Aerospace & Defense Sectoral Analysis

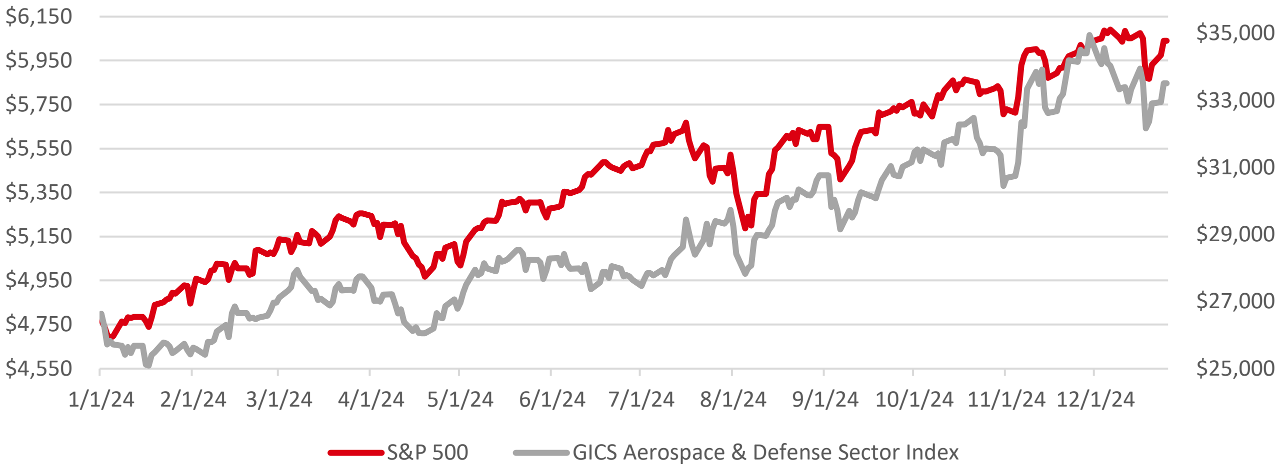
27 December, 2024

Giorgi Karchava | Head of brokerage | Giorgi.Karchava@lb.ge | +995 598 72 66 54
Giorgi Sakandelidze | Investment Broker & Analyst | Giorgi.sakandelidze@lb.ge | +995 577 40 50 75

Table of Content

Sector overview

Aerospace and defense 33,508$/+24.6%

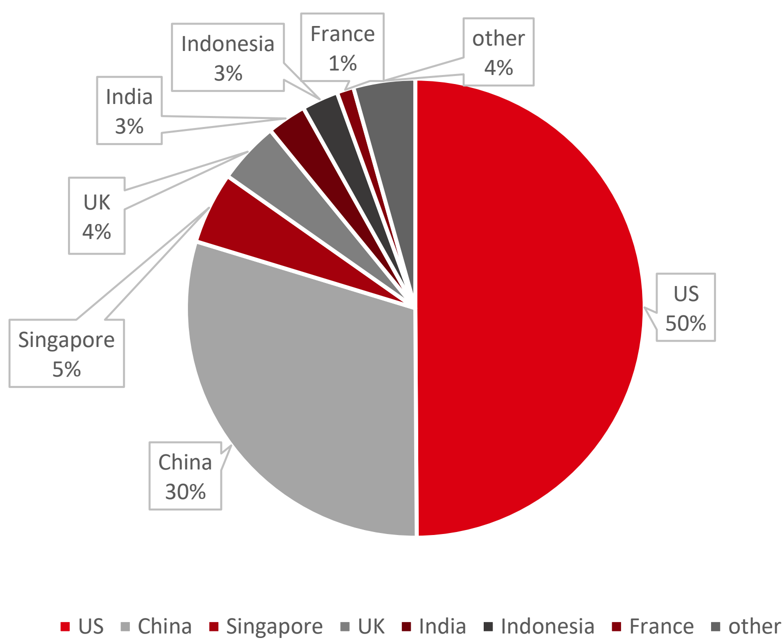


The Aerospace and Defense sector delivered a 1-year performance of 25.8%, slightly trailing the S&P 500's 26.6%. With a market cap of $10.59 billion, the industry shows an ROE of 3.63%, EPS of 109.54, and a high P/E ratio of 234.5, reflecting elevated valuations. Cumulative equity investments globally increased, with the U.S. leading at 50% of total investments. These metrics highlight strong growth potential but signal cautious optimism amid robust market trends and significant investor interest.

S&P Aerospace & Defense Total Return Index Performance

10.59 BLN Index Market Cap	234.50 P/E
109.54 EPS	34 Members
+25.8% 1 Year chg%	+57.73% 2 Year chg%
1.52 Dividend Yield	3.63 ROE
1.022 Raw beta	0.54 R^2

