United Technologies Corp. (UTX)

Updated April 29th, 2018 by Nate Parsh

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	2.8%	**Quality Percentile:**	N/A
Fair Value Price:	$106	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	N/A
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Total Return Percentile:**	N/A
Dividend Yield:	2.3%	**5 Year Price Target**	$125	**Valuation Percentile:**	N/A

Overview & Current Events

United Technologies is a commercial aerospace and defense company. UTX is composed of four business divisions: Pratt & Whitney manufactures and services engines for commercial and military customers; Otis is the world's largest producer and servicer of elevators and escalators; UTC Climate produces HVAC equipment; and UTC Aerospace creates aerospace and industrial products. UTX has a current market cap of almost $98 billion and had sales of more than $60 billion in 2017. The company was founded in 1934 and has more than 200,000 employees.

UTX reported 1st quarter 2018 earnings results on 4/24/2018. The company earned $1.77 per share, $0.26 above analysts' estimates. The company grew revenue 10.1% year over year to $15.2 billion, beating estimates by $580 million. All four divisions saw at least mid-single digit sales gains, with Pratt & Whitney leading the way with 15% growth. UTX raised its estimates for both EPS and sales for 2018. UTX's agreement to purchase Rockwell Collins, maker of avionics equipment, for $30 billion dollars was approved by both companies' shareholders. UTX is paying $140 to acquire the company ($93.33 in cash and $46.67 in stock) and assumes ~$7 billion in Rockwell Collins debt. Rockwell Collins' portfolio of products will help diversify UTX's aerospace businesses and add ~$8 billion to annual sales. Management expects the deal to close by the end of the 3rd quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.90	$4.12	$4.74	$5.49	$5.34	$6.21	$6.82	$6.29	$6.61	$6.60	***$7.05***	***$8.17***
DPS	$1.35	$1.54	$1.70	$1.87	$2.03	$2.20	$2.36	$2.56	$2.62	$2.72	***$2.80***	***$3.25***

UTX saw a decline in earnings per share during the last recession that took the company until 2011 to recover from. Over the past decade, UTX has seen earnings growth of 3% per year. The company recently raised its midpoint for expected 2018 EPS by $0.07 to $7.05. Based off of the historical growth rate of 3%, shares of UTX could earn $8.17 per share in 2023.

While the company has seen EPS fluctuate over time, UTX's dividend has steadily climbed higher. UTX has Increased dividends for 24 consecutive years, with a 9% average annual raise over the past 10 years. The most recent raise was announced 6/14/2017 and increased the dividend by 6%. Assuming dividends grow at the same rate as earnings, shares could produce $3.25 in income per share by 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.1	13.4	15.0	14.6	14.7	16	16.4	17.0	15.3	17.7	***17.4***	***15.3***
Avg. Yld.	2.1%	2.8%	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	***2.3%***	***2.6%***

Shares of UTX have traded with an average multiple of 15.3 over the past decade. This is below the forward P/E of 17.4. If shares were to revert to their average P/E, then shareholders can expect the company's multiple to contract 2.5% per year through 2023.

UTX shares have traded with a low 2% yield for much of the past decade. This yield is just above that of the S&P 500 and well below the 10-Year Treasury Bond. While the company can be counted on for annual dividend growth, UTX does not provide an overly attractive yield for income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	28.4%	24.3%	24.5%	25%	17.4%	17.8%	18.6%	17.9%	17.6%	16.4%	***17.3%***	***20.8%***
Debt/A	70.7%	61.6%	61.3%	62.9%	69.7%	63.3%	64.3%	67%	67.5%	67.6%	***75.8%***	***65.6%***
Int. Cov.	11.1	10.5	10.8	16.2	10.1	9.7	11.1	9.0	8.0	9.7	***9.8***	***10.6***
Payout	27.6%	37.4%	35.9%	34.1%	38%	35.4%	34.6%	40.7%	39.6%	41.2%	***39.7%***	***39.8%***
Std. Dev.	27.9%	30.6%	19.9%	25.5%	17.7%	14.3%	15.5%	19.1%	19.9%	12.8%	***14.3%***	***20.3%***

UTX did see a decline in earnings during the last recession that took several years to recover from. This would likely be the case again in an adverse economic climate. UTX's products, like elevators and jet engines, are in high demand when the economy is growing. Shareholders can expect that the company will perform well as long as the economy continues to improve.

One item investors need to be aware of is that UTX does a significant amount of business in China, especially its Otis division. A potential trade war with China could impact UTX's earnings results. While rhetoric from respective leaders hasn't translated into official policy, investors need to keep this issue in mind.

UTX has kept its dividend payout ratio to below 40% for much of the past 10 years. This has allowed the company to raise its dividend even as earnings have declined. Shareholders can be confident that the company will continue to increase payments regardless of the condition of the economy.

Final Thoughts & Recommendation

United Technologies is expected to have a total annual return of 2.8% through 2023. This total return is a combination of growth (3%), dividends (2.3%) and multiple reversion (2.5%). UTX's businesses are all performing well and its acquisition of Rockwell Collins will be a benefit to the top and bottom lines in future years. That being said, shares trade well above their 10-year average and are already very close to our 2023 target price. Investors are cautioned against purchasing shares of UTX at this time as we suggest waiting for a better entry point.

Total Return Breakdown by Year