

Company Update Report

RTX Corporation

Industrials

Analyst thesis

Our recommendation is based on:

- Diversified portfolio with structural balance: RTX's ~46% commercial and ~54% defence revenue mix provides earnings resilience across cycles. Its core platforms support high switching costs and durable franchise value across its three segments, each generating roughly \$28–\$30 billion in revenue over the past year.
- Record backlog supports multi-year coverage: RTX ended FY25 with a ~\$268 billion backlog (+23% YoY) and 1.56x book-to-bill, reflecting strong order momentum. Exposure to long-cycle defence programs and multi-year OEM and aftermarket contracts underpins revenue visibility and operating leverage.
- Secular defence and aftermarket tailwinds: Rising NATO and European defence commitments support missile and munitions demand, while Pratt & Whitney's 4,000+ GTF installed base and fleet ageing dynamics drive high-single-digit aftermarket growth and margin expansion.
- Valuation limits near-term upside: Following RTX's strong share price performance over the past year, it now trades at ~29–30x forward earnings, a premium relative to legacy defence contractors. The current multiple suggests the market has largely priced in the company's backlog strength and secular growth tailwinds, leaving limited room for further upside re-rating.

As at: 20 Feb 2026

Ticker	RTX-US
Share price	\$205
Intrinsic value	\$200
Upside/(Downside)	-2%
Recommendation	Hold

Latest company and market insights

Key highlights

In this report, we review the latest FY25 results for the year ended 31 December 2025.

Financial results at a glance:

- Total group sales increased from \$80.7 billion in FY24 to \$88.6 billion in FY25, a 10% YoY rise, with all three segments delivering growth. This reflected higher commercial OE and aftermarket volumes at Collins and Pratt & Whitney, alongside increased land, air, and naval defence activity at Raytheon, supported by robust global demand.
- Total operating profit increased from \$6.5 billion in FY24 to \$9.3 billion in FY25. Selling, general and administrative expenses increased by roughly 5%, lower than sales growth underscoring solid cost control and operating leverage across the portfolio.
- RTX delivered FY25 adjusted EPS of \$6.29, up 10% YoY (FY24: \$5.73), alongside GAAP EPS of \$4.96, which reflects \$1.15 per share of acquisition accounting adjustment and smaller restructuring and non-recurring items. Margin expansion was evident, with total segment operating margin improving to 11.8% (FY24: 10.5%).
- Operating cash flow rose from \$7.2 billion in FY24 to \$10.6 billion in FY25, with free cash flow increasing from \$4.5 billion to \$7.9 billion over the same period. The improvement was underpinned by higher operating profits and favourable movements in contract liabilities and payables, alongside disciplined capital spending of \$2.6 billion.
- Segment performance was broad-based: Collins' sales grew 7% with higher widebody and narrowbody OE and a double-digit increase in commercial aftermarket; Pratt & Whitney grew sales 17% on strong large-engine OE, aftermarket, and military volumes; Raytheon delivered 5% higher sales.
- Backlog reached a record \$268 billion at year-end 2025, comprising \$161 billion of commercial and \$107 billion of defence, with a full-year, book-to-bill of 1.56x. This expanding order book, including major missile, engine, and avionics awards, provides strong multi-year revenue visibility and underpins RTX's confidence in continued growth.

Management's guidance:

Management guided to FY26 adjusted EPS of \$6.60–\$6.80, representing growth rate of 5%-8%, with organic sales growth of 5%–6% and free cash flow of \$8.25–\$8.75 billion. This reflects ongoing conversion of the record backlog and steady margin expansion.

Sector outlook

The global aerospace and defence sector continues to benefit from elevated geopolitical tensions, NATO readiness initiatives and sustained investment in missile defence, munitions and next-generation air and space systems. Meanwhile, the commercial aerospace is driven by rising air traffic, ageing fleets and slower new-aircraft deliveries, which underpin demand for engines, avionics, and high-margin aftermarket services. Robust backlogs, long-term contracts and high barriers to entry position the industry for durable cash-flow growth and attractive long-term returns.