Cumulative equity investments worldwide

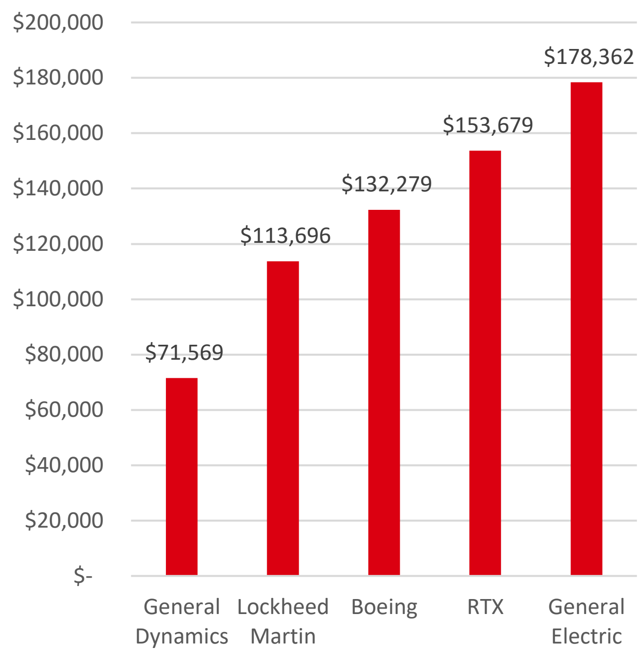


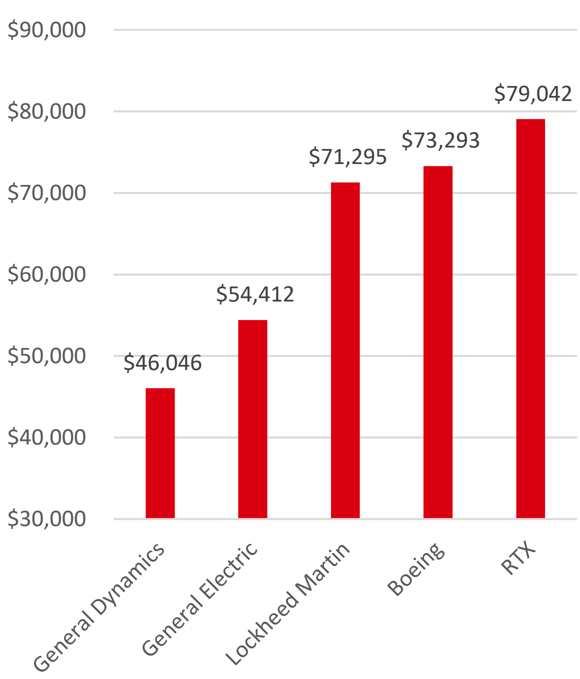
Top performers

Largest Companies

The aerospace and defense sector's market leaders demonstrated significant movements in 2024. General Electric, with a market cap of $178.4 billion, achieved the sector's strongest growth at 68.57%. RTX, ranked 94th globally, delivered robust performance with a 39% increase, reaching $153.7 billion.

Boeing, despite challenges, retained its position as the 122nd most valuable company, with a market cap of $132.3 billion but a -31.76% decline. Lockheed Martin, valued at $113.7 billion, maintained stability with shares trading at $488.13. General Dynamics rounded out the list with $71.6 billion and a 3.78% gain.





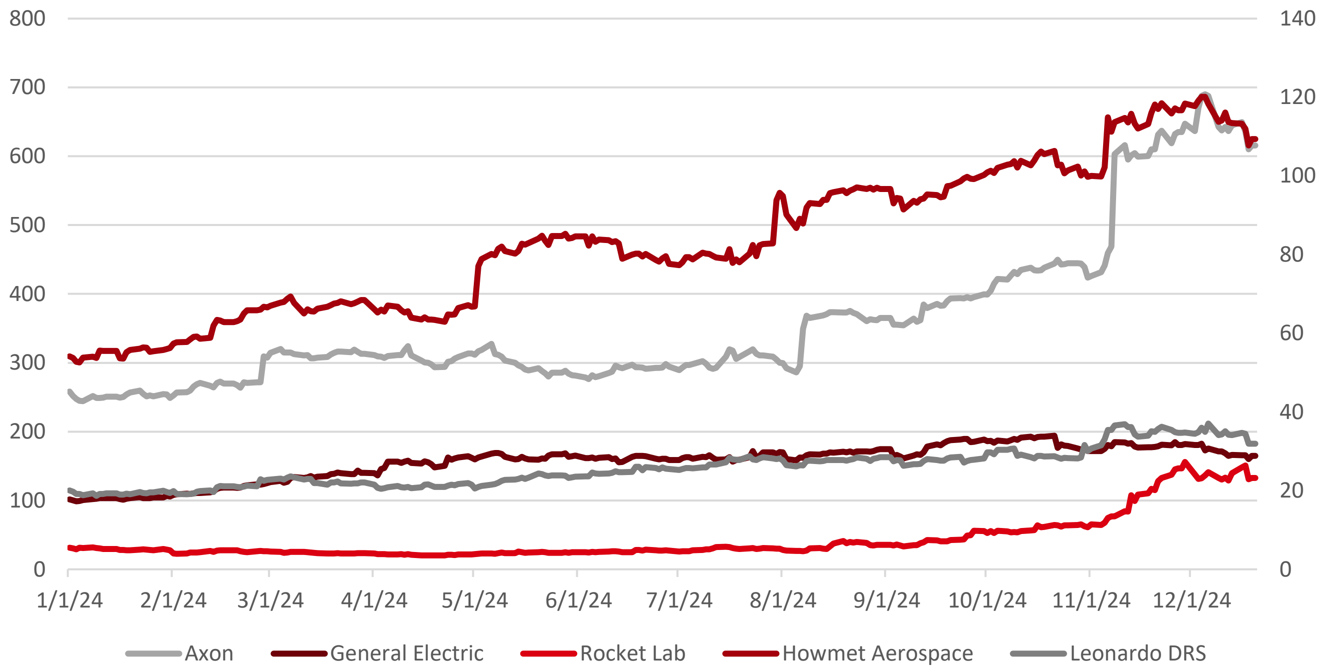
Top Revenue Generators

As for the revenue generation in the industry RTX led the industry with $79.04 billion in revenue, achieving an impressive 14.69% growth from $68.92 billion in 2023. Boeing, despite challenges, generated $73.29 billion in revenue, marking a -5.79% decline from $77.79 billion in 2023 but remained the second-largest revenue generator.

