# Honeywell International (HON)

*Updated May 29th, 2018 by Nate Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $151 | **5 Year CAGR Estimate:** | 5.6% | **Quality Percentile:** | N/A |
| **Fair Value Price:** | $127 | **5 Year Growth Estimate:** | 7.0% | **Momentum Percentile:** | N/A |
| **% Fair Value:** | 119% | **5 Year Valuation Multiple Estimate:** | -3.4% | **Total Return Percentile:** | N/A |
| **Dividend Yield:** | 2.0% | **5 Year Price Target** | $178 | **Valuation Percentile:** | N/A |

## Overview & Current Events

Honeywell International is a diversified industrial company. The company has four divisions: Aerospace, Home and Building, Performance Materials and Safety and Productivity. Honeywell has more than 130,000 employees around the world and 44% of 2017 sales came from international markets. The company had more than $40 billion in sales in 2017 and has a current market cap of $112.5 billion.

Honeywell released 1st quarter earnings on 4/20/2018. The company earned $1.95 per share, coming in ahead of estimates by $0.04. EPS was up 14% from the previous year. Revenue grew 9.5% year over year to $10.4 billion. This beat analysts' expectations by $360 million. Organic sales improved 5% in the quarter. Based on the strength of Q1, Honeywell expects organic sales for 2018 to be 3%-5%. The company also raised the midpoint of its earnings guidance to $7.95 per share, up from $7.88.

## Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.76 | $2.85 | $3.00 | $3.79 | $4.48 | $4.97 | $5.56 | $6.04 | $6.59 | $7.11 | ***$7.95*** | ***$11.15*** |
| **DPS** | $1.10 | $1.21 | $1.21 | $1.37 | $1.53 | $1.68 | $1.87 | $2.15 | $2.45 | $2.74 | ***$2.98*** | ***$4.18*** |

While Honeywell did see an earnings decline of 24% during the last recession, the company has managed to grow earnings every year since 2010. Over the past decade, earnings per share have grown by 6.6% per year. Aerospace, the largest division, saw organic sales increase 8% as air transport and business aviation orders were strong. After market services, which is a very high margin business, grew 4% organically. Honeywell's divisions are growing at a healthy clip, so we assume 7% EPS growth through 2023, slightly ahead of the average growth rate over the past 10 years. Applying this growth rate to the updated company guidance, Honeywell could earn $11.15 per share by 2023.

Honeywell has paused its dividend growth several times over the past two decades, most recently in 2010. This was the prudent move as earnings suffered a step decline in 2009. It should be noted that the company paused but did not cut its dividend during this turbulent time. Honeywell has increased its dividend for the last seven years, with the last raise coming on 9/29/2018. This resulted in a 12% increase in the dividend payment. The average raise over the past decade is 10.6% per year. In order to be conservative, we forecast that dividend will grow in line with earnings going forward. Free cash flow grew 30% in the most recent quarter so it is possible that dividends could grow at a higher pace if this trend continues.

## Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 12.8 | 12 | 14.7 | 14.3 | 13.2 | 16.0 | 16.9 | 16.9 | 17.0 | 18.9 | ***19.0*** | ***16.0*** |
| **Avg. Yld.** | 2.3% | 3.5% | 2.7% | 2.5% | 2.6% | 2.1% | 2.0% | 2.1% | 2.2% | 2.0% | ***2.0%*** | ***2.3%*** |

Honeywell shares have an average price to earnings multiple of 15.3 over the past ten years. Due to organic growth projections, we have a target P/E of 16 for the stock. Shares currently trade with a P/E of 19, so shareholders could see a multiple contraction of 3.4% per year through 2023.

Even with double digit annual dividend growth, shares of Honeywell have had an average dividend yield of ~2% over the last five years. This is near the yield of the S&P 500, but well below that of the 10-Year Treasury Bond.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GP/A | 24.1% | 19.2% | 20.2% | 20% | 22.4% | 23.5% | 25% | 24% | 22.4% | 21.8% | ***21.9%*** | ***22.3%*** |
| Debt/A | 79.5% | 75.1% | 71.5% | 72.6% | 68.8% | 61.3% | 60.9% | 62.7% | 63.9% | 70.6% | ***70.2%*** | ***68.7%*** |
| Int. Cov. | 12.1 | 5.5 | 9.0 | 8.4 | 14.4 | 22.2 | 28.4 | 33.5 | 29.2 | 43.7 | ***39.1*** | ***20.6*** |
| Payout | 29.3% | 42.5% | 40.3% | 36.1% | 34.2% | 33.8% | 33.6% | 35.6% | 37.2% | 38.5% | ***37.5%*** | ***37.5%*** |
| Std. Dev. | 41.7% | 34.3% | 24.1% | 31% | 14.1% | 11.7% | 12.3% | 12.5% | 13.2% | 8.3% | ***10.7%*** | ***20.3%*** |

Honeywell experienced a sharp drop in earnings during the last recession. Industrial companies tend to perform very well when the economy is strong, but struggle in weak economic climates. Honeywell would likely see earnings declines in the next recession. On the plus side, Honeywell's gross profit as a percentage of assets has been very steady over the last ten years. Many industrials in our coverage universe cannot say the same. Consistent profitability could prove important during the next recession as investors seek out quality companies to park their investment dollars. One issue investors should be aware is the percentage of debt to assets is high, though down from peak levels in 2008.

Honeywell's payout ratio is typically below 40% and is projected to remain at this level over the next five years. This leaves plenty of room for the company to continue to increase its dividend, even in the event of a prolonged recession.

## Final Thoughts & Recommendation

Though shares of Honeywell have gained more than 30% since the start of 2017, the stock is actually down slightly for 2018. This pause in share price could be an opportunity to acquire a quality industrial company producing very solid organic growth. We estimate that shares of Honeywell can offer a total return of 5.6% annually through 2023. This return is a combination of growth (7%), dividends (2%) offset by valuation contraction (3.4%). Honeywell is operating its business at a high level and the stock has responded very well since the beginning of 2017. We rate Honeywell as a hold at current prices.

## Total Return Breakdown by Year