United Technologies Corporation (UTX)

Updated October 24th, 2018 by Nate Parsh

Key Metrics

Current Price:	$130	**5 Year CAGR Estimate:**	2.2%	**Volatility Percentile:**	20.6%
Fair Value Price:	$111	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	67.1%
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Growth Percentile:**	10.6%
Dividend Yield:	2.3%	**5 Year Price Target**	$129	**Valuation Percentile:**	28.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	9.3%

Overview & Current Events

United Technologies is a commercial aerospace and defense company. United Technologies 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. United Technologies has a current market capitalization of more than $104 billion and expects sales of $64 billion in 2018. The company was founded in 1934 and has more than 200,000 employees. United Technologies' $30 billion purchase of Rockwell Collins was approved by the U.S. DOJ on October 1st. Rockwell Collins' portfolio of products will diversify UTX's aerospace businesses and add ~$8 billion to sales. United Technologies is awaiting Chinese approval.

United Technologies released 3rd quarter earnings on October 23rd. The company earned $1.93 per share, $0.11 above estimates and an 11.6% increase year over year. Revenue increased 9.6% to $16.5 billion, topping estimates by $360 million. The company had 8% organic growth. All four divisions of the company saw revenue growth. Pratt & Whitney led the way with 13% organic growth. This division saw a 27% increase in large commercial engine sales. Military spending was again robust, climbing 15% higher while aftermarket services grew 9%. Aerospace sales, up 9%, also benefited from a rise in commercial and military spending. Aftermarket services for this division climbed 12%. Climate experienced a 7% organic sales increase, led by refrigeration and HVAC end markets. Refrigeration growth continues to be impressive, with an 11% increase in revenue during the quarter. Fire and security products saw an 8% rise in sales. Sales for the Otis segment grew 4% organically. United Technologies did warn that Otis saw sales decline in both China and South Korea, two key markets. Higher material and labor costs also impacted Otis.

United Technologies repeated that tariffs and currency headwinds are likely to be a $0.05 headwind for the company this year and a $0.15 headwind in 2019. The company did raise its midpoint for EPS guidance for 2018 to $7.25, up from $7.18 previously. United Technologies has now increased its EPS guidance three quarters in a row.

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	***$7.25***	***$8.40***
DPS	$1.35	$1.54	$1.70	$1.87	$2.03	$2.20	$2.36	$2.56	$2.62	$2.72	***$2.94***	***$3.41***
Shares	942.3	936.7	921.3	907.2	918.9	916.7	909.4	838.3	808.7	799.13	***795***	***780***

United Technologies saw a decline in earnings per share during the last recession that took the company until 2011 to recover from. Over the past decade, United Technologies has seen earnings growth of 3% per year.

United Technologies generated $1.3 billion in free cash flow during the 3rd quarter and expects to produce $4.5 billion to $5 billion in free cash flow in 2018. United Technologies announced a 5% dividend increase for the upcoming December payment. This will mark the twenty-fifth year in a row that the company has increased its dividend. The average raise over the past five years is 6%. The new annualized yield is 2.3%.

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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	***17.9***	***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 United Technologies had decreased $4, or 3%, since our July 24th update. Based off of updated guidance, the stock has a forward price to earnings multiple of 17.9, down from 18.7 earlier. United Technologies' stock has traded with an average multiple of 15.3 over the past decade. If shares were to revert to their average P/E, then shareholders could see the stock's multiple contract 3.1% per year through 2023, compared with a 3.9% annual reversion previously.