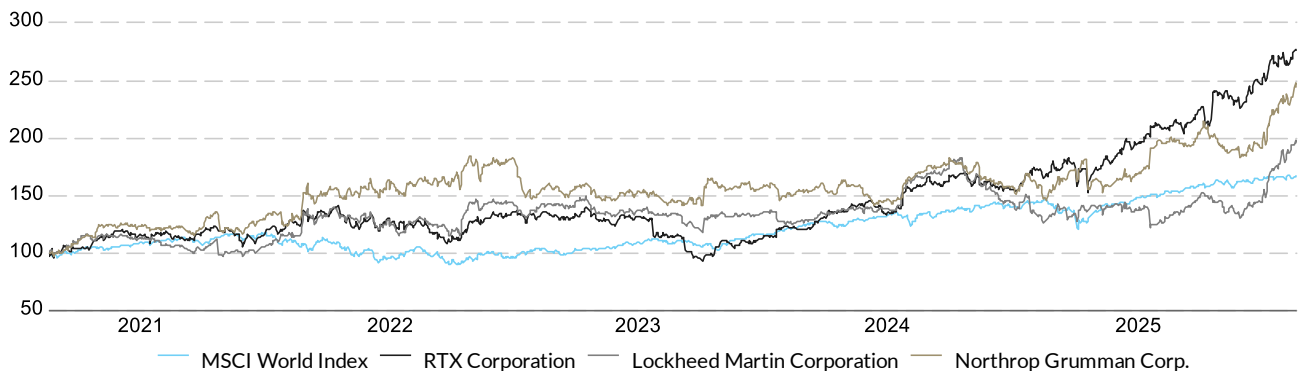


Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 6%, and expected three-year EPS CAGR is 18.6%. Revenue growth is expected to be supported by rising global defence budgets and increased commercial flight activity, with an ageing aircraft fleet driving higher-margin aftermarket services.
Valuation	★★★★☆	The share price is trading at a 2% premium to the IV. Current NTM P:E of 30.1x is trading at a 67% premium to the five-year average NTM P:E of 18x.
Dividend	★★★★☆	LTM dividend yield 1.4%. NTM dividend yield 1.5%.
Issuance	★★★★☆	Shares issued have decreased by 1% over the past five years.
Catalyst		Elevated defence spending heightened, geopolitical tensions and a structurally tight commercial aerospace supply chain create multiple growth opportunities. The company is positioned to pursue production growth across missiles, sensors and engine systems as demand increases Converting its record \$268 billion backlog into revenue provides significant near-term upside. Additional growth comes from ramping munitions and missile-defence output, while aging fleets and delayed new-aircraft deliveries support high-margin commercial aftermarket opportunities. RTX's breadth across Collins Aerospace, Pratt & Whitney and Raytheon, together with long-term government and airline contracts, offers visibility into near- and medium-term earnings. This supports the potential for multi-year growth in sales, earnings and free cash flow across key segments.
Quality of earnings	★★★★☆	Five-year average ROE 7.2%. Five-year average net profit margin 6.4%. Six of the past 10 years had positive earnings growth. Earnings quality is underpinned by long-cycle programs, which provide multi-year revenue visibility and relatively predictable cash generation despite short-term program and cycle volatility.
Moat	★★★★☆	Scale and cost advantage: Large, diversified operations across engines, aerospace systems and defence platforms create cost efficiencies, shared R&D and high-volume production capabilities that are difficult for competitors to match. Regulatory and contract advantage: Long-term government and airline contracts, combined with deep regulatory and certification expertise, create high entry barriers and reinforce RTX's credibility in delivering complex, mission-critical programs. Switching cost: A broad installed base of engines, systems and defence equipment, together with multi-year service and support agreements, provides predictable revenues and secure market access that are difficult for new entrants to replicate.
Management and governance	★★★★☆	Christopher Calio has served as CEO of RTX since May 2024. He has been with the organisation and its predecessors for many years, holding senior roles, including President and Chief Operating Officer of RTX and President of Pratt & Whitney. RTX's recent governance challenges historically trace back to fraud, bribery and export-control violations at its Raytheon subsidiary. The company has settled with US authorities and remains under multi-year compliance monitoring.
Balance sheet	★★★★☆	Debt to equity 59.5%. Debt levels remain unchanged over the past seven years, with debt to equity improving over the same period. Debt to assets 23.4%.
Risks		Delays in production ramp-ups, supply chain disruptions, labour constraints, or cost overruns on fixed-price development programs could affect margins, cash conversion and the timing of backlog realisation. Commercial aerospace cyclicality, including lower aircraft production rates, reduced airline profitability, or weaker passenger demand, could impact engine deliveries and high-margin aftermarket revenues. Technical issues related to Pratt & Whitney's GTF engines, including the powder-metal defect and required inspections, could increase warranty costs, raise aircraft-on-ground levels and pressure engine margins. Significant reliance on US government revenue exposes RTX to defence budget and appropriations risk. Regulation and government spending: Changes in procurement priorities, export controls, trade restrictions, or aviation regulations could affect order flow, program funding and certification timelines.