Lockheed Martin reported $71.30 billion, reflecting a 5.51% increase over 2023. General Electric grew 4.71% to $54.41 billion, while General Dynamics showed consistent growth, reaching $46.04 billion, up from $42.27 billion in 2023.

Top performers

Best Stock Performance



Rocket Lab, a space systems leader, surged +426.5% in 2024. Generating $614.2M (+78% YoY) with a P/E of 34.55, it dominates spacecraft, satellite manufacturing, and launch services.

Axon, with +143.57% growth, excels in non-lethal solutions for law enforcement and military. Its P/E of 190.28 and EPS of 3.28 reflect strong product demand and market strength.

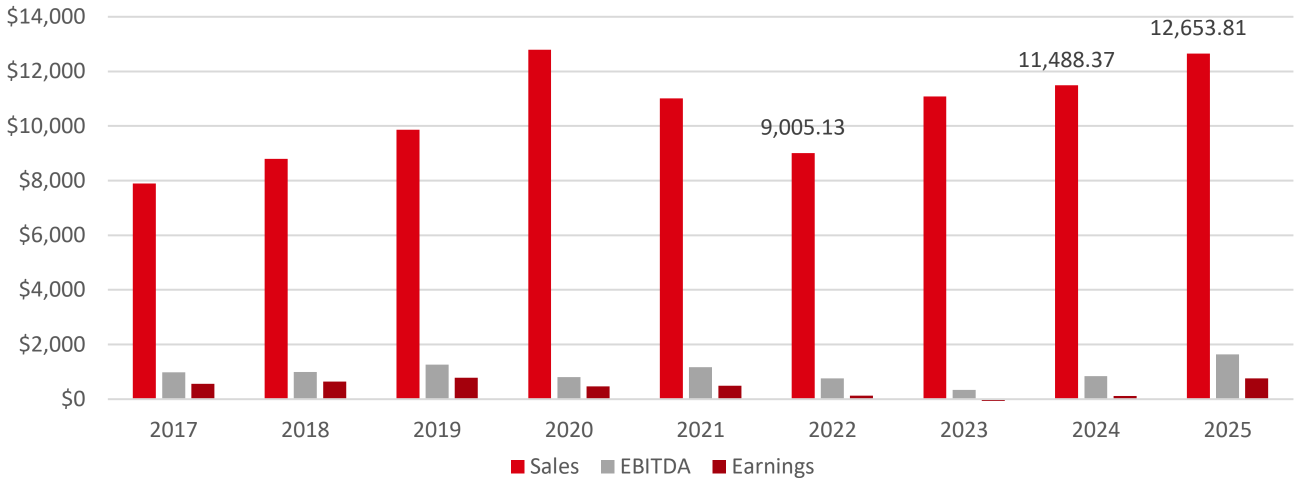
Howmet Aerospace grew +107.41%, fueled by $4B commercial and $1.3B defense revenues. With a 26% ROE and EPS of 4.94, it thrives in aerospace and transportation markets.

Leonardo DRS climbed +71.49%, leveraging 13% revenue growth YoY. Trading at $33.02, its battlefield systems and surveillance solutions showcase resilience, rebounding 9.5% after Bollinger Band dips 3 times this year.

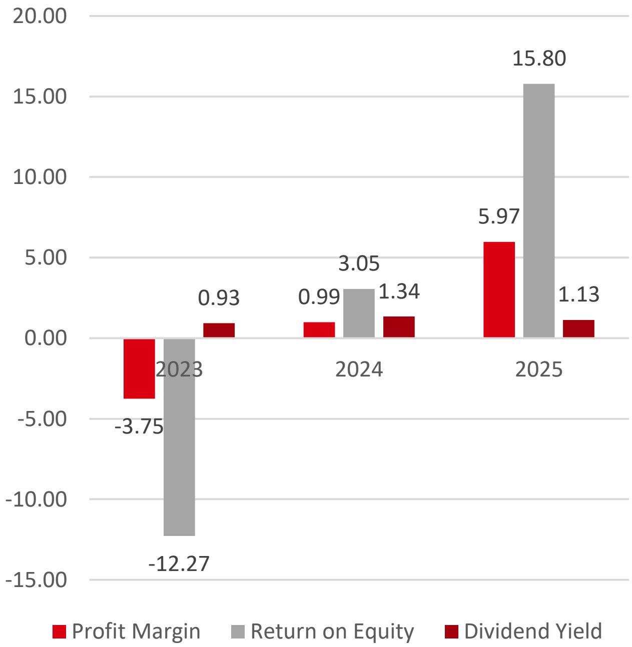
General Electric advanced +67.5%, driven by aviation excellence. Commercial engines tripled defense revenue, achieving EPS of 4.22 and a 25.84% gross margin, underscoring its leadership in aerospace innovation.

Sector financial analysis

SPSIAD Aerospace and Defense sector index



The Aerospace and Defense sector delivered strong 2024 performance, with sales rising from 11 billion in 2023 to 11.5 billion, projected at 12.7 billion for 2025. Gross margins rose from 15.7% to 19.8% in 2024, signaling robust recovery and sustained growth potential. EBITDA soared from 337 million to 841 million, expected to double to 1.6 billion in 2026. Earnings rebounded from a 415 million loss in 2023 to 113 million, projected to increase sixfold by 2025.



Profitability metrics in the Aerospace and Defense sector showed remarkable improvement, complementing strong revenue and earnings growth. Profit margins turned positive, rising from -3.75% in 2023 to 0.99% in 2024, and are projected to reach 5.97% by 2025, showcasing significant operational efficiency.