Safety, Quality, Competitive Advantage, & Recession Resiliency

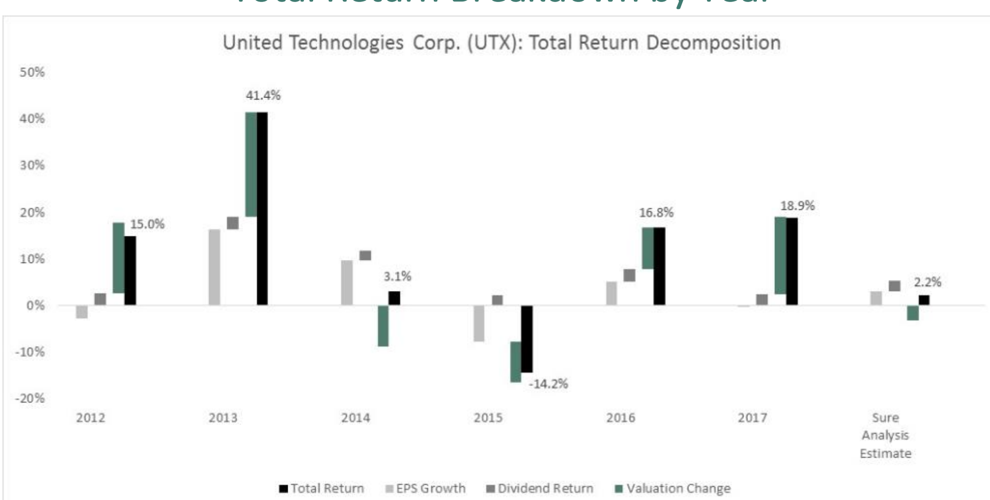
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	28.4%	24.3%	24.5%	25%	17.4%	17.8%	18.6%	17.9%	17.6%	16.4%	***17.3%***	***20.8%***
Debt/A	70.7%	61.6%	61.3%	62.9%	69.7%	63.3%	64.3%	67%	67.5%	67.6%	***75.8%***	***65.6%***
Int. Cov.	11.1	10.5	10.8	16.2	10.1	9.7	11.1	9.0	8.0	9.7	***9.8***	***10.6***
Payout	27.6%	37.4%	35.9%	34.1%	38%	35.4%	34.6%	40.7%	39.6%	41.2%	***40.6%***	***40.6%***
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%***

United Technologies 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. United Technologies' products, like elevators and jet engines, are in high demand when the economy is growing. One item investors need to be aware of is that United Technologies does a significant amount of business in China, especially its Otis division. A potential trade war with China could impact the company's earnings results. United Technologies 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.

Final Thoughts & Recommendation

After updated earnings guidance and a slight decline in share price, we now expect shares of United Technologies to return 2.2% annually over the next five years, up from 1.3% from our previous update. We've raised our price target $2 to $129 due to updated guidance. That being said, United Technologies' stock doesn't offer enough total return at this point to recommend purchasing.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	59757	52425	52275	55754	57708	56600	57900	56098	57244	59837
Gross Profit	16120	13564	14321	15385	15555	16132	17002	15667	15784	15884
Gross Margin	27.0%	25.9%	27.4%	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.5%
SG&A Exp.	6724	6036	5798	6161	6452	6364	6172	5886	6060	6183
D&A Exp.	1321	1258	1300	1263	1524	1735	1820	1863	1962	2140
Operating Profit	7625	6377	6898	7846	7684	8549	9593	7291	8172	8672
Op. Margin	12.8%	12.2%	13.2%	14.1%	13.3%	15.1%	16.6%	13.0%	14.3%	14.5%
Net Profit	4689	3829	4373	4979	5130	5721	6220	7608	5055	4552
Net Margin	7.8%	7.3%	8.4%	8.9%	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%
Free Cash Flow	4945	4527	5068	5661	3714	4586	5134	4294	1793	3237
Income Tax	1883	1581	1725	2134	1711	1999	2244	2111	1697	2843

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	56837	55762	58493	61452	89409	90594	91206	87484	89706	96920
Cash & Equivalents	4327	4449	4083	5960	4819	4619	5229	7075	7157	8985
Acc. Receivable	9480	8469	8925	9546	11099	11458	10448	10653	11481	12595
Inventories	8340	7509	7766	7797	9537	10330	7642	8135	8704	9881
Goodwill & Int.	18806	19836	21781	21861	42990	43689	42976	42904	42743	43793
Total Liabilities	40156	34374	35844	38632	62340	57375	58642	58640	60537	65499
Accounts Payable	5594	4634	5206	5570	6431	6965	6250	6875	7483	9579
Long-Term Debt	11476	9744	10289	10260	23221	20241	19701	20425	23901	27485
Total Equity	15763	20066	21385	21880	25914	31866	31213	27358	27579	29610
D/E Ratio	0.73	0.49	0.48	0.47	0.90	0.64	0.63	0.75	0.87	0.93

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.4%	6.8%	7.7%	8.3%	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%
Return on Equity	25.3%	21.4%	21.1%	23.0%	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%
ROIC	15.7%	12.9%	13.7%	15.1%	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%
Shares Out.	942.3	936.7	921.3	907.2	918.9	916.7	909.4	838.3	808.7	799.13
Revenue/Share	62.51	56.44	56.65	61.48	63.65	61.85	63.51	63.52	69.29	74.88
FCF/Share	5.17	4.87	5.49	6.24	4.10	5.01	5.63	4.86	2.17	4.05

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