Honeywell International (HON)

Updated October 20th, 2018 by Nate Parsh

Key Metrics

Current Price:	$153	**5 Year CAGR Estimate:**	5.7%	**Volatility Percentile:**	2.2%
Fair Value Price:	$128	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	65.3%
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Growth Percentile:**	62.6%
Dividend Yield:	2.1%	**5 Year Price Target**	$179	**Valuation Percentile:**	23.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	22.0%

Overview & Current Events

Honeywell International is a diversified industrial company. The company has four divisions: Aerospace, Home and Building, Performance Materials and Safety & Productivity. Honeywell International has more than 130,000 employees around the world and 44% of 2017 sales came from international markets. The company generated more than $40 billion in revenue in 2017 and trades with a current market capitalization of $114 billion.

Honeywell International completed its spin-off of its Transportation Systems unit on October 1st. The new standalone company will be called Garrett Motion. The company is also spinning off its Homes & Global Distribution business. The spin-off will be completed by the end of October and the new company will be called Resideo Technologies.

Honeywell International reported 3rd quarter earnings results on October 19th. The company earned $2.03 per share, beating expectations by $0.04, an increase of 16%. Revenue grew 6.3% to $10.76 billion, in line with estimates.

All divisions within Honeywell International saw sales increase and organic growth was 7% companywide. Aerospace revenues were up 10% as demand for aviation equipment and defense products continues to be strong. Aftermarket services, a high margin business, were also higher in the quarter. Home & Building Technologies had 3% growth, largely due to increased sales for residential thermal products and thermostats. Revenues for Performance Materials & Technologies gained 4% as Solstice becomes more popular among customers. Solstice is Honeywell International's foam blowing insulation product. The Safety & Productivity division had sales growth of 12%, as the Intelligrated business delivered double digit sales increases. Honeywell International did lower its midpoint for EPS guidance to $7.98, down from $8.10 previously, to account for the earnings dilution from the separation of the Garrett and Resideo businesses. Free cash flow grew by 51% to $1.8 billion and the company repurchased $600 million of its own shares.

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	***$7.98***	***$11.19***
DPS	$1.10	$1.21	$1.21	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	***$3.06***	***$4.29***
Shares	734.6	764.2	783	774.7	782.8	783.8	782.2	770.4	760.8	750.9	***740***	***740***

While Honeywell International 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. Due to organic growth, we forecast 7% EPS growth going forward.

Honeywell International has paused, but did not cut, its dividend growth several times over the past two decades, most recently in 2010. The company increased its dividend 10.1% for the December payment. This is the ninth 10%+ increase since 2010. In order to be conservative, we forecast that dividend will grow in line with earnings going forward.

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	***19.2***	***16.0***
Avg. Yld.	2.3%	3.5%	2.7%	2.5%	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	***2.1%***	***2.4%***

Disclosure: This analyst has a long position in the security discussed in this research report.

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Honeywell International shares are flat since our July 20th update. Factoring in the update in EPS guidance, shares have a forward multiple of 19.2, up slightly from our prior update. Due to organic growth projections, we have a target P/E of 16 for the stock. If shares reverted to this valuation, the multiple could contract 3.6% per year through 2023. The current yield is above that of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

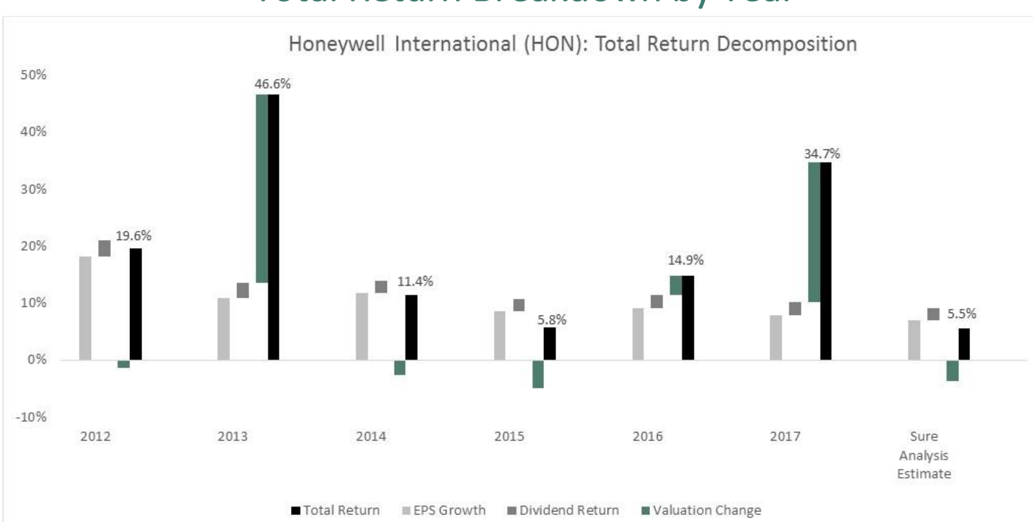
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	24.1%	19.2%	20.2%	20%	22.4%	23.5%	25%	24%	22.4%	21.8%	***21.9%***	***22.3%***
Debt/A	79.5%	75.1%	71.5%	72.6%	68.8%	61.3%	60.9%	62.7%	63.9%	70.6%	***70.2%***	***68.7%***
Int. Cov.	12.1	5.5	9.0	8.4	14.4	22.2	28.4	33.5	29.2	43.7	***39.1***	***20.6***
Payout	29.3%	42.5%	40.3%	36.1%	34.2%	33.8%	33.6%	35.6%	37.2%	38.5%	***38.3%***	***38.3%***
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%***

