the current dividend still provides investors with a solid yield of 2.7%.
- A lower dividend payout lends RTX flexibility in investing for the future while navigating a global pandemic. As shown below, our forecasts indicate that RTX will produce enough free cash flow to safely cover its projected dividend and debt payments throughout the forecast period.



## Cons

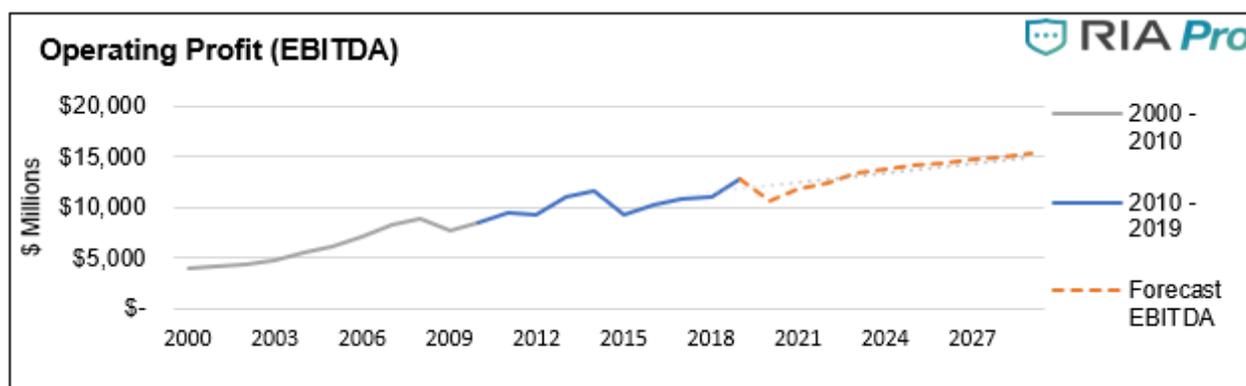
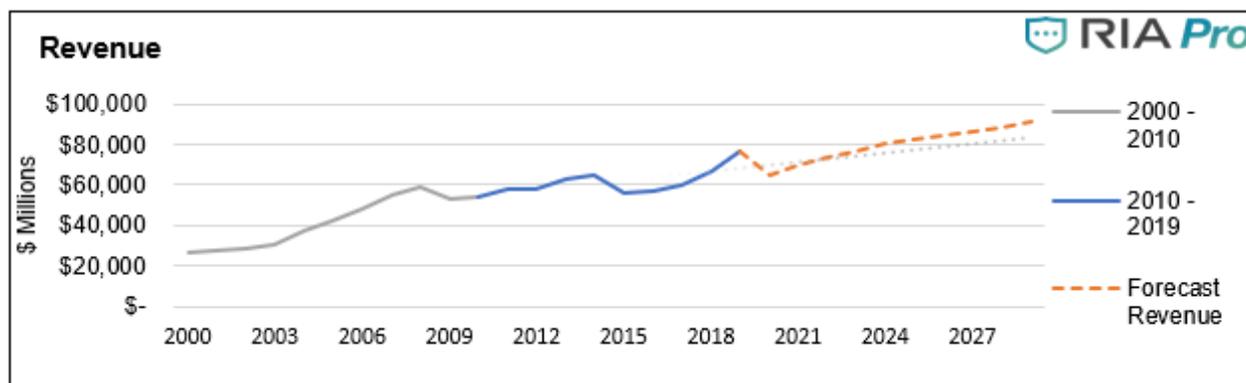
- RTX has significant exposure to the commercial aerospace market through its Collins Aerospace and Pratt & Whitney segments. Even with the recent vaccine news, it will likely be a slow grind until commercial air traffic reaches pre-pandemic levels.
- Further, COVID relief efforts have widened the fiscal deficits of several leading nations. Measures taken by governments to help shore up budgets in a post-Covid economy may result in cuts to defense spending. Thus, as commercial aerospace revenue recovers, RTX could see weakened demand from its Military and Government customers. There are also factors at play that could support defense spending despite large deficits. An important one stems from US? rocky relationships with China and Russia.
- On a trailing-twelve-months (TTM) basis, RTX is trading at a Price to Earnings (P/E) ratio of 14.8. This is within fairly close proximity to its 20-year historical average of 16.3, which signals the stock may be trading near fair value.
- Finally, in late October, RTX disclosed that it [received a subpoena from the Department of Justice](#) for information related to an investigation into the historical accounting and control procedures in its Raytheon Missiles & Defense business. Whether this will have material consequences for RTX is yet to be seen, but investors should be aware of the risk.



