3 Defensive Stock Picks for a Resilient Portfolio

Defense companies are expected to benefit from the rising geopolitical tensions as countries ramp up their defense budgets. Therefore, fundamentally strong defense stocks Huntington Ingalls Industries (HII), RTX Corporation (RTX), and Lockheed Martin (LMT) could be wise portfolio additions now. Read more….

Increasing worries over geopolitical instability have led to significant attention to defense stocks. The recent assault on Israel by the militant group Hamas has heightened tensions in the Middle East. Defense companies should benefit as countries increase their defense spending amid rising geopolitical tensions.

Therefore, it could be prudent to buy fundamentally strong defense stocks Huntington Ingalls Industries, Inc. (HII), RTX Corporation (RTX), and Lockheed Martin Corporation (LMT) to give your portfolio some resilience.

Before diving deeper into the fundamentals of these stocks, let’s discuss why the defense industry is expected to perform well.

We live in an increasingly polarized world, and military flashpoints have become common globally. This has necessitated the need for nations to shore up their defenses against all types of threats. Security is now one of the most important political discussions around the world.

Last year, a war broke out between Ukraine and Russia, pushing countries to announce higher spending on defense. Countries worldwide spent a combined $2.24 trillion on their militaries in 2022, representing a rise of 3.7% year-over-year. The United States’ military spending stood at $877 billion.

On October 7, 2023, an armed conflict broke out between the militant group Hamas and Israel. Many anticipate the conflict to spill over into the neighboring Middle Eastern countries. With the war between Israel and Hamas, JPMorgan Chase CEO Jamie Dimon said, “now may be the most dangerous time the world has seen in decades.”

He believes the war may have far-reaching impacts on energy and food markets, global trade and geopolitical relationships. Amid such geopolitical conflicts, defense companies are well-positioned to make money.

LMT Chairman, President and CEO Jim Taiclet said, “In the longer term, there are some things that are changing significantly. One is the global threat environment and the geopolitical situations getting more concerning and challenging. That’s refocusing the U.S. and certainly our allies around the world on national defense in an increasing manner.”

The global aerospace and defense market is projected to grow at a CAGR of 5.9% to reach $1.08 trillion.

Considering these conducive trends, let’s take a look at the fundamentals of the three Air/Defense Services stock picks, starting with number 3.

Stock #3: Huntington Ingalls Industries, Inc. (HII)

HII engages in designing, building, overhauling, and repairing military ships. It operates through three segments: Ingalis, Newport News, and Mission Technologies. The company is involved in designing and constructing non-nuclear ships comprising amphibious assault ships, and expeditionary warfare ships; for the U.S. Navy and U.S. Coast Guard. It also offers nuclear-power ships, such as aircraft carriers and submarines.

On October 17, 2023, HII announced that its Mission Technologies division was a $244 million task order to

integrate Minotaur software products into maritime platforms for the U.S. Navy, U.S. Marine Corps, and U.S. Coast Guard.

On October 11, 2023, HII announced that its Mission Technologies division was awarded a contract to build nine small unmanned undersea vehicles (SUUV) for the U.S. Navy's Lionfish System program. The contract can grow to as many as 200 vehicles over the next five years with a total value of more than $347 million.

HII's revenue grew at a CAGR of 6.9% over the past three years. Its EBITDA grew at a CAGR of 3% over the past three years. In addition, its total assets grew at a CAGR of 9.7% in the same time frame.

HII's sales and service revenues for the second quarter ended June 30, 2023, increased 4.7% year-over-year to $2.79 billion. Its operating income came in at $156 million. The company's net earnings stood at $130 million. Also, its EPS came in at $3.27.

Street expects HII's revenue for the quarter ended September 30, 2023, to increase 3.3% year-over-year to $2.71 billion. Its EPS for the quarter ending December 31, 2023, is expected to increase 44.4% year-over-year to $4.43. It surpassed the consensus EPS estimates in three of the trailing four quarters. Over the past month, the stock has gained 7.6% to close the last trading session at $216.34.

