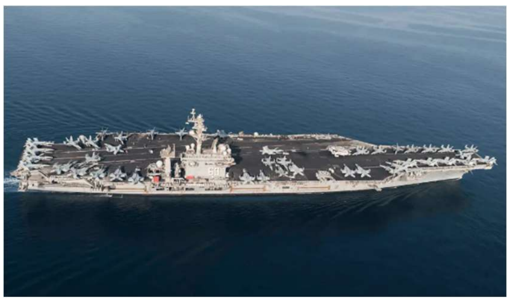
Investlinx

New Investment: Huntington Ingalls Industries (HII US)

We have recently added Huntington Ingalls Industries to the portfolio, and in this document, we present our investment thesis for the company.

Huntington Ingalls is America's largest military shipbuilder. For more than a century it has designed, built, refuelled and maintained the U.S. Navy's largest and most complex warships, alongside Coast Guard cutters, and also provides other defence equipment and services such as unmanned vessels and military technology. For its most important products Huntington Ingalls is effectively irreplaceable. It is the only company in the United States that can build and refuel a nuclear-powered aircraft carrier, one of only two that can build a nuclear submarine, one of only two that build the Navy's main destroyers, and the sole builder of its large amphibious landing ships. These positions rest on a century of accumulated expertise, physical plant, nuclear qualifications and skilled trades that no competitor could assemble on any commercial timescale.



Nimitz-class nuclear-powered aircraft carrier (USS Dwight D. Eisenhower). Source: Huntington Ingalls website

Arleigh Burke-class guided missile destroyer (USS Ralph Johnson). Source: Huntington Ingalls website

America-class amphibious assault ship (USS America). Source: Huntington Ingalls website

Virginia-class nuclear-powered attack submarine. Source: Huntington Ingalls website

Our **investment thesis** relies on the following considerations:

- **Durable Structural Demand:** We expect the broad aerospace and defence market to grow at a mid-single-digit rate over the long run, driven by heightened geopolitical tension and the steady modernisation of armed forces. Within that market, we expect naval shipbuilding to grow faster still.
- **Exceptional Revenue Visibility:** Because each ship takes years to build and Huntington Ingalls has $57bn worth of orders (multiple times its annual sales), a large share of future revenue is visible well in advance. That predictability is rare and is a core reason a quality-minded investor would look here.
- **A strong and durable competitive advantage:** the company's moat rests on physical assets and regulatory qualifications that cannot be recreated on any commercial timescale.
    - **Cornered Resources:** The Newport News plant itself — a 550-acre owned site with seven graving docks — took years to assemble and has never been duplicated. Standing up a rival yard would require many years and enormous capital before a single hull was delivered.

  - **Switching Costs:** The cost and risk the Navy would bear to move work elsewhere are prohibitive. Re-qualifying facilities, re-creating expertise, clearances and a nuclear-certified workforce elsewhere would take years, and programmes run under binding long-term contracts that give well-performing incumbents a degree of continuity rare in any industry.
  - **Scale Economies**: The capital and scale required to build economically are so large that the U.S. market supports only one or two yards per ship type, while long production runs spread heavy fixed costs across successive hulls.

- **Margin Recovery from a Depressed Base**: the company's margins are low for its industry today because it is still working through pre-Covid contracts signed at prices that proved too low once labour and material costs jumped (an industry-wide problem rather than a company-specific one). Roughly half of 2025 revenue ran through fixed-price contracts, under which Huntington Ingalls locks in a price years before delivery and absorbs most of the potential overrun itself. As that legacy work completes and is replaced by better-priced new awards, margins should rise meaningfully.
- **Throughput, Not Order Intake, as the Operating Lever**: In a demand-rich, capacity-constrained business, what actually drives revenue is the rate at which the yards convert labour into completed ship work. Huntington Ingalls lifted throughput by roughly 14% in 2025 and targets a further 15% in 2026, achieved about equally through outsourcing more work to partner yards and suppliers and through a better-performing workforce.

There are, of course, risks. Around half of Huntington Ingalls's work is priced years before a ship is handed over, so when wages and materials cost more than assumed the company, not the Navy, absorbs the difference; this is the main reason shipbuilding profit margins have fallen since 2023. Building warships also depends on scarce skills such as nuclear welding, and since Covid-19, experienced workers have been retiring faster than new recruits can replace them, which has slowed work. The company has made progress on both fronts (contract mix and labour shortages), but full resolution takes time. In addition, some components have only one approved supplier, so a single vendor's difficulties can delay a ship. Almost all of Huntington Ingalls's income comes from the U.S. government, which sets contract terms, can cancel at short notice and approves funding one year at a time. Finally, over the longer term the Navy may shift spending toward smaller, cheaper or uncrewed vessels, which would gradually reduce demand for the large ships Huntington Ingalls is built around.

Conclusion

Huntington Ingalls occupies one of the most structurally protected competitive positions in listed industrials. As the sole builder and refueller of nuclear-powered aircraft carriers, and one of only two yards capable of constructing nuclear submarines, the company faces no credible threat of new entry or contract displacement — a position resting on physical infrastructure and nuclear qualifications that took decades to assemble and could not be recreated on any reasonable timescale. Bipartisan support for naval shipbuilding is genuine and reflected in the budget requests. The company enjoys strong revenue visibility with the contracted order book covering multiple years of future income.

The investment case does not require market share gains, a sector re-rating, or a step-change in demand. It requires the company to work through a book of underpriced pre-Covid fixed-price contracts and to lift throughput sufficiently to absorb the post-Covid work at target margins. On our base case, mid-teens earnings growth supports roughly 50% upside over three years.

As of 28 August 2026, Huntington Ingalls represented approximately 2.0% of the Capital Appreciation ETF and 1.3% of the Balanced Income ETF.

28 August 2026

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