Source: Zacks Investment Research

## Key Assumptions

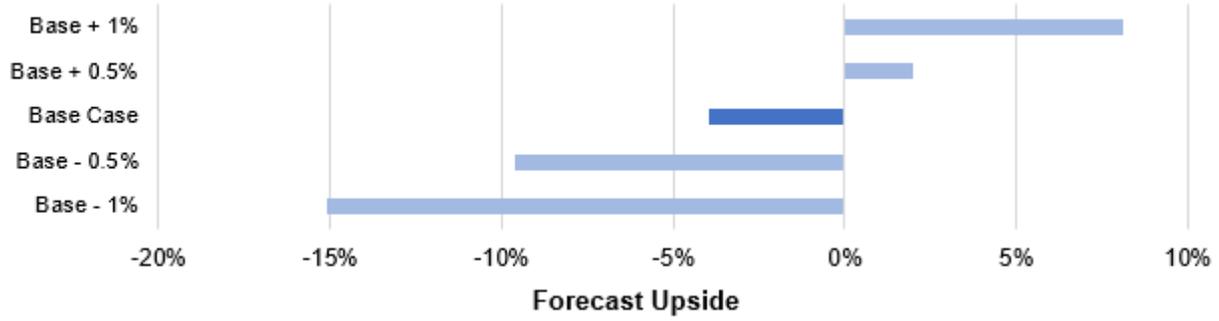
- Revenue growth for 2020 is based on three quarters of results and Management's comments in RTX's third-quarter earnings call. Considering Management's tone and recent developments on the vaccine front among other things, we forecast gradual recovery in revenue spanning through 2023. Revenue growth will then trend down to a modest long-term forecast by 2026. The chart below illustrates our forecasts in relation to historical revenue.
- We forecast 2020 margins to remain flat year-over-year despite headwinds caused by the pandemic, due to aforementioned cost reduction efforts. We then forecast margins to gradually improve as RTX experiences a recovery in demand through 2023. Thereafter, margins are expected to remain steady for sometime, then shrink marginally toward the long-term level. The chart below shows how our forecasts of EBITDA evolve in comparison to historical figures.



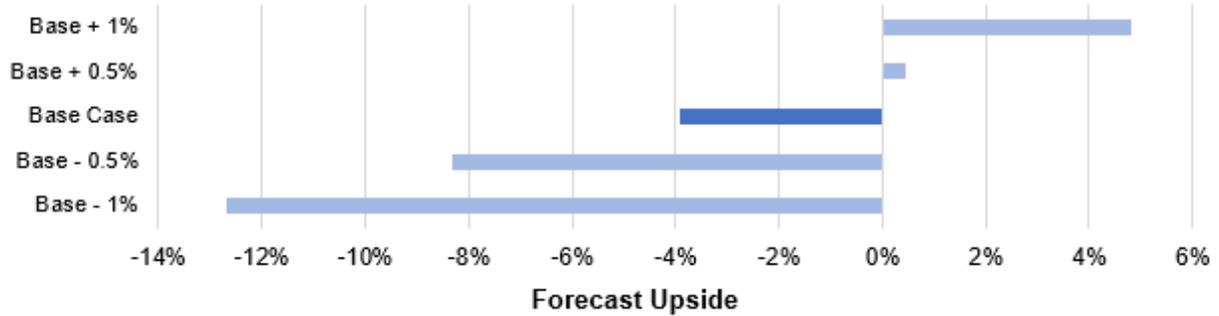
## Sensitivity Analysis

- A brief note on why we present sensitivity analysis can be found [here](#).
- Our sensitivity analysis reminds us of an important consideration. The stock appears near fair value using our base assumptions, however, RTX exhibits some upside potential when using more optimistic growth and margin forecasts. If changing circumstances result in a faster than expected recovery in commercial air traffic, which is a very real possibility, the intrinsic value of RTX could be substantially higher.

