3 B-Rated Defense Stocks to Secure Now

Amid escalating geopolitical tensions, growing global defense spending coupled with technological advancements create growth opportunities for aerospace and defense companies. Thus, robust defense stocks Textron (TXT), Woodward (WWD), and Moog (MOG.A) could be ideal investments now. These stocks are rated B (Buy) in our proprietary rating system. Read on….

The escalating geopolitical instability around the world has resulted in a steady surge in defense expenditures in developed and emerging economies. Moreover, aerospace and defense companies are increasingly adopting advanced technologies to capitalize on high-growth opportunities.

Hence, it could be suitable to invest in fundamentally sound defense stocks Textron Inc. (TXT), Woodward, Inc. (WWD), and Moog Inc. (MOG.A) for substantial returns. These stocks are B (Buy) rated in our POWR Ratings system.

Over the past few years, global defense spending has increased significantly due to escalating geopolitical unrest amid the ongoing Houthi attacks in the Red Sea, the continued Israel-Hamas war, Russia’s invasion of Ukraine in 2022, and tensions in the South China Sea.

According to Statista, global military spending has reached 2.24 trillion in 2022. The U.S. had the highest military expenditure, with approximately 40% of the total spending worldwide that year, which amounted to around $2.20 trillion.

For the fiscal year 2024, the U.S. Congress approved a huge defense budget of $886 billion and extended a controversial overseas electronics surveillance system widely used by U.S. intelligence services. The vast spending bill offers billions of dollars to “enhance US deterrence and defense posture in

the Indo-Pacific region” and counter China’s growing influence there.

Further, the Department of Air Force’s fiscal 2024 budget request is nearly $215.10 billion, an increase of 4.5% from fiscal 2023.

The global aerospace and defense market is projected to reach $1.39 trillion by 2030, growing at a CAGR of 8.2%. Aerospace and defense companies are now embracing new technologies such as Artificial Intelligence (AI), machine learning, the Internet of Things (IoT), big data analytics, cloud, and more to capitalize on growth opportunities.

Digital transformation in the aerospace and defense industry is critical to optimize production, enhance maintenance, and boost innovation. The global IoT in the aerospace and defense market is projected to total $96.36 billion by 2028, expanding at a CAGR of 14.2%.

In light of these favorable trends, let’s look at the fundamentals of the three best Air/Defence Services stocks, beginning with number 3.

Stock #3: Moog Inc. (MOG.A)

MOG.A designs, manufactures, and integrates precision motion and fluid controls and controls systems for original equipment manufacturers (OEMs) and end users in the aerospace, defense, and industrial markets internationally. It operates through Aircraft Controls; Space and Defense Controls; and Industrial Systems segments.

On August 24, MOG.A announced being placed under contract with Bell Textron Inc., a Textron company, to work for the U.S. Army’s Future Long Range Assault Aircraft (FLRAA), the Bell V-280 Valor. Initially, the contract funds core design and development activities through the Middle Tier Acquisition (MTA) phase of the program.

“We have a long history with Bell, and in 2013 made the strategic decision to align our interests and resources to secure this important win for our companies. We are proud to be part of this program which will provide warfighters with an unparalleled combination of range, speed, and combat capability,” said Mark Graczyk, President of Moog’s Military Aircraft business.

On November 3, MOG.A declared a quarterly dividend of $0.27 per share on the company’s shares of Class A common stock and Class B common stock. The dividend was paid on December 8, 2023, to all shareholders of record as of the close of business on November 22, 2023.

MOG.A pays an annual dividend of $1.08, which translates to a yield of 0.76% at the current share price. Its four-year average dividend yield is 1.19%. Moreover, the company’s dividend payouts have increased at a CAGR of 12.9% over the past three years.

In terms of forward EV/EBIT, MOG.A is trading at 15.27x, 6.9% lower than the industry average of 16.4x. Likewise, its forward EV/Sales of 1.67x is 5.3% lower than the industry average of 1.76x.

During the fourth quarter that ended September 30, 2023, MOG.A’s net sales increased 13.5% year-over-year to $872.05 million. Its gross profit grew 20% from the year-ago value to $243.90 million. The company’s adjusted operating profit rose 37.1% year-over-year to $109.36 million.

In addition, the company’s adjusted net earnings came in at $67.75 million, or $2.10 per share, up 55.3% and 54.4% from the prior year’s quarter, respectively. Its adjusted free cash flow was $105 million, compared to $19 in the same period of 2022.

As per the fiscal year 2024 financial guidance, MOG.A expects its net sales to reach $3.45 billion. The company’s earnings

per share are expected to be $6.80.

Street expects MOG.A's EPS and revenue for the fiscal 2024 first quarter (ended December 2023) to increase 17.1% and 7.9% year-over-year to $1.46 and $820.04 million, respectively. Moreover, the company surpassed the consensus revenue estimate in three of the trailing four quarters.

Shares of MOG.A have gained 30.1% over the past six months and 55% over the past year to close the last trading session at $142.59.

MOG.A's robust outlook is reflected in its POWR Ratings. The stock has an overall rating of B, which translates to a Buy in our proprietary rating system. The POWR Ratings are calculated by considering 118 different factors, each weighted to an optimal degree.

The stock has an A grade for Sentiment and a B for Stability and Momentum. It is ranked #7 out of 72 stocks in the Air/Defense Services industry.

Click here to access additional MOG.A ratings for Growth, Value, and Quality.

