THE PENTAGON’S SECRET WAR PLAN

Quadruple Your Money With This Innovative New Security Contractor
Pointing at the “state of the world” – not to mention the continued terrorist threat we face here at home – President Donald Trump said repeatedly on the campaign trail that he would boost defense spending by as much as 15%.

Since then he’s talked about better focusing on weapons-related outlays. And focus is what I believe we’ll get.

Indeed, Trump will have to deal with such issues as a “nuclearizing” North Korea and the tinderbox known as the South China Sea.

Both are combining to fuel an East Asia-focused arms race that’s staggering in magnitude. IHS Jane’s says arms spending in the Asia-Pacific will climb 23% a year to reach $533 billion by 2020. That will put it on par with North American defense spending.

Tensions are higher than ever in the South China Sea after the White House said that it will act to prevent a “takeover” in the region. Beijing immediately shot back, saying it won’t stand for any U.S. intervention in the South China Sea. Sounds to us like both parties have war on the table.

Meanwhile, North Korea keeps testing nuclear weapons. And North Korea’s most senior defector to date just said that Supreme Leader Kim Jong Un could level Los Angeles if he decides to.

Then there’s the world beyond East Asia…
While U.S.-backed Iraqi security forces liberated Eastern Mosul from ISIS in mid-January, the militant group continues to cause chaos in Iraq, Syria and elsewhere in its quest to create an Islamic caliphate.

Also in January, both India and Pakistan conducted nuclear-capable missile tests. That tells us tensions between the two South Asian powerhouses remain at a very high level – especially as Pakistan grows its ties with China and distances itself from the United States.

And this isn’t just a political game – it’s also a technology drama. All these hot spots are hosting a high-stakes technological race.

And so stealth aircraft, aerial and seagoing drones, detection systems, and missile-interceptor know-how are rapidly advancing. New threats, including “wedge weapons” like the “hypersonic glide vehicles” (HGVs) are upping the ante in a big way.

All these new “systems” open up many new profit venues.

And that’s truer than ever under President Trump.

I bring all this up because, as investors, we can’t overlook market realities.

We never set out to profit from pain and suffering – but we also can’t afford to ignore war, terrorism and other defense-related tech opportunities.

That’s why, in this report, we’re looking at an innovative new government contractor with one of the most sophisticated portfolios of defense technologies we’ve ever seen.

It’s pioneered hypersonic scramjet propulsion technology that could allow U.S. missiles to travel at Mach 10 – or 10 times the speed of sound – hitting targets before detection systems know they’re ever fired. (Trump says he’s going to “bomb the @*# out of” ISIS… and this could be his secret weapon.)

This company also has developed one of the world’s most advanced hostile-fire detection systems for U.S. combat helicopters.
And already it’s the sole provider of interceptor boosters for the U.S. Missile Defense Agency’s Ground-Based Midcourse Defense (GMD) system. That system’s goal is to save thousands of lives by intercepting and destroying long-range enemy missiles.

Because of this new contractor’s importance to U.S. national security, it’s already amassed a $15 billion-plus backlog of contracts.

By investing today, you could see a 307% return in the coming months…

A New Age of Warfare

The coming government push to do more with less should play right into the hands of Orbital ATK Inc. (NYSE: OA).

It’s already seen its shares rise nearly 16% since the election. And with the U.S. government wanting to pull back from the business of launching satellites into space, Orbital, with its long track record in rockets and aerospace, is gearing up to pick up the slack – as its investors watch that share price soar even higher.

In the third quarter, the firm’s Flight Systems division picked up $1.1 billion in new orders. And like I said, Orbital’s total backlog now exceeds $15 billion, a figure that should soar as the defense and aerospace industries look to further outsource.

Plus, this stock has staying power. Orbital’s shares hit an air pocket over the summer on accounting issues with a key government contract. We predicted at the time that shares would make a full recovery – and they have. And you should expect further gains in 2017.

And thanks to the February 2015 merger that created Orbital ATK, it’s poised to dominate not only this new era in warfare, but also the booming “New Space Race”… commercial spaceflight.