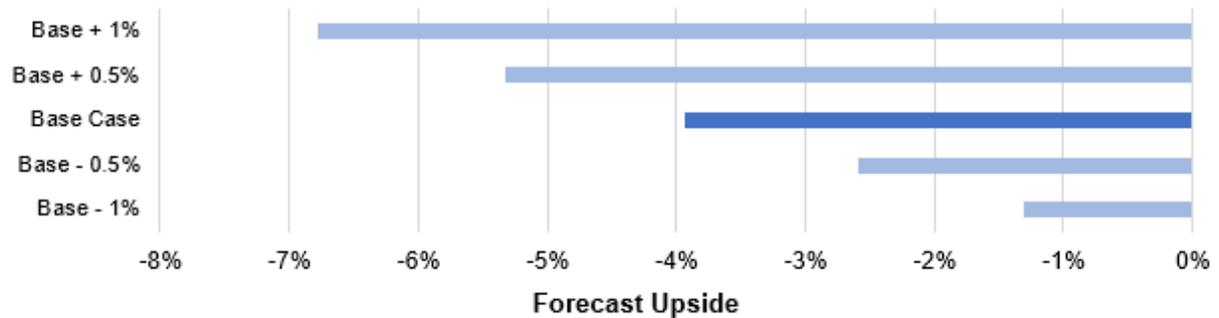
### Revenue Growth Forecasts



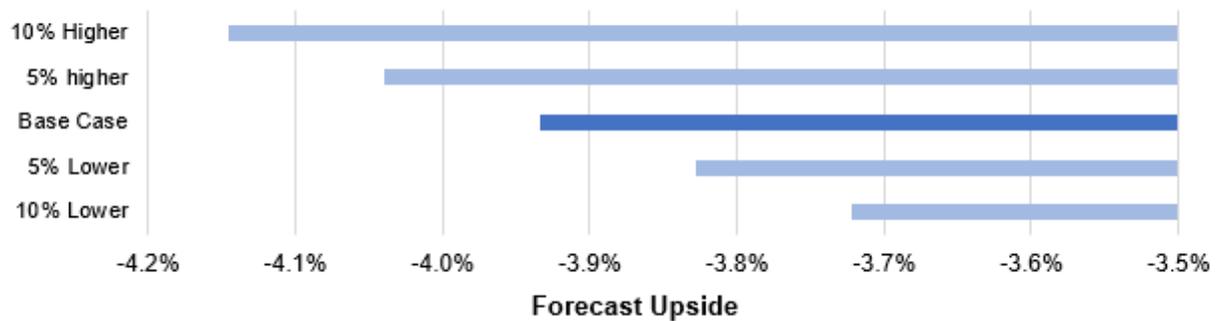
### EBITDA Margin Forecasts

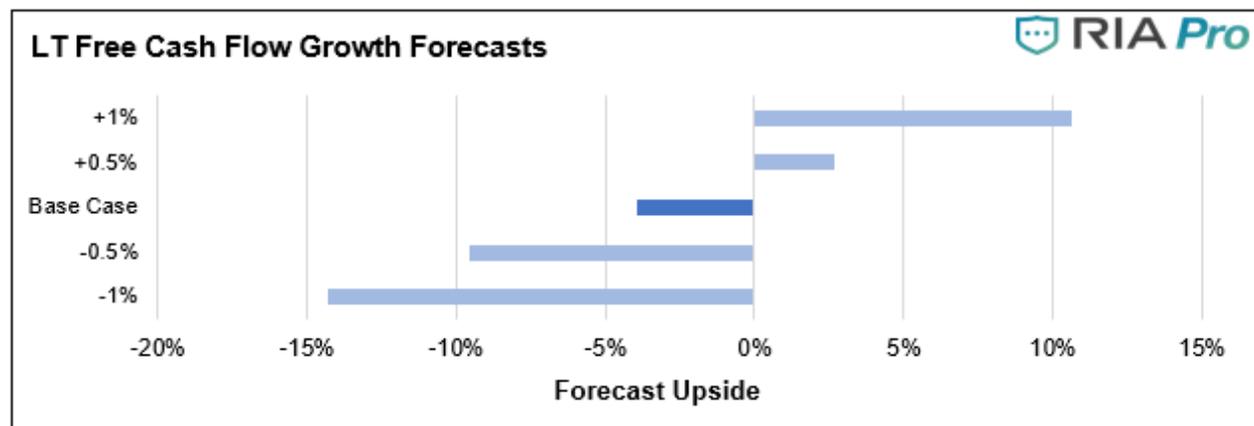
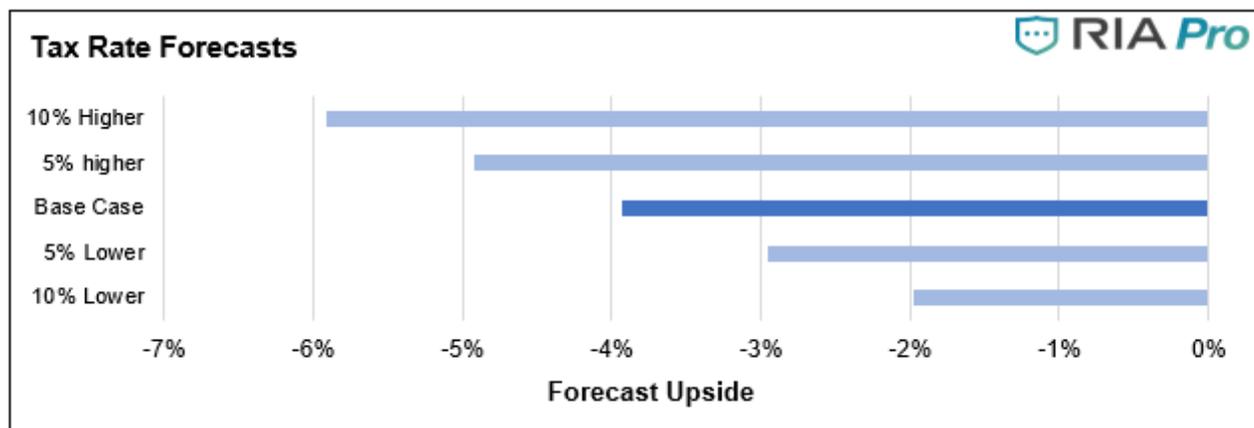