HII's POWR Ratings reflect this positive outlook. It has an overall rating of B, which translates to a Buy in our proprietary rating system. The POWR Ratings assess stocks by 118 different factors, each with its own weighting.

Within the Air/Defense Services industry, it is ranked #19 out of 70 stocks. It has a B grade for Value and Momentum. Click here to see the additional ratings of HII for Growth, Stability, Sentiment, and Quality.

Stock #2: RTX Corporation (RTX)

RTX is an aerospace and defense company providing systems and services for commercial, military, and government customers worldwide. It operates through four segments: Collins Aerospace, Pratt & Whitney, Raytheon Intelligence & Space, and Raytheon Missiles & Defense.

RTX's revenue grew at a CAGR of 13.3% over the past three years. Its EBITDA grew at a CAGR of 18.8% over the past three years. In addition, its EBIT grew at a CAGR of 25.5% in the same time frame.

For the fiscal second quarter ended June 30, 2023, RTX's sales rose 12.3% over the prior-year quarter to $18.32 billion. Its non-GAAP net income increased 10% year-over-year to $1.90 billion. In addition, its adjusted EPS came in at $1.29, representing an increase of 11.2% year-over-year.

For the quarter ended September 30, 2023, RTX's EPS and revenue are expected to increase 0.7% and 7.4% year-over-year to $1.22 and $18.20 billion, respectively. It surpassed the Street EPS estimates in each of the trailing four quarters. Over the past month, the stock has gained 2.2% to close the last trading session at $73.13.

RTX's POWR Ratings reflect solid prospects. It has an overall rating of B, translating to Buy in our proprietary rating system.

It is ranked #18 in the same industry. It has a B grade for Growth, Momentum, Stability, and Sentiment. To see the other ratings of RTX for Value and Quality, click here.

Stock #1: Lockheed Martin Corporation (LMT)

LMT is a security and aerospace company that conducts research, design, development, manufacture, integration, and sustainment of technology systems, products, and services

worldwide. It operates through four segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space.

On October 19, 2023, The Republic of the Philippines Department of National Defense announced the acquisition of three new C-130J-30 Super Hercules tactical airlifters from LMT through Direct Commercial Sale.

On October 10, 2023, LMT announced that it was awarded a contract to develop and deliver up to four 300 kW-class laser weapon systems to the U.S. Army's Indirect Fire Protection Capability-High Energy Laser (IFPC-HEL) prototype program.

LMT's EBITDA grew at a CAGR of 1.9% over the past three years. Its net income grew at a CAGR of 2.1% over the past three years. In addition, its EPS grew at a CAGR of 5.7% in the same time frame.

LMT's net sales for the third quarter ended September 24, 2023, increased 1.8% year-over-year to $16.88 billion. The company's non-GAAP net earnings came in at $1.70 billion. Also, its adjusted EPS came in at $6.77. In addition, its total consolidated operating profit stood at $2.04 billion.

Analysts expect LMT's revenue for the quarter ending March 31, 2024, to increase 4.2% year-over-year to $15.75 billion. Its EPS for fiscal 2024 is expected to increase 0.6% year-over-year to $26.72. It surpassed the consensus EPS estimates in each of the trailing four quarters. Over the past month, the stock has gained 7.9% to close the last trading session at $446.16.

LMT's strong fundamentals are reflected in its POWR Ratings. It has an overall rating of B, translating to Buy in our proprietary rating system.

It is ranked #12 in the Air/Defense Services industry. It has a B grade for Momentum, Stability, and Quality. Click here to

see the other ratings of LMT for Growth, Value, and Sentiment.

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LMT shares were trading at $448.27 per share on Tuesday morning, up $2.11 (+0.47%). Year-to-date, LMT has declined -6.03%, versus a 11.92% rise in the benchmark S&P 500 index during the same period.

About the Author: Dipanjan Banchur

Since he was in grade school, Dipanjan was interested in the stock market. This led to him obtaining a master’s degree in Finance and Accounting. Currently, as an investment analyst and financial journalist, Dipanjan has a strong interest in reading and analyzing emerging trends in financial markets.

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