



General Dynamics Bulls Position for it to Close Gap with Defense Peers

Ticker/Price: GD (\$191)

Analysis:

General Dynamics (GD) with 6000 February \$210/\$220 call spreads opening yesterday and also seeing 2,000 February \$200 calls bought up to \$6. GD has also seeing some November \$190 and \$200 calls accumulate. Shares are coiled in a bull flag below the April highs after breaking a longer-term downtrend and basing above the 2016 breakout level since last Fall. A move higher has a measured target to \$220. The \$54.7B company trades 14.52X earnings, 1.43X sales, and 78X cash with a 2.15% yield. They expect double-digit EPS growth and low-single digit revenue growth. GD has benefitted from boosts the defense budget, especially as the Navy recapitalizes and the Army also recapitalizes for the first time in several years. Their jet business is undergoing a shift with the new 500 and 600 models moving into production and a replacement cycle beginning. Margins were under some pressure with the first run of 500s earlier this year but the latter model should drive higher margins due to less costs of the test program. Analysts have an average target for shares of \$193. Baird with a \$218 PT and Goldman upgrading to Buy earlier this year citing higher Gulfstream margins, the G500/600 ramp, and improving free cash flow can act as catalysts to reverse sentiment. BAML with a \$220 PT in late July. The firm is positive on demand for Gulfstream jets while favorable program exposure in Defense, particularly in Combat and Marine should drive long-term growth. They are also positive on the balance sheet and cash generation which can sustain dividend growth and buybacks. Short interest is 1%. Hedge Fund ownership rose 17.5%. Farallon Capital, Adage Capital, and Impala Asset Management notable holders. In December, a director bought \$100K in stock at \$167.64 while a different director bought \$500K in stock at \$169.87.

Hawk Vision:



Hawk's Perspective: GD is a name I have been watching closely and think it holds a lot of value at these levels and can make a nice run to at least \$205 resistance.

Confidence Ranking: \$\$