### Capital Expenditure Growth Forecasts



### Cash Acquisition Forecasts





## Technical Snapshot

- RTX has been in a sharp trend higher since the arrival of encouraging news surrounding two potential Covid vaccines. In fact, four of the previous five trading days have been positive for RTX. The stock is now sitting above both its 50-day and 200-day moving averages, after trading below them prior to the vaccine news.
- At the same time, RTX is in the process of testing a substantial level of resistance near \$71 per share. With the combination of these factors, RTX may be primed for a pullback in the near future.

## Value Seeker Report Conclusion On RTX

- RTX has been on a wonderful run since the encouraging news broke on the vaccine front. After a 22% gain since the beginning of November, we believe the stock is slightly overvalued. Based on our forecasts, RTX has roughly 4% of downside remaining before reaching its intrinsic value.
- The company is certainly poised to benefit from its recent merger and cost cutting initiatives, however we believe those aspects are fully priced in to the stock.
- While market conditions could improve for RTX, we believe there may be better places for investors to put their money to work for the time being.

Fundamental Ratios	
Price / Sales TTM	1.27
Price / Earnings TTM	14.8
Current Ratio (Quarterly)	1.22
Quick Ratio	0.57
Times Interest Earned (TIE) Ratio TTM	1.88

Latest Report Date	Ticker	Last Close Price	Intrinsic Value	Forecast Upside Remaining	*Original Conviction Rating	*Current Conviction Rating	Currently Held in RIA Pro Portfolio?	Notes
8/6/2020	<a href="#">T</a>	\$ 28.28	\$ 38.09	34.7%	3-Star	2-Star	No	
8/13/2020	<a href="#">XOM</a>	\$ 37.40	\$ 55.42	48.2%	3-Star	2-Star	No	
8/28/2020	<a href="#">VIAC</a>	\$ 33.43	\$ 36.70	9.8%	4-Star	2-Star	No	
9/3/2020	<a href="#">DOX</a>	\$ 64.25	\$ 76.76	19.5%	3-Star	3-Star	No	
9/11/2020	<a href="#">CVS</a>	\$ 66.06	\$ 85.35	29.2%	3-Star	3-Star	Yes	
9/18/2020	<a href="#">PETS</a>	\$ 29.47	\$ 41.14	39.6%	3-Star	3-Star	No	
9/24/2020	<a href="#">SPB</a>	\$ 65.77	\$ 61.18	-7.0%	4-Star	4-Star	No	Price Target Achieved
10/2/2020	<a href="#">DKS</a>	\$ 55.97	\$ 68.76	22.9%	4-Star	4-Star	No	
10/9/2020	<a href="#">WCC</a>	\$ 62.82	\$ 61.42	-2.2%	4-Star	4-Star	No	Price Target Achieved
10/30/2020	<a href="#">KMI</a>	\$ 14.40	\$ 13.98	-2.9%	3-Star	3-Star	No	Price Target Achieved
11/6/2020	<a href="#">FANG</a>	\$ 39.44	\$ 36.32	-7.9%	3-Star	3-Star	No	Price Target Achieved
11/20/2020	RTX	\$ 71.11	\$ 68.34	-3.9%	4-Star	4-Star	Yes	

\*Our conviction rating aims to express the intensity of our feelings toward the stance taken in each report. Reports are assigned a rating from 1 to 5 stars.

***For the Value Seeker Report, we utilize RIA Advisors? Discounted Cash Flow (DCF) valuation model to evaluate the investment merits of selected stocks. Our model is based on our forecasts of free cash flow over the next ten years.***