Stock #2: Textron Inc. (TXT)

TXT serves aircraft, defense, industrial, and finance businesses internationally. The company operates through six segments: Textron Aviation; Bell; Textron Systems; Industrial; Textron eAviation; and Finance. It manufactures, sells, and services business jets, turboprop and piston engine aircraft, and military trainer and defense aircraft.

On January 16, 2024, Bell Helicopter – a unit of TXT and The Boeing Company's (BA) Bell-Boeing, a joint venture (JV) of the two entities secured a modification contract involving the V-22 Osprey aircraft. The Naval Air Systems Command, Patuxent River, MD, had awarded the contract.

Under the contract, Bell-Boeing will provide continued flight test support for the V-22 Osprey aircraft.

On November 24, 2023, Textron Aviation, a TXT company, announced an agreement with BAA Training for the purchase of 48 Cessna Skyhawk aircraft, which are expected to be delivered in 2026. The stable flight characteristics, advanced avionics, and demonstrated dispatch reliability of the Skyhawk have made it a dependable training platform.

In terms of forward non-GAAP P/E, TXT is trading at 13.61x, 26.6% lower than the industry average of 18.54x. Further, the stock's forward EV/Sales multiple of 1.27 is 28.1% lower than the industry average of 1.76. Moreover, its forward Price/Sales of 1.14x is 19% lower than the industry average of 1.41x.

For the fourth quarter that ended December 31, 2023, MOG.A's total revenues increased 7.04% year-over-year to $3.89 billion. Its gross profit grew 25.5% from the year-ago value to $384 million. The company's adjusted income from continuing operations rose 22.5% and 30.1% year-over-year to $316 million and $1.60 per share, respectively.

In addition, the company's cash and cash equivalents were $2.12 billion as of December 31, 2023, compared to $1.96 billion as of December 31, 2022.

Analysts expect TXT's revenue for the first quarter (ending March 2024) to increase 10.1% year-over-year to $3.33 billion, while its EPS is expected to grow 20.5% year-over-year to $1.27. Moreover, the company has surpassed the consensus EPS estimates in each of the trailing four quarters.

TXT's shares have gained 25.9% over the past six months and 22.9% over the past year to close the last trading session at $85.55.

TXT's POWR Ratings reflect its bright prospects. The stock has

an overall rating of B, which translates to a Buy in our proprietary rating system.

The stock has a B grade for Value, Quality, and Momentum. Within the Air/Defense Services industry, TXT is ranked #6 of 72 stocks.

In addition to the POWR Ratings we've stated above, we also have TXT ratings for Growth, Stability, and Sentiment. Get all TXT ratings here.

Stock #1: Woodward, Inc. (WWD)

WWD designs, manufactures, and services control solutions for the aerospace and industrial markets globally. It operates in two segments: Aerospace and Industrial. The company offers fuel pumps, metering units, actuators, air valves, actuators, valves, pumps, and fuel injection systems. It also provides aftermarket maintenance, repair, and other services.

On September 25, 2023, WWD declared a cash dividend of $0.22 per share for the third quarter of fiscal 2023, paid on December 4, 2023, to the stockholders of record as of November 20, 2023.

WWD pays an annual dividend of $0.88, which translates to a yield of 0.65% at the current share price. Its four-year average dividend yield is 0.67%. Moreover, the company's dividend payouts have increased at a CAGR of 18.9% over the past three years.

WWD's trailing-12-month net income margin of 7.97% is 29.8% higher than the industry average of 6.14%. In addition, the stock's trailing-12-month ROCE of 5.79% is 16.6% higher than the industry average of 4.97%.

During the fourth quarter that ended September 30, 2023, WWD's net sales increased 21.4% year-over-year to $777.07 million. Its adjusted net earnings were $82.65 million and $1.33 per

share, up 60.6% and 58.3% from the prior year's quarter, respectively.

Also, the company's adjusted EBITDA rose 49.4% from the year-ago value to $138.86 million. Its adjusted free cash flow of $238.23 million indicates an increase of 65.1% from the prior year's quarter.

As per the fiscal 2024 full-year outlook, the company expects its sales to range between $3.10 billion and $3.25 billion. It further expects its free cash flow to be between $275 million and $325 million and its EPS to reach $4.70 million to $5.15.

Analysts expect WWD's revenue and EPS for the first quarter (ended December 2023) to increase 22% and 133.7% year-over-year to $754.85 million and $1.15. Also, the company topped the consensus revenue estimates in all four trailing quarters, which is impressive.

WWD's stock has surged 12.6% over the past six months and 24.1% over the past year to close the last trading session at $135.56.

WWD's sound fundamentals are reflected in its POWR Ratings. The stock has an overall rating of A, which translates to a Strong Buy in our proprietary rating system.

The stock has an A grade for Growth and a B for Momentum, Sentiment, and Quality. WWD is ranked #3 of 72 stocks within the Air/Defense Services industry.

To see additional POWR Ratings of WWD for Stability and Value, click here.

What To Do Next?

Discover 10 widely held stocks that our proprietary model shows have tremendous downside potential. Please make sure none of these "*death trap*" stocks are lurking in your portfolio:

10 Stocks to SELL NOW! >

TXT shares were unchanged in premarket trading Thursday. Year-to-date, TXT has gained 6.38%, versus a 2.12% rise in the benchmark S&P 500 index during the same period.

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Mangeet’s keen interest in the stock market led her to become an investment researcher and financial journalist. Using her fundamental approach to analyzing stocks, Mangeet’s looks to help retail investors understand the underlying factors before making investment decisions.

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