Return on equity improved from -12.27% in 2023 to 3.05% in 2024, with expectations of 15.80% by 2025, signaling enhanced shareholder returns. Dividend yields rose from 0.93% in 2023 to 1.34% in 2024, before normalizing slightly to 1.13% in 2025, reflecting financial health.

Supply Chain Challenges

Aluminum Price Chart

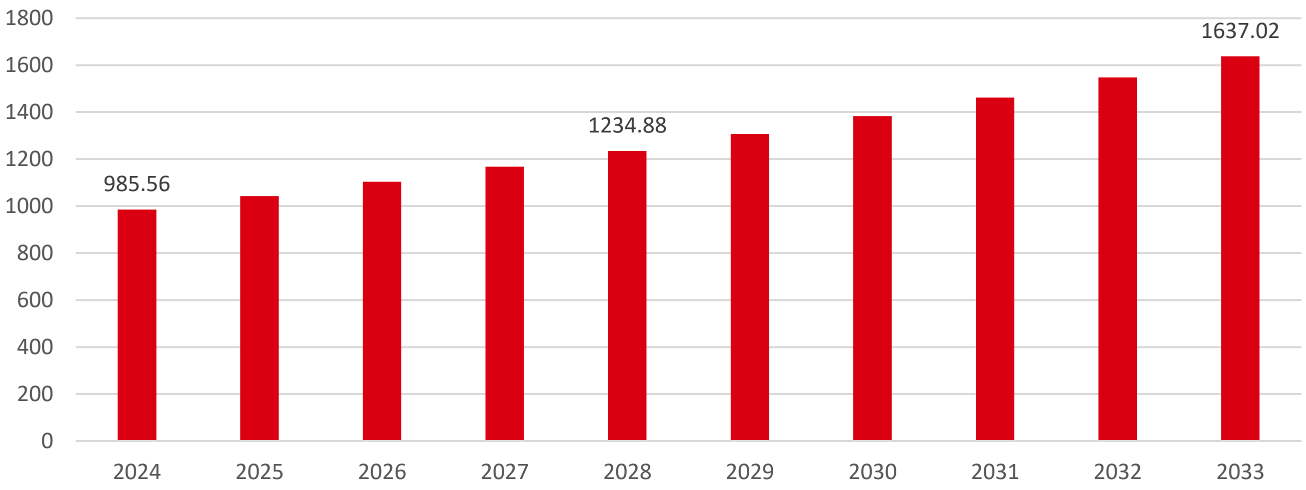
The aerospace and defense supply chain is under considerable strain due to a combination of geopolitical tensions and economic challenges. Semiconductor shortages, driven by the U.S.-China trade war and heavy reliance on Taiwan's production capabilities, have led to critical delays, with chip lead times surpassing 30 weeks in 2023. This has severely impacted the delivery of avionics, guided munitions, and communication systems. Material price volatility has further disrupted operations, with titanium prices spiking by 25% in 2023 due to sanctions on Russia, a major supplier. Companies like Boeing are increasingly turning to alternative sourcing and recycling to mitigate these risks.

Supplier bottlenecks remain a persistent issue, with delays in engine deliveries from Pratt & Whitney significantly slowing production schedules for Airbus and Boeing. These challenges expose the risks associated with reliance on limited suppliers for key components. Labor shortages add another layer of complexity, as the industry faces a deficit in skilled manufacturing and engineering talent. This has led to increased costs for recruitment, training, and retention programs, further delaying project timelines and reducing productivity. Together, these challenges underscore the critical need for systemic adjustments in supply chain management to ensure long-term resilience and efficiency in the aerospace and defense sector.

Global financial analysis

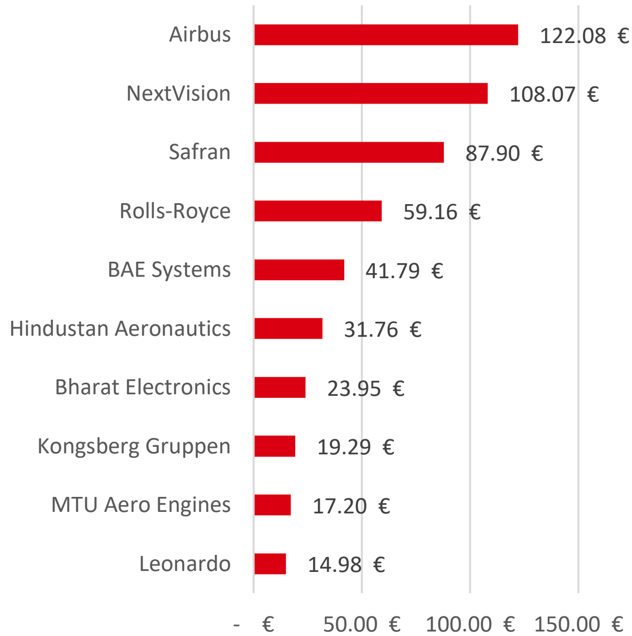
Global Aerospace and defense market size

CAGR 5.8%



The aerospace and defense market is projected to grow to $1234.42 billion by 2028 at a 5.8% CAGR, driven by modernization programs, increased drone demand, and government support. Low interest rates in developed countries have fueled investments, providing affordable financing for aerospace advancements. Emergency actions like Federal Reserve rate cuts during the pandemic also supported investment, boosting industry growth further.