The World Leader in Small-Caliber Ammunition

Orbital ATK is now a mid-cap leader in defense and aerospace. This Dulles, Va.-based company is a trailblazer in advanced precision
weapons, tactical rocket motors and warheads, missile-warning products and gun systems for the entire sector.

It’s also the world’s largest producer of small-caliber ammunition, as well as a leading manufacturer of medium- and large-caliber ammunition.

And when you look deeper into the company’s growing backlog of orders, you find multibillion-dollar contracts to develop advanced capabilities for missile-defense interceptors, fuzing systems, warheads, weaponized special-mission aircrafts and propulsion control systems.

The company, which garners more than $3 billion in annual sales, employs more than 12,000 people in 17 states and in several international locations – and it plans to expand rapidly through 2016.

Orbital ATK, though only a 2-year-old defense contractor, has a storied history.

That story starts out with Alliant Tech Inc. (the “ATK” in the current company’s name), which was founded 70 years ago as a unit of Honeywell International (NYSE: HON).

During World War II, Alliant played a big role in the Allied victory by developing an electronic autopilot that allowed the fabled Boeing B-17 Flying Fortress to drop bombs onto Axis targets with pinpoint precision.

In 1990, Honeywell moved to unlock the value hidden in ATK, spinning the unit off to shareholders as a standalone venture specializing in military, marine and test instruments.

And business has been booming.

The newest iteration of the firm, called Orbital ATK, is now the U.S. military’s go-to supplier for air-, sea- and land-based tactile missiles, defensive interceptors – and many of the ancillary systems needed to support that type of weaponry.

The company also manufactures military-grade propellants and powders.

Its expertise and experience have led Orbital ATK to garner some of the biggest missile contracts in history.
A Direct Hit on $1.1 Billion in Revenue

The U.S. Navy recently awarded Orbital ATK a $119 million contract for the fourth full-rate production lot of its patented Advanced Anti-Radiation Guided Missile (AARGM).

The company expects to contract for a fifth lot worth upward of $141 million later this decade.

“With the rapid proliferation of threats emerging around the world, AARGM provides significant advanced capabilities to those protecting our nation each and every day” said Bill Kasting, vice president and general manager of Orbital ATK’s Defense Systems Group.

AARGM is a supersonic, air-launched tactical missile system, with advanced capability to destroy enemy air defense missions.

It is the most advanced system on the market, providing pilots with in-cockpit, real-time situational awareness in the face of modern surface-to-air threats. It’s able to rapidly engage traditional and nontraditional threats, and can strike time-sensitive targets.

The AARGM contract is dwarfed by the almost $790 million that Orbital ATK picked up for its line of intercontinental ballistic missiles (ICBMs).

Under the contract, which according to the Pentagon should be completed by November 2016, the company will also perform engineering and program management services to help the U.S. Air Force sustain its ICBM program.

When you add it up, Orbital ATK pulled in nearly $1.1 billion from just the AARGM and ICBM contracts.

Protecting America’s Soldiers

In late 2015, Orbital ATK was granted a U.S. patent for its Helicopter Active Protection System.

This innovation will have a critical role in saving the lives of military pilots and crews. Helicopters are notoriously vulnerable to damages from
rocket-propelled grenades (RPGs). Because these aircrafts often hover in low altitudes, they are an easy target for enemy ground troops.

Orbital ATK’s new system is designed to sniff out and identify an incoming threat, launch and guide a counterattack to a precise location, and ultimately save lives – all in a fraction of a second.

The company is also a leading developer of next-generation strike weapon systems, missile-warning systems, and aircraft survivability products. These assets include special-mission support, aerial targeting, and specialized training systems. Orbital ATK was the first firm to deliver weaponized light gunships outfitted with medium-caliber cannons.

In late 2015, the company announced it had received an award totaling $426 million to begin developing FMU-139D/B fuses and fuse accessories for U.S. Naval Air Systems.

Pat Nolan, vice president and general manager for Orbital ATK’s Missile Products, said that “This award affirms our position as a technology leader within the military fuse and sensor industry, and will deliver more capability and greater reliability to our warfighters.”

