



## L3 Harris Bull Trades as Best Positioned Defense Name

Ticker/Price: LHX (\$210.45)

### Analysis:

**L3 Harris Tech (LHX)** with an unusual trade on 2/26 as 750 May \$220 calls were bought to open for \$575,000 and followed a 2/10 trade that bought 450 December \$230 calls for \$960,000. LHX is coming off another strong quarter and pulling back off its new highs the last two weeks to a key volume node, a 50% retracement, and trend support a bit lower near the base breakout retest level of \$202. The \$46.7B Defense Co. trades 15.9X Earnings, 13.9X EBITDA and yields a 1.43% dividend. Forecasts call for revenue growth in the 5-7% range the next few years and EPS seen reaching \$13.90/share in FY22 from \$7.56/share in FY19. Last quarter saw strong growth across Integrated Mission Systems, Space and Airborne Systems and Communication Systems as well as margin expansion in every segment and robust free cash flow. 2020 is a year of heavy cost cuts as LHX works to integrate legacy L3 (LLL) into its structure. LHX leads all defense peers in R&D spend as a % of revenue as it continues to innovate and is well aligned with the growth areas of the DoD budget with increasing global demand for intelligence, surveillance and reconnaissance (ISR). Analysts have an average target of \$257 and short interest low at 1.3% of the float. Argus raised its target to \$255 on 2/12 noting management confidence in the outlook and positive business trends. Benchmark started shares at Buy with a \$280 target on 2/7 seeing it well positioned to take share of future budgets with its broad based electronic warfare exposure and commercial model while integration targets are exceeding expectations and divestures shifting the portfolio to higher margin solutions. Hedge Fund ownership was fairly flat in Q4 filings, some top concentrated holders include Frontier Capital, Holocene, Iridian, Westfield and Ceredex Value.

### Hawk Vision:



**Hawk's Perspective:** LHX is a high quality name, the old Harris was my preferred Defense name and now LHX is picking up that momentum. It's a tough tape to be buying, but a name to own once it puts in a proper bottom.

**Confidence Ranking:** \$\$