Major Non-US Companies



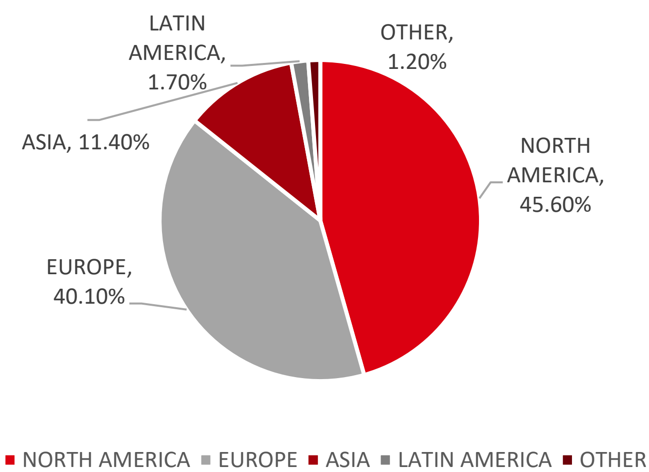
Airbus, with a market cap of €122.17 billion, ranks as the 127th most valuable company globally. Its stock price reached €154.94 in 2024, marking a 10.7% annual gain and strong market confidence.

Rolls-Royce, a leader in aero and industrial gas turbines, boasts a 20.77 P/E ratio. Its stock price rose 93.9% YoY to 5.78 GBP in 2024, reflecting significant investor optimism and market growth.

BAE Systems reported €28.20 billion in revenue, supported by a 19.0 P/E ratio and 2.7% dividend yield. The company demonstrates consistent performance, underpinned by its role in aerospace and defense innovation

Global financial analysis

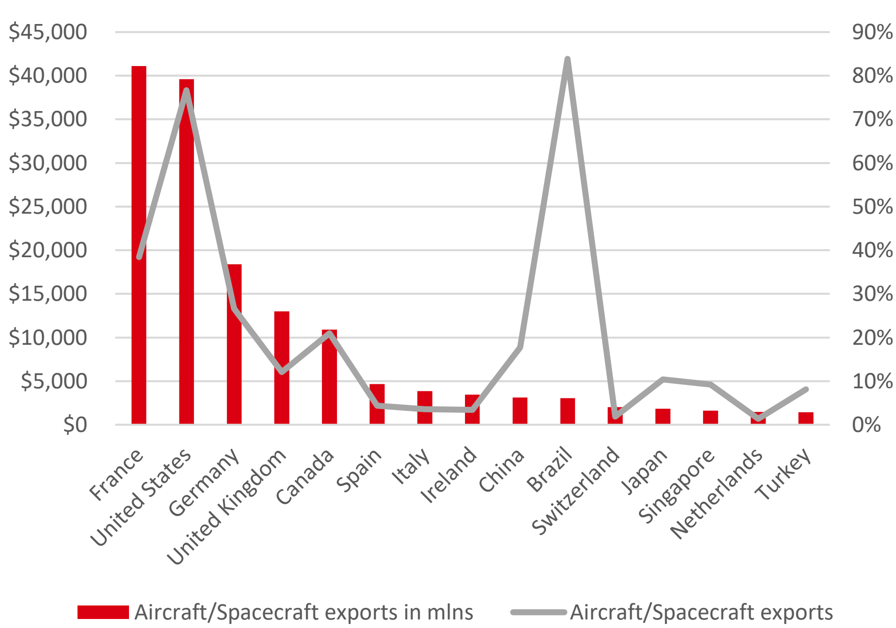
Aircraft and Spacecraft Exports



In 2024, international trade in aircraft, spacecraft, satellites, and related goods totaled $249.4 billion in exports, reflecting the importance of the aerospace sector in global trade. The United States remained the undisputed leader in this market, contributing $102.8 billion, or 41.2% of the worldwide total. This significant share highlights the U.S.'s dominance in aerospace exports, driven by its advanced manufacturing capabilities and strong demand for American aerospace products globally.

Despite this leadership position, the sector faced notable challenges, with trade levels showing a 26.2% decline from the 2018 peak of $337.9 billion. The primary cause of this decline was the global economic disruption triggered by the COVID-19 pandemic. Widespread shutdowns and travel restrictions severely impacted the aerospace industry, leading to a sharp reduction in new aircraft orders.

