

Aerospace Manufacturers Spared From Republican Cuts

WASHINGTON (AP) — Defense cuts sought by House Republicans in fiscal 2012 are unlikely to hurt "modernization, readiness" or the bottom lines of top aerospace contractors, an analyst said Tuesday.

In a plan released Monday, the GOP-controlled panel that approves defense budgets barely touched major programs and cut modestly from others compared to the president's budget request, Jeffries analyst Howard Rubel said in a research note.

"Based on what we see, we still like the positions of" Boeing Co., General Dynamics Corp. and Northrop Grumman Corp., Rubel said.

Shares of all three companies rose in afternoon trading, outpacing the Standard & Poor's 500 index, as the broader market rallied on news of strong retail sales.

Republicans proposed spending of \$107.6 billion to buy weapons and other systems compared to the Obama administration's request of \$114.4 billion; and \$73 billion on research and development, compared to President Barack Obama's request of \$75.3 billion.

The proposed weapons spending is a small increase over the \$102.1 billion funded for the current fiscal year 2011. The research and development spending is a modest decrease from this year's \$75 billion.

However, for the defense industry, the proposal will reduce by \$3.2 billion the revenue they can expect from a set of programs worth \$73 billion, Rubel said.

Among the cuts Rubel noted in the proposed budget:

— \$435 million from the radar-guided missile known as AMRAAM-D, whose prime contractor is Raytheon Co. The missile remains the military's choice for a next-generation, all-weather missile of this sort, Rubel said, but production hang-ups might delay orders.

— \$524 million from aircraft with high-tech sensors and flown by human pilots for surveillance and reconnaissance, out of a total budget of \$540 million. The money was pulled because Northrop Grumman is protesting Boeing's contract award. Boeing had planned to hire L-3 Communications Holdings Co. to perform much of the work on the aircraft, known as EMARSS.

— A complete but temporary shut-down in 2013 of General Dynamics' Abrams tank line, part of a broader effort to modernize the tank fleet. The Army would start

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ordering the tanks again in 2016. The House panel increased by \$272 million the \$181 million that the president requested for the tanks in 2012. The Army's plan undercounts the cost of stopping and starting production, Rubel said. He added that General Dynamics' position remains strong as "the only producer of a main battle tank" and said the loss of the tanks would "be a problem for the U.S."

— The subcommittee signaled reluctance to move ahead with two new satellite systems produced jointly by Lockheed Martin Co. and Northrop Grumman: the Advanced Extremely High Frequency communications system, and the Space-Based Infrared System of military surveillance satellites. Once the systems are ready, the House will find the money, Rubel said. But he said a major buy is unlikely if more than 30 percent of a satellite remains subject to design changes.

— \$50 million from a combat vehicle known as the Joint Light Tactical Vehicle, still in development. Separate Prototypes were produced for the most recent phase by Lockheed; BAE Systems, a company based in England that does not trade on U.S. exchanges; and a partnership between General Dynamics and AM General LLC, a private company that makes the High Mobility Multipurpose Wheeled Vehicle known as HMMWV or Humvee. The \$50 million will be spent instead improving protective armor and "survivability" of Humvees. All of the JLTV prototypes need major improvements, the military says, and Oshkosh Corp. wants to get back into the competition.

The largest GOP-proposed reductions from the President's requests for defense buying were:

— \$174 million less for the EELV satellite launch vehicle, made by Lockheed and Boeing.

— \$172 million less for the Virginia Class of nuclear-powered attack submarines, made by General Dynamics and Huntington Ingalls Industries Inc.

— \$150 million less for the Patriot surface-to-air missile system, made by Lockheed and Raytheon.

The picture could change once the Democratic-controlled Senate weighs in, Rubel cautioned.

Shares of Boeing Co. rose \$1.65, or 2.3 percent, to \$74.59 in afternoon trading Tuesday. General Dynamics rose \$1 to \$70.64 and Northrop Grumman rose 85 cents to \$64.38.

Shares of Raytheon gained 48 cents to \$48.83, L-3 Communications rose \$1.19 to \$81.19 and Lockheed Martin added 94 cents to \$79.80.

Oshkosh stock increased 33 cents to \$26.29. Huntington Ingalls jumped 18 cents to \$36.69.

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