

International Stock Market Weekly

International Stocks**Robert Cheek**

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Robotics / AI

Textron Inc. (NYSE: TXT) is an American industrial conglomerate that operates in the aerospace, defense, finance, and industrial businesses, providing customers around the world with products and services. Over the past three years Textron shares have underperformed the market by more than 50 percentage points, due in large part to operational issues in its different segments. However, its steadily climbing stock price and 3Q results are evidence that the company is now past its troubles and at the start of a recovery phase. Moreover, there are multiple compelling catalysts heading into the next year that give us reason to believe it prudent for investors to start accumulating shares in the company.

Textron shares have climbed more than 30% since the company reported its 3Q20 earnings on Oct 29. The company's Bell division is now participating in bids to supply its products and services to the US government and other governments around the world, including South Korea for the supply of its AH-1Z attack helicopters as the country's Marine Corps plans to launch an aviation program in 2021.

Top pick for the third week of December

Textron Inc. (NYSE: TXT)

Textron shares have bottomed and are now climbing on expectations for several growth catalysts

Climbing out of the turbulence

Our top pick for the third week of December is Textron Inc. (NYSE: TEXT). We have been monitoring Textron for some time as the company's activities in robotics for the defense industry are of particular interest. With the improvement in the company's results in 3Q20, promising outlook going into 2021, and steadily rising share price, we think it is now time for investors to accumulate positions in this promising mid-cap American conglomerate. Textron shares have climbed more than 30% since the company reported its 3Q20 earnings on Oct 29.

Rationale:

Textron is an industrial conglomerate and offers a wide range of products and services ranging from UAVs (unmanned aerial vehicles), UGVs (unmanned ground vehicles), business jets, golf carts, helicopters, snowmobiles, firearms, plastics, simulation systems, and more. In 3Q the company reported earnings of USD.53/share vs. Street expectation of USD.35/share, putting an end to a string of earnings misses caused by a slew of issues in its different business units. While companies in the Aerospace-Defense sector are underperforming other industries, we think Textron's continued push into unmanned systems means the company can be partially classified as a component of the robotics/ AI sector.

The company's Bell division is in the running for a couple of multibillion dollar US Army contracts. Despite the change in the White House, there is unlikely to be any changes with these programs. We believe the company has a high probability of winning at least of one the contracts to replace the aging Blackhawk helicopter, which is worth north of USD40bn—and which could later translate to even more as the new platform will probably be adopted by other branches of the armed forces in much the same way as the Blackhawk has many variants for different customers such as the Seahawk for the Navy, etc. Like most large-scale defense deals, the results of this bid will take time and is slated to be announced near the end of 2021 with deliveries scheduled to begin in 2023. Accordingly, we recommend investors who want to be positioned for a potential massive windfall to accumulate shares at current prices. The Bell division is also in the running to win contracts with the militaries of several US allies and friendly nations. One of note is the bid to supply the South Korean Marine Corps with its AH-1Z helicopter.

For commercial aviation, the company's business includes Cessna and Beechcraft, for which the pandemic is still having a negative impact on demand for business jets, which the Cessna division builds. However, the unit's book-to-bill stood at 1.5x, which means they brought in 1.5x the business that they build out. This is an indicator of growth and a very good sign as current corporate jet fleets are aging so there is pent-up demand, making a potential catalyst for Cessna.

Transforming into a growth story

Textron shares have been in the doldrums for the past three years (down more than 20%) due to a variety of reasons, for which every quarter seemed to bring something anew to shock investors, driving the shares down even further. The company also missed several lucrative defense contracts which also weighed on its shares. To cap the string of dismal quarters, the company, and everyone else for that matter, was broadsided by the pandemic which grounded its business jet division.

Indeed, investors in Textron have had plenty of reasons to be disappointed in the company's lackluster performance until recently. To wit, Textron being selected as a finalist for the US Army's new stealth helicopter contract has given the company a new shine as a defense contractor which can punch well above its weight. This should translate into considerably greater sales in global markets as well because the few companies that make it as finalists in these competitions possess not only superior technological capabilities but operational as well.

Textron, more than meets the eye

While having extensive ties to the traditional military-industrial complex array of businesses, Textron is making very clear and decisive moves to be a major player in the robotization of the military. The company is aggressively moving to be a leader in UGVs with the 2018 acquisition of Howe & Howe and debut of its Ripsaw RCV (robotic combat vehicle). Textron is also a key player in the sUAS space and continues to develop its technology and business.

According to estimates, the sUAS market globally will post a staggering CAGR of nearly 25% from 2020-2027 due to the increasing number of incursions across borders globally and rising government expenditures, which is fueling demand for sophisticated drone systems. In addition to the military-driven growth, healthcare facilities are also catalyzing demand for sUAS due to COVID-19. The pandemic is pushing the limits of healthcare systems around the world to contain the spread. This has created more demand for sUAS for inspections and collecting data and will continue to drive the expansion of the market going forward.