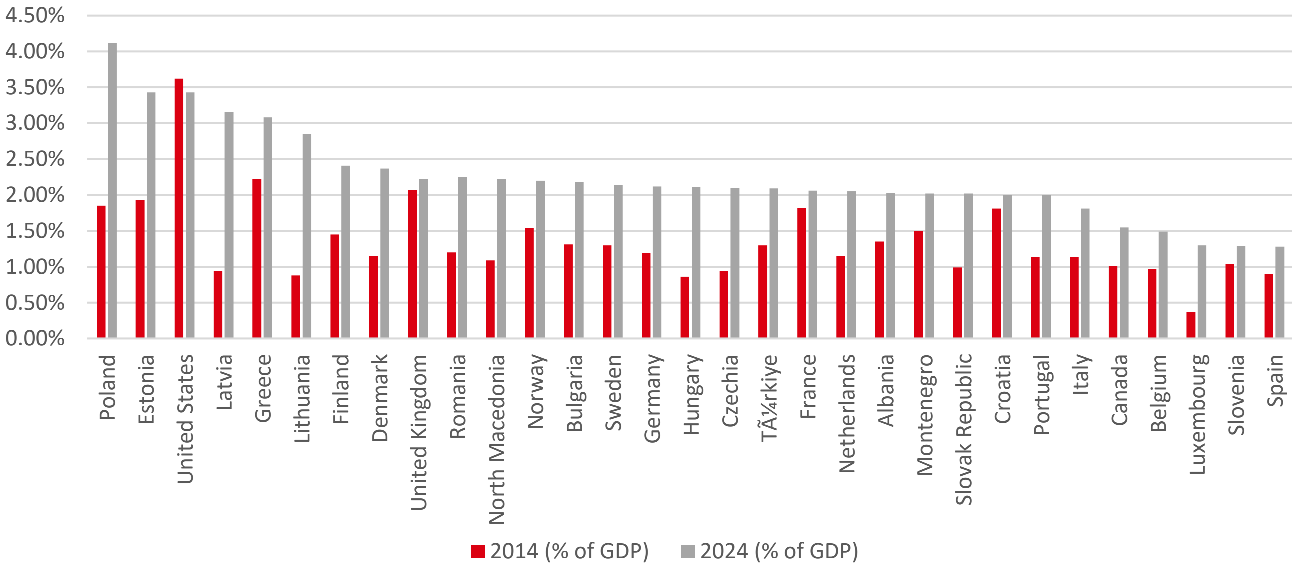
Largest Exporters



Five countries dominate 75.5% of aerospace exports: the U.S., France, Germany, the UK, and Canada. North America accounted for 45.6% of global exports, while Europe, led by France, contributed 40.1%.Asia accounted for 11.4% of exports, with significant growth in China (78.3%) and Thailand (57.5%). Latin America, led by Brazil (1.2%, $3 billion), Africa (0.8%), and Oceania (0.5%) contributed marginal shares but remain part of the global supply chain.

Defense Spending and Contracts

Defense Expenditure as a Share of GDP(%)



The aerospace and defense sector is experiencing significant growth, driven by record-high global defense spending, persistent security challenges, and rapid technological advancements. In 2023, military expenditure reached $2.2 trillion, led by the U.S. with $877 billion (39% of global spending), including over $130 billion dedicated to R&D for technological superiority. China followed with $292 billion, focusing on naval and missile modernization, while India allocated $81 billion to enhance border security and modernize its forces.

The sector is also benefiting from a post-pandemic recovery in commercial aviation, with rising demand for new aircraft and sustainable aviation technologies. Simultaneously, growing threats in cyberspace and outer space have prompted heavy investments in satellite defense systems, anti-satellite weapons, and cybersecurity frameworks.

Major contractors, including Lockheed Martin ($30 billion for F-35 jets), Raytheon Technologies ($67 billion in advanced radar and missile systems), and Northrop Grumman ($203 billion lifecycle value for the B-21 Raider bomber), are leading the way in innovation. Emerging players like SpaceX and Blue Origin are reshaping the industry with advancements in satellite deployment and reusable rockets, with SpaceX's Starlink program supporting military communications.

Geopolitical tensions, including the Ukraine conflict and U.S.-China competition, are reshaping global defense strategies, driving accelerated regional procurements, and emphasizing the sector's vital role in maintaining global security.

Regulatory Environment and Compliance Challenges

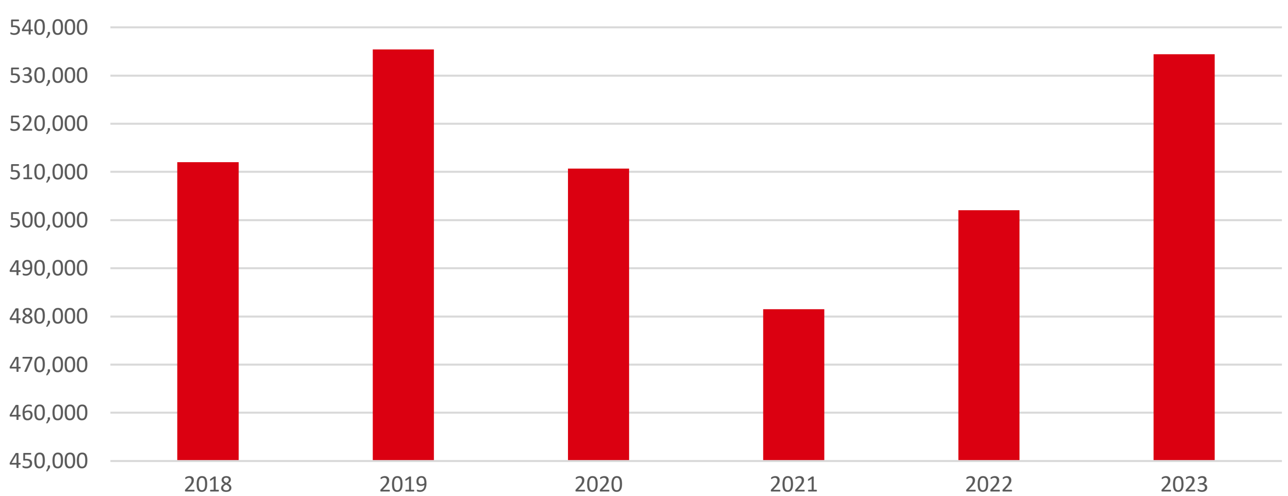
ITAR and EAR Regulations: ITAR and EAR impose strict export controls, requiring companies to invest heavily in compliance mechanisms like audits and legal counsel. These measures drive up operational costs and complexity, while non-compliance risks severe penalties such as fines, loss of export privileges, and reputational harm. Additionally, these regulations limit international market access, impacting profitability and necessitating alignment with evolving global standards.

Cybersecurity Mandates: Frameworks like NIST 800-171 and CMMC require defense firms to implement robust cybersecurity measures, demanding significant investments in advanced systems and workforce training.Non-compliance risks exclusion from contracts, reputational damage, and the potential for data breaches, which could compromise sensitive defense information and national security.