The FMU-139D/B system gives soldiers added capability to defeat “hard” and deeply buried targets.

It will be produced at the company’s Allegany Ballistics Laboratory (ABL) facility in Rocket Center, W.Va., in conjunction with Orbital ATK’s design facility in Plymouth, Minn.

Production is expected to run through May 2024.

$1.6 Billion: Locked and Loaded

In addition to its other sectors, Orbital ATK also specializes in innovating low-cost, highly reliable and precise weapons and ammunition used for artillery and mortar systems, medium and small-caliber weapons platforms, and by battle tanks and individual soldiers.

The company is the world’s top producer of small-caliber live and training ammunition and gun systems, with more than 5 million units built in the last five years alone.
In addition to being a pioneer in the type of “hardened” electronics used in weapon applications, Orbital ATK produces precision guidance kits that turn conventional artillery and mortar munitions into precise GPS-guided weapons.

And because it is a legacy leader here, this sector is one of Orbital ATK’s most profitable. Over the past few months, Orbital ATK has procured several top contracts including one for $30 million for tactical and target practice medium-caliber ammunition to multiple U.S. services and allies.

The company also received $105 million in domestic and international contracts for medium- and large-caliber ammunition that span a range of 20-, 25-, and 30mm tactical and target-practice ammunition.

These orders include a contract for the full-rate production of its next generation 120mm Kinetic Energy antitank cartridge, M829A4, which recently received type classification and has passed its initial lot acceptance testing.

If you’re keeping score, what I just told you about have allowed Orbital ATK to pull in nearly $1.6 billion in contracts in just the past few months. What’s more, these don’t account for even half of the deals the company made during that stretch.

And there’s one specific deal from last year that is propelling OATK toward much, much higher heights.

**A New $8.4 Billion Frontier**

After Alliant Tech was spun off from Honeywell International, the new independent company kept that name for some time.

Then, in February 2015, Alliant Tech merged its aerospace, defense, and satellite operations with Orbital Sciences Corp., a low-cost provider of satellites and rockets, giving birth to the new combined company – Orbital ATK.

Founded in 1982 by three buddies from Harvard University, Orbital had been at the forefront of space systems ever since.
Before the merger, Orbital was best known as a maker of satellites for communications and broadcasting. It also produces satellites for scientific research.

And its satellite expertise goes deeper still. Orbital provided spacecraft for national security missions, as well as planetary probes for exploring the outer regions of space.

In 2014, Orbital’s satellites hit a major milestone – a cumulative 100 years of in-orbit operations. The company also conducted its first cargo delivery mission to the International Space Station (ISS) for NASA.

Here’s why the merger has opened up some vast opportunities.

The “first” space race – the one between the United States and the Soviet Union – was driven by government agencies.

A second round – one engineered by the private sector – has long been forecast… but it never developed.

Until now…

A “New Space Race”

In late November 2015, Blue Origin successfully landed its reusable New Shepard rocket back on Earth after an unmanned flight to the edge of space. This was a historic coup by Jeff Bezos, the founder and CEO of Amazon.com Inc. (Nasdaq: AMZN).

Then, on Dec. 21 of that same year, a SpaceX rocket landed upright on a converted launch pad, just a few miles from where it had taken off 10 minutes earlier. This flight was even more historic than Blue Origin’s because the Falcon 9 was the first rocket to return to Earth after delivering payloads (11 satellites) to orbit. (The Blue Origin is not an orbital vehicle.)

SpaceX, owned and operated by Elon Musk, now has plans to use one of those Falcon 9’s to launch of an EchoStar communications satellite from NASA’s Launch Complex 39A at Kennedy Space Center. That historic pad was last used by NASA’s space shuttles in 2011 – and before that by the Apollo moon rockets.
A History of Spaceflight

Since 1995, Orbital ATK has launched 44 missions worldwide, including four of the launches we outline for you in the below illustration. In 2017 and 2018, the company is involved in at least five major launches. Then, starting in 2019, Orbital has a “CRS-2” contract with NASA to carry out at least six more ISS resupply missions. Space launches are on track to become an $8.36 billion market by 2020.