Source: FactSet

Graph 1: Five-year price (Indexed to 100)



Source: FactSet

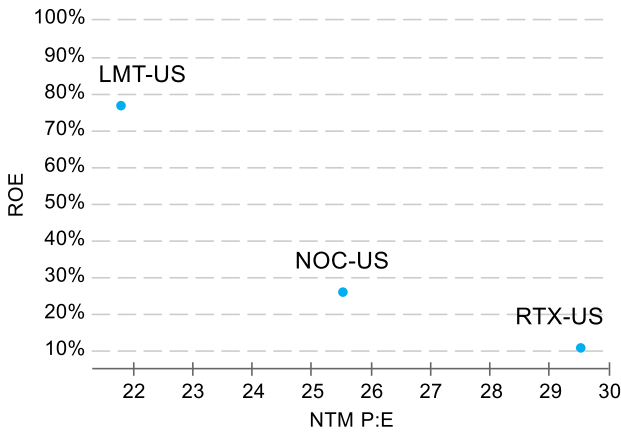


Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
RTX-US	11.7%	2.0%	18.6%	30.9%	63.8%	125.2%	101.9%	175.9%	293.8%
LMT-US	36.1%	3.8%	40.6%	47.6%	50.9%	55.2%	38.4%	96.2%	208.1%
NOC-US	26.9%	4.5%	27.5%	22.1%	65.2%	59.4%	53.7%	143.4%	279.5%
MSCI world	2.5%	0.3%	7.1%	9.6%	14.7%	37.1%	61.9%	68.8%	199.9%

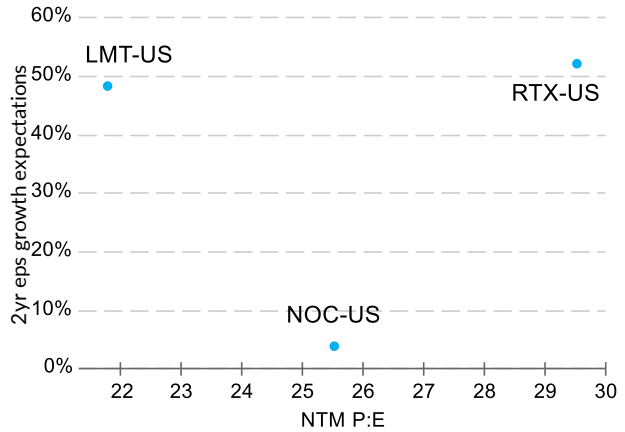
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

Valuation of RTX is based on a discounted cash flow (DCF) model incorporating explicit earnings forecasts and a long-term terminal growth rate. Forecasts reflect expected trends in defence spending, commercial aerospace demand and execution on long-cycle programs. The terminal growth rate is derived from expected GDP growth and inflation, weighted by the company's revenue mix across key regions. Bear, base and bull scenarios are considered, with probability weightings reflecting the range of potential outcomes.

Table 3: Valuation summary

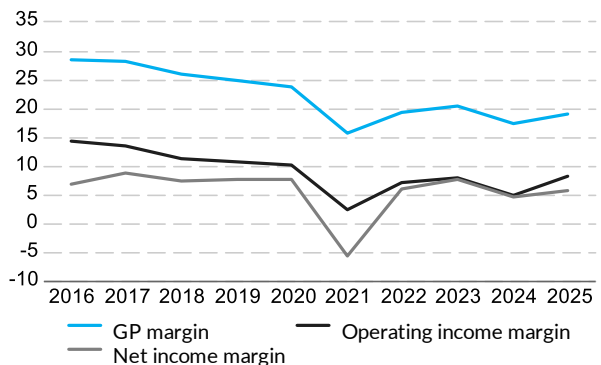
Valuation Probabilities			
	Bear	Base	Bull
Long-term growth rate	3%	5%	7%
Probability	15%	60%	25%
Implied share price	\$126	\$176	\$301
Weighted intrinsic value	\$200		
Upside/(Downside)	-2%		