Sanctions on Adversarial Nations: Sanctions on countries like Russia and Iran restrict trade and increase supply chain costs, forcing companies to navigate complex legal requirements and adjust sourcing strategies. These constraints limit market access and drive-up operational costs. Firms must innovate to mitigate risks of fines, disruptions, and revenue loss while ensuring compliance with legal frameworks.

Labor and Workforce Regulations: Workforce regulations aim to address skilled labor shortages in the defense sector, particularly in roles like engineering and manufacturing. Compliance requires increased spending on recruitment, training, and employee benefits, further raising operational costs. Delays in securing skilled talent extend project timelines, reduce productivity, and strain margins, underscoring the importance of proactive workforce management.

US employment in aerospace product and parts manufacturing



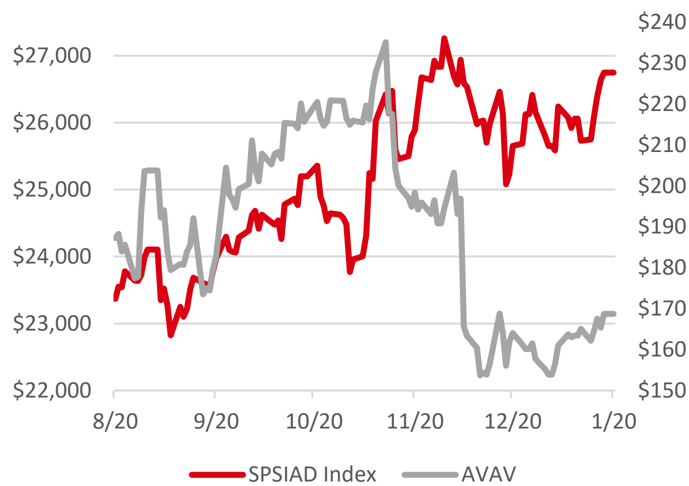
Investment opportunities

AVAV

TGT 12 m 228.7$/+35.6%

EPS 2.99 P/E 89.46 ROE 8.69

AeroVironment Inc. (AVAV) presents an attractive investment opportunity with its 12-month target price set at $228.70, indicating a potential 35.6% upside from its current levels. This projection highlights the company's growth potential, particularly as it continues to capitalize on its leadership in advanced robotics and unmanned systems.



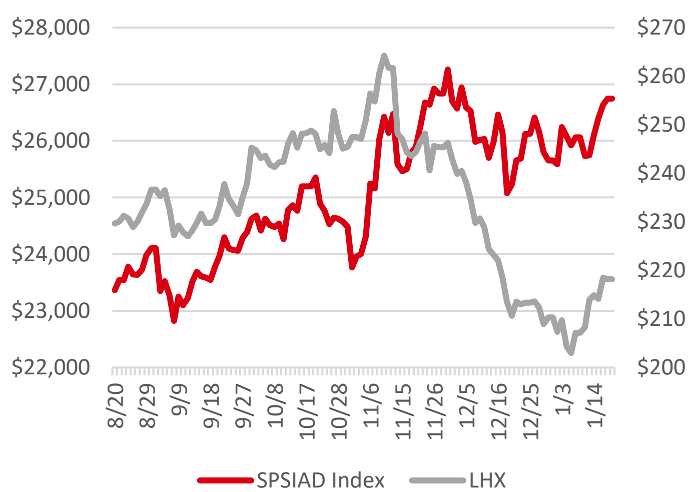
As a leading developer of unmanned aerial vehicles (UAVs), AVAV is uniquely positioned to benefit from increased global demand for defense and surveillance technologies. Governments and organizations worldwide are prioritizing investments in UAVs for military, industrial, and environmental applications, creating a robust growth pipeline for the company.

LHX

TGT 12 m 269.2$/+23.4%

EPS 14.18 P/E 23.88 ROE 6.58

L3Harris Technologies (LHX) offers a compelling growth opportunity, with analysts setting a 12-month target price of $269.20, reflecting a potential 23.4% upside from its current level. This forecast underscores the company's strong position in the defense and technology sectors.



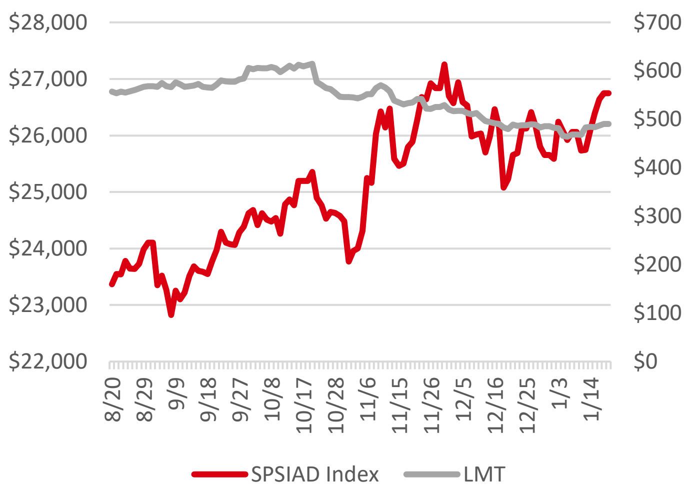
As a global leader in defense and aerospace systems, L3Harris is poised to benefit from sustained demand for advanced communication, surveillance, and space technologies. With increasing government budgets focused on defense modernization and global security initiatives, the company's diversified portfolio positions it well to capture significant market share.