Industrial companies tend to perform very well when the economy is strong, but struggle in weak economic climates. Honeywell International would likely see earnings declines in the next recession. On the plus side, the company'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. Honeywell International'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

After factoring in 3rd quarter results and a slight decrease in EPS due to spinoffs, we now expect shares of Honeywell International to offer 5.5% annual returns, down from our previous estimate of 5.7%. This total return is a combination of earnings growth (7%), dividends (2.1%) and multiple contraction (3.6%). While we have decreased our 2023 price target $3 due to updated EPS guidance, we continue to like Honeywell International due to the high levels of organic growth that each division of the company is experiencing. We encourage more growth orientated investors to consider purchasing shares of Honeywell International at more attractive valuations. For now, the company's valuation earns it a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	36556	30908	32350	36529	37665	39055	40306	38581	39302	40534
Gross Profit	8562	6896	7629	7973	9374	10691	11349	11834	12152	12959
Gross Margin	23.4%	22.3%	23.6%	21.8%	24.9%	27.4%	28.2%	30.7%	30.9%	32.0%
SG&A Exp.	5033	4443	4618	5399	5218	5190	5518	5006	5469	5808
D&A Exp.	903	957	987	957	926	989	924	883	1030	1115
Operating Profit	3529	2453	3053	2538	4154	5493	5822	6806	6482	7053
Op. Margin	9.7%	7.9%	9.4%	6.9%	11.0%	14.1%	14.4%	17.6%	16.5%	17.4%
Net Profit	2792	1548	2022	2067	2926	3924	4239	4768	4809	1655
Net Margin	7.6%	5.0%	6.3%	5.7%	7.8%	10.0%	10.5%	12.4%	12.2%	4.1%
Free Cash Flow	2907	3337	3552	2035	2633	3388	3986	4446	4403	4935
Income Tax	1009	465	765	417	944	1450	1489	1739	1601	5204

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	35490	35993	37834	39808	41853	45435	45451	49316	54146	59387
Cash & Equivalents	2065	2801	2650	3698	4634	6422	6959	5455	7843	7059
Acc. Receivable				6926	6940	7530	7788	7901	8177	8866
Inventories	3848	3446	3958	4264	4235	4293	4405	4420	4366	4613
Goodwill & Int.	12452	12668	14171	14335	14874	15560	14996	20472	22341	22773
Total Liabilities	28221	27022	27047	28906	28788	27856	27667	30898	34599	41948
Accounts Payable	3773	3633	4344	4738	4736	5174	5365	5580	5690	6584
Long-Term Debt	8375	7607	6644	7555	7496	8829	8683	12068	15775	17882
Total Equity	7187	8861	10666	10806	12975	17467	17657	18283	19369	17276
D/E Ratio	1.17	0.86	0.62	0.70	0.58	0.51	0.49	0.66	0.81	1.04

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.1%	4.3%	5.5%	5.3%	7.2%	9.0%	9.3%	10.1%	9.3%	2.9%
Return on Equity	34.0%	19.3%	20.7%	19.3%	24.6%	25.8%	24.1%	26.5%	25.5%	9.0%
ROIC	17.2%	9.6%	11.9%	11.5%	15.0%	16.7%	16.0%	16.7%	14.6%	4.7%
Shares Out.	734.6	764.2	783	774.7	782.8	783.8	782.2	770.4	760.8	750.9
Revenue/Share	49.17	40.93	41.43	46.15	47.56	48.98	50.69	48.88	50.69	52.50
FCF/Share	3.91	4.42	4.55	2.57	3.32	4.25	5.01	5.63	5.68	6.39

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.