Graph 4: NTM P:E relative to benchmark



Source: FactSet

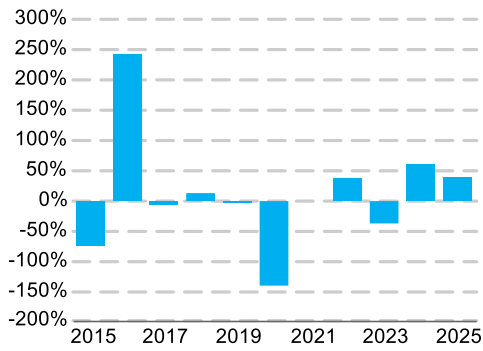
Graph 5: Profit margins (%)



Source: FactSet

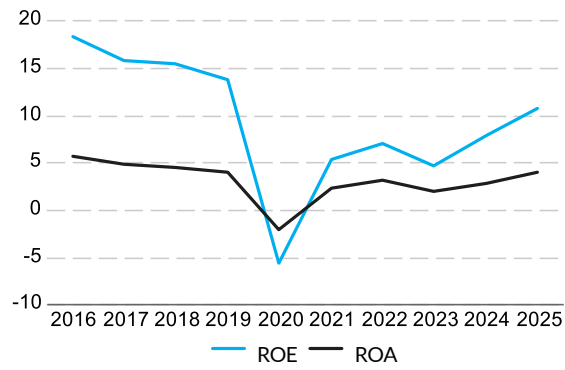


Graph 6: 10Y EPS year-on-year change



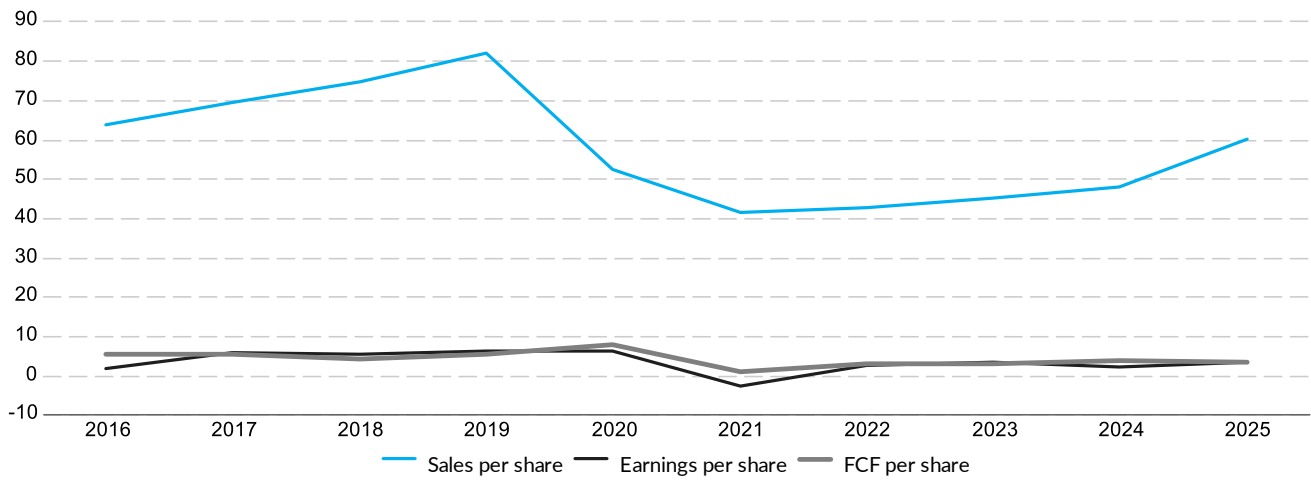
Source: FactSet

Graph 7: ROE and ROA (%)