Investment opportunities

LMT

TGT 12 m 576.12$/+17.5%

EPS 27.92 P/E 15.24 ROE 85.96



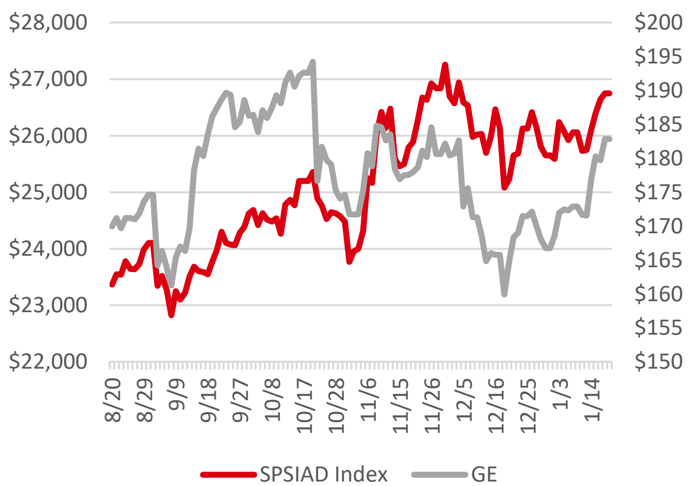
Lockheed Martin (LMT) stands out as an attractive investment, with a 12-month target price of $576.12, representing a potential 17.5% upside from its current trading levels. This projection highlights the company's robust market position and growth potential within the defense and aerospace sectors

As a global leader in advanced defense technologies, Lockheed Martin continues to benefit from increasing global defense budgets and demand for cutting-edge systems. Its strong portfolio, which includes fighter jets, missile systems, and space exploration technologies, ensures a steady stream of contracts and revenue growth opportunities.

GE

TGT 12 m 207.9$/+13.7%

EPS 5.35 P/E 43.55 ROE 28.82



General Electric (GE) presents a notable investment opportunity, with a 12-month target price of $207.90, offering a projected 13.7% upside from its current trading levels. This reflects the market's confidence in GE's strategic transformation and growth trajectory.

The company's recent focus on its core businesses—aviation, power, and renewable energy has strengthened its operational efficiency and market positioning. The aviation segment, in particular, continues to be a major growth driver, benefiting from the recovery in global air travel and robust demand for fuel-efficient aircraft engines. Additionally, GE's renewable energy initiatives align with the growing emphasis on clean energy solutions, bolstering its long-term prospects.

Sources

Disclaimer

This document (the "Report" or “Document”) has been prepared and distributed by Liberty Bank JSC ("Liberty Bank") under its banking license granted by National Bank of Georgia, solely for informational purposes. It is not acting on behalf of, any specific companies or entities discussed herein. The Report does not represent an offer or invitation to buy, sell, or subscribe to any securities, financial instruments, and/or assets, nor does it establish any contractual obligations or recommendations for financial actions.

Liberty Bank is authorized to provide brokerage and related financial services within Georgia and operates under the regulatory supervision of the National Bank of Georgia. The information contained in this Publication does not constitute, and should not be interpreted as, an offer for the purchase or sale of any securities or financial instruments. It is not an invitation to treat and does not form the basis of any contract or commitment whatsoever. Nothing herein shall be considered a recommendation to take any specific actions regarding investments or transactions. Any decisions regarding investments or financial strategies should be made independently, based solely on the person’s individual circumstances, objectives, and risk tolerance and, if necessary, with the support of qualified advisors.

This Report may be subject to distribution restrictions in certain jurisdictions. It is the responsibility of the recipient to be informed of and comply with all applicable legal requirements. This Report is not directed at, nor intended for, any individual or entity in a jurisdiction where such dissemination would be illegal or require regulatory registration or licensing.

Investing in financial markets, especially in emerging economies, involves inherent risks, including but not limited to political and economic instability, regulatory changes, currency risks, and asset volatility. Recipients should conduct their own assessments and due diligence before taking any financial actions.

Liberty Bank, its directors, employees, or affiliates, disclaim any liability for losses or damages incurred through the use of this Report or reliance upon its contents. The information in this Report is drawn from sources believed to be reliable at the time of publication, but Liberty Bank does not guarantee its accuracy or completeness. Liberty Bank reserves the right to modify or update the information in this Report without prior notice. Any forward-looking statements, projections, or forecasts are subject to risks and uncertainties that could cause actual outcomes to differ materially from those predicted. As such, these statements should not be relied upon as indicators of future performance, and Liberty Bank is under no obligation to revise or update them.

The information in this Publication is subject to verification, completion, and change without notice. Liberty Bank is not under any obligation to update or keep current the information contained herein, and the delivery of this Publication does not imply that there has been no change in the information since the date of its issuance. Recipients should not assume that the information contained in this Publication is correct or complete at any time after the date of issuance.
Liberty Bank, its affiliates, or employees may hold financial interests in the securities or assets discussed in this Report, which could potentially give rise to conflicts of interest. Recipients should take this into consideration when reviewing the content of this Report.

Unauthorized distribution, reproduction, or use of this Report is prohibited without the prior written consent of Liberty Bank. Liberty Bank, its affiliates, and representatives disclaim all responsibility for any unauthorized actions taken with this material. By accepting and using this Report, you acknowledge and agree that you are solely responsible for conducting your own evaluation of the information provided and the associated risks.

Recipients are advised to consider the above-mentioned factors when interpreting this Publication. The opinions, forecasts, estimates, and statements contained herein are those of Liberty Bank as of the date of publication and are based on information available at that time. The data may change, and recipients should be aware that past performance is not indicative of future results. Liberty Bank is committed to transparency in all of its communications and appreciates the importance of informed decision-making.