Source: Private Briefing Staff Research
These are just some of the many recent launches and other events that have helped propel us into true space commerce – a new era that will be hallmarked by shipping, outer-space manufacturing and perhaps space tourism.

For example, NASA and United Launch Alliance (ULA) – a joint venture of Lockheed Martin Corp. (NYSE: LMT) and Boeing Co. (NYSE: BA) – are planning to launch an unmanned trip to Mars in 2020. The InSight Mission will land on Mars and measure the planet’s subsurface temperature and seismic activity.

Spaceflight Now lists nearly 60 launches from around the world between now and the end of 2017 – and says that more human spacecraft are in development in the United States today than at any other time in history.

Orbital ATK itself has built more than 225 space systems and has 800 more space-related components delivered or in production. It also makes the Antares rocket and Cygnus spacecraft that NASA uses to ferry cargo to the ISS.

On Dec. 9, 2015, Cygnus CRS OA-4 was Orbital’s fourth resupply mission to the ISS – and its first such launch in about a year. It made another such mission in March and October. And it is scheduled for several more such launches – up to OA-11 – through 2018.

After that, Orbital ATK has a “CRS-2” contract with NASA to carry out at least six more ISS resupply missions.

And it collects about $50 million for each of these launches.

As a market, the New Space Race includes everything from advanced satellites to commercial space flight to zero-gravity research and manufacturing. Frost & Sullivan estimates the commercial space market alone at roughly $8.4 billion by 2020.

Because NASA has curtailed its own flights to the ISS, many investors think commercial spaceflight remains stalled.

Just the opposite is true. NASA has quietly entered into partnerships with private companies for commercial spaceflights. The idea is to lower
the cost to U.S. taxpayers by relying on the private sector’s ability to control expenses.

NASA has invested at least $5.7 billion in developing the commercial space industry. In fact, the agency singles out Orbital ATK as a company that is critical to the future of this field.

In September 2015, NASA selected Orbital ATK for a new contract for aerospace propulsion systems technologies including liquid engine systems, propellant systems, electric propulsion, and rocket-based combined cycle.

“This effort reflects our continued commitment to be a key partner in NASA’s pioneering space endeavors,” says Mike Kahn, president of Orbital ATK’s Defense Systems Group. “Orbital ATK has a rich history as a technology partner, and we are continuing to develop advanced solutions in space access and hypersonic propulsion.”

And we can add ULA, the premier rocket launch provider for the U.S. Air Force, to Orbital ATK’s impressive client list. ULA tapped Orbital ATK to provide rocket boosters and other hardware for its Atlas V and Delta IV launch vehicles through 2021.

This series of contracts should give this stock even more solid momentum.

Ready for a 130% “Liftoff”

Orbital ATK’s management team is known for a running a tight ship when it comes to costs.

That’s a good thing because we want to buy cash flow, rising profits and solid margins.

Orbital ATK has those nailed. Recently trading at roughly $86.80 a share, it has a market cap of $5.03 billion, operating margins of 10.9% and a 14.3% return on equity (ROE).

Analysts currently have a 12-month consensus target of $98.50 on Orbital shares – which would give us a gain of 13.2% – and a high-water target of $110… a gain of 26.4%.
However, Orbital ATK’s shares trade at a big discount to the broader market. If the valuation could just rise to that of the S&P 500, we’d be looking at a share price of about $135 – a gain of more than 55.2% in one year – and up to $200 in the near future... a gain of 130%.

The analysts simply aren’t seeing the full picture here. The current valuation is far too low given the company’s double-digit earnings growth.

However, after three decades in this business, I’m never surprised when Wall Street fails to see a bargain.

When you count the benefits we’ll be getting from Orbital ATK’s growing backlog of military contracts, a profit-boosting merger and the continuing New Space Race boom, this stock is a just trigger pull away from triple-digit gains.

[Editor’s Note: Unless otherwise directed, we recommend investors employ a 25% “trailing stop” on all holdings.]
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