Textron's reach into unmanned weapons extend to the seas as well. The company's CUSV (common unmanned surface vehicle) system is the first USV (unmanned surface vehicle) program of record for the US DoD (Department of Defense) and is a testament to not only the company's proven command and control system but to its commitment on developing unmanned solutions for all vehicle types.

Fanning the flames of disruption

Textron is firing on all cylinders in its robotization efforts. While this segment remains a smaller part of its business portfolio for now as needs to simultaneously operate its profitable legacy businesses, it is clear that the company is targeting being a major robotics player in the enterprise and government businesses. A case in point is Textron subsidiary Howe & Howe's first domestic sale of its robot firefighter, the Termite RS3, to the Los Angeles City Fire Department (LAFD). The purchase by the LAFD marks the

Transforming into a robotics company

first commercial sale of a robotic firefighting vehicle in the US and the start of a new business. Thermite is designed to assist first responders by giving them more standoff distance from dangerous situations, utilizing the robot as an extension to complete their missions more efficiently and safely. The Thermite RS3 has a low center of gravity, high volume, and wide-chassis that enable it to navigate tough terrain and handle exposure to the harshest of elements. The robot features a modular design and wide build, which allows it to handle additional equipment such as a plow assembly. The robot is capable of pushing vehicles out of its way and pulling 8,000 pounds with its winch. We expect to see more fire departments adopting this solution in increasing numbers across the US as it is a force multiplier, helps to mitigate risk, and marks the first step in the roboticizing of fire departments worldwide. We believe the value that heavy-duty robots such as the RS3 bring to governments and businesses will help to make this a quickly growing business.

Fig 1. Textron Ripsaw M5 RCV



Source: Textron, Hyundai Motor Securities

Fig 2. Aerosonde HQ VTOL sUAS



Source: Textron, Hyundai Motor Securities

Fig 3. Textron CUSV for the US DoD



Source: Textron, Hyundai Motor Securities

Fig 4. Thermite RS3 firefighting robots



Source: Textron, Hyundai Motor Securities

Fig 5. Bell/Textron next-generation stealth rotor craft



Source: Bell/Textron, Hyundai Motor Securities

Fig 6. Ripsaw M5 multi-domain mission autonomous fighting vehicle



All trademarks are the property of their respective owners.

Source: Textron, Hyundai Motor Securities

Fig 7. Textron Kautex blow molded 320-liter hydrogen liner

Source: Textron, Hyundai Motor Securities

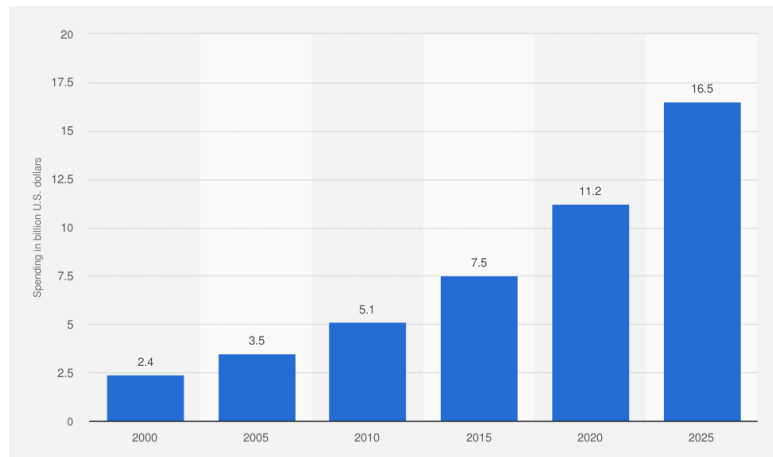
Textron poised to outperform in emerging business areas

Despite pandemic-related headwinds, Textron continues to climb above the turbulence and it is showing in its improving quarterly results, winning of more contracts for its defense businesses globally, and rumors of tender offers, which the company has vehemently denied.

For the company's other segments, such as its Kautex plastics unit, which supplies automotive assembly companies, was also hit by the pandemic but is now recovering along with the recovery of the automotive sector. For growth opportunities, the Kautex unit is developing many solutions for hydrogen storage including its recently announced 320 liter blow molded hydrogen storage tank. Demand from governments around the world to create lighter, more fuel-efficient vehicles and increasing investments in alternative fuel vehicles will fuel this segment's growth. Even though the fastest growth segment is currently the type 4 CNG tank, we are particularly enthusiastic about the company's growth prospects over the long term in the clean energy revolution thanks to the synergies between Kautex and Textron's other business units and the growth of the hydrogen economy.