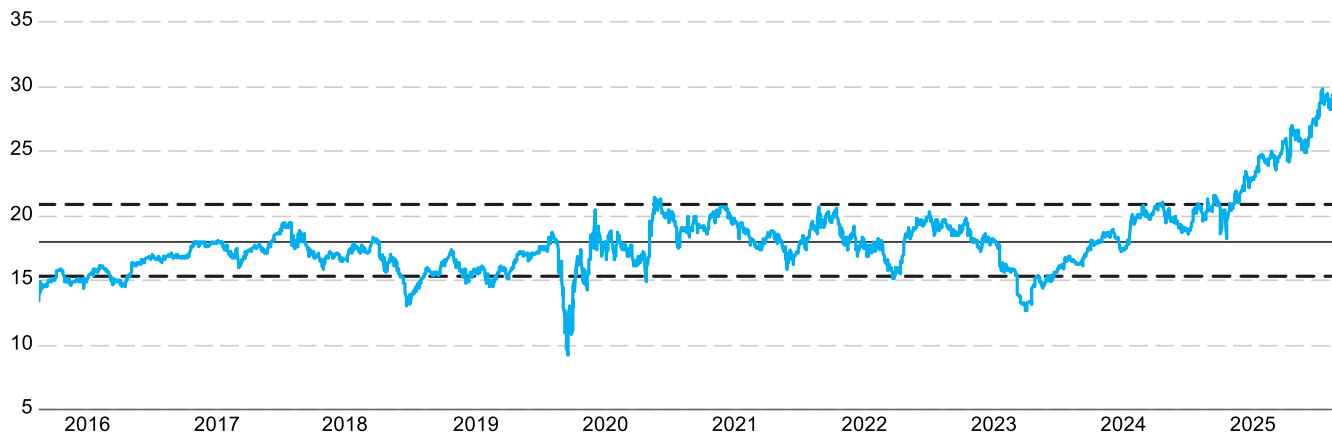
Source: FactSet

Graph 8: Sales, earnings and FCF per share (USD)



Source: FactSet

Graph 9: NTM P:E



Source: FactSet



Table 4: Financials and ratios

Income statement (\$Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	64 360	67 074	68 920	80 738	88 603	10%	10%	9%
Cost of sales	51 863	53 406	56 831	65 328	70 814	8%	10%	8%
Gross income	12 497	13 668	12 089	15 410	17 789	15%	9%	15%
EBIT	4 667	5 384	3 475	6 670	8 887	33%	18%	45%
EBITDA	8 934	9 141	7 360	10 670	12 887	21%	12%	19%
Net income	4 145	5 327	3 380	5 013	7 069	41%	10%	128%
EPS (USD)	2.6	3.5	2.2	3.6	5.0	40%	12%	124%
Balance sheet (\$Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Total assets	161 404	158 864	161 869	162 861	171 079	5%	2%	1%
Total shareholders' equity	74 699	74 214	61 445	61 958	67 138	8%	-3%	-2%
Total liabilities	86 705	84 650	100 424	100 903	103 941	3%	7%	3%
Ratios	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	5Y Avg		
Net debt/EBITDA	2.7	2.8	5.1	3.3	2.4	3.3		
Interest coverage	3.4	4.1	2.1	3.4	4.8	3.6		
Debt/assets	21%	21%	28%	27%	23%	24%		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
\$	United States Dollar
CAGR	Compounded annual growth rate
Commercial OE	Commercial Original Equipment
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FY	Financial year
IRA	Inflation Reduction Act
LMT-US	Lockheed Martin Corporation
LTM	Last twelve months (also known as trailing)
M	Month
MTD	Month to date
NATO	North Atlantic Treaty Organisation
NOC-US	Northrop Grumman Corp.
NTM	Next twelve months (also known as forward)
OEM	Original Equipment Manufacturer
P:E	Price to earnings
ROA	Return on assets
ROE	Return on equity
RTX-US	RTX Corporation
YoY	Year on year
YTD	Year to date



Contact details

Marnus Piekaar, CFA

Equity Analyst

+27 (11) 996 5200

Marnus.Piekaar@psg.co.za

Pierre Muller, CA(SA), CFA

Head of Equity Solutions

+27 (11) 996 5200

Pierre.Muller@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Wealth recommendations

PSG Wealth provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to rerate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and includes EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

PSG Wealth has issued this publication. It is confidential and released for the information of clients only. It shall not be reproduced in whole or in part without our permission. Any unauthorised use, duplication, redistribution or disclosure is prohibited by law. This publication is not to be construed as providing investment services in any jurisdiction where the provision of such services is not permitted. It is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security, and we have no responsibility whatsoever arising here from or in consequence thereof. The user assumes the entire risk of any use made of this publication. Any decision to purchase securities mentioned in this publication must consider existing public information on such security or any registered prospectus. The information contained herein has been obtained from sources which and persons whom we believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. This publication does not attempt to identify the nature of the specific market or other risks associated with an investment. Leveraged/Geared positions in securities can accentuate the profit/loss made on investments. Geared/Leveraged positions are not recommended based on the information contained in this publication. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors and investors must make their investment decisions using their own objective advisers as they believe necessary and based upon their specific financial situations and investment objectives. Certain investments/recommendations may have tax implications for private customers. Investors should seek advice from a tax adviser before acting on information contained in this publication. The securities described herein are subject to fluctuation in price and/or value and investors may get back less than originally invested. Past performance is not indicative of future results. The employees responsible for producing this report may from time-to-time own securities mentioned herein.

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP: 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FSP: 42996