We recommend Textron for investors looking for a company which is attractively priced, on the road to recovery, and has the technical capabilities and prospects for substantial growth going forward. The company has a strong foundation with the US military-industrial complex, pays a regular, albeit slim, dividend and is now positioned for growth in the years ahead with the coming recovery of air travel and replacement of aging corporate jet fleets, recovering auto sales, which includes growing sales of fuel-efficient and alternative fuel vehicles, the robotization of militaries and public services such as firefighting and policing, and the V-280's favored status as the likely winner of the USD40bn US Army's Future Long Range Assault Aircraft competition. In the meantime, sales by the Cessna and other divisions should help lift the stock while waiting for the likely home run US Army contact in 2021.

Fig 8. Global spending on military robots from 2000-2025 (USD bn)



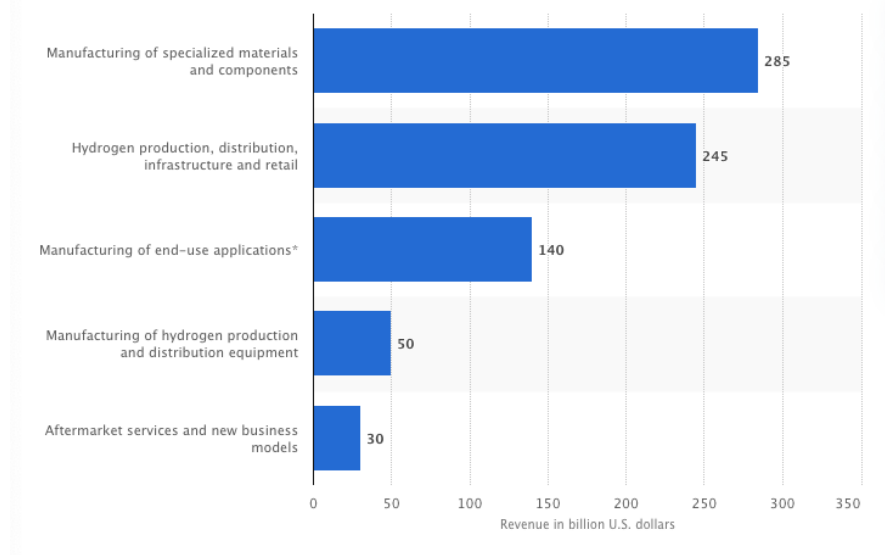
Source: IFR, Japan Robotic Association, EU Robotics, BGC, Hyundai Motor Securities

Fig 9. Bell Textron – NASA Autonomous Pod Transport (APT)



Source: Textron, Hyundai Motor Securities

Fig 10. Hydrogen market revenue forecast in the US by value chain in 2050



Source: FCHEA, Statista, Hyundai Motor Securities

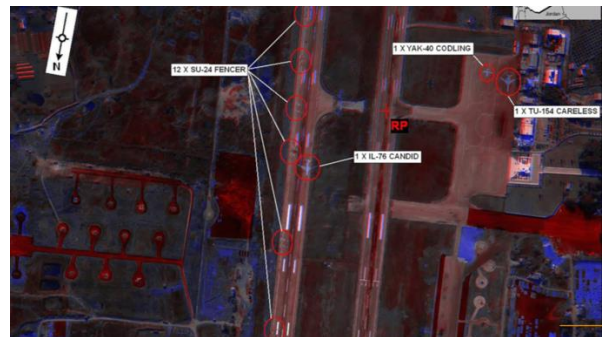
Fig 11. Commando APC with turret



Adds additional firepower with multiple turret options available

Source: Textron, Hyundai Motor Securities

Fig 12. RemoteView Pro image exploitation



Source: Textron, Hyundai Motor Securities

Fig 13. Cessna corporate jet



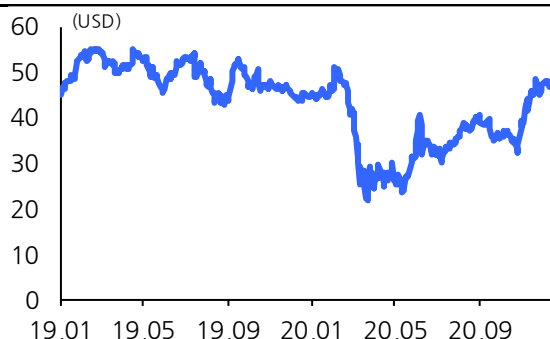
Source: Textron, Hyundai Motor Securities

Fig 14. US Army OMFV program



Source: Textron/Rheinmetall, Hyundai Motor Securities

Fig 15. Textron Stock Price



Source: Bloomberg, Hyundai Motor Securities

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Stock ratings distribution (January 1-December 31, 2019)

Rating	Count	% of rating category
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