United Technologies Corporation (UTX)

Updated January 23rd, 2018 by Nathan Parsh

Key Metrics

Current Price:	$117	**5 Year CAGR Estimate:**	6.2%	**Volatility Percentile:**	23.6%
Fair Value Price:	$120	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	32.4%
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Growth Percentile:**	11.5%
Dividend Yield:	2.7%	**5 Year Price Target**	$138	**Valuation Percentile:**	49.2%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	22.0%

Overview & Current Events

United Technologies is a commercial aerospace and defense company composed of two business divisions (after recently announced spin-offs are complete; see below): Pratt & Whitney (which manufactures and services engines for commercial and military customers) and Collins Aerospace Systems (which creates aerospace and industrial products). United Technologies has a current market capitalization of more than $96 billion The company was founded in 1934 and has more than 200,000 employees.

United Technologies' $30 billion acquisition of Rockwell Collins was completed on November 26th. At the same time, the company announced that it was spinning off its Otis and Climate, Controls and Security businesses into two separate independent companies. Otis will retain its name and CCS will take the name of Carrier.

United Technologies released financial results for the fourth quarter and full year 2018 on January 23rd. Adjusted earnings-per-share (EPS) totaled $1.95 during the quarter, topping consensus estimates by $0.40 and growing 18% year-over-year. Revenue grew 15% to $18 billion. This was $1.2 billion above estimates. For 2018, adjusted EPS grew 14% to $7.61. This was above the company's guidance of $7.25 per share. Revenues increased 11% to $66.5 billion. This includes 8% organic growth for the company.

The fourth quarter report saw the inclusion of Collins Aerospace Systems for the first time. This division saw nearly 29% growth from the prior year, including 9% organic sales growth. Organic sales for commercial was higher by 8% while military grew 12%. For 2018, this division grew sales organically by 8%. Revenues for Pratt & Whitney were higher by 24%, including 22% organic growth. Commercial OEM improved 74% as the company saw a surge in large commercial engines. Total Geared Turbofan shipments almost doubled from the fourth quarter of 2017. Aftermarket services increased 11% and military sales grew 17%. For the year, Pratt & Whitney had 14% organic growth. Otis sales inched up 1.5% during the quarter, largely due to a 6% increase in service sales. For the year, Otis had 3% organic growth. Carrier experienced revenue growth of 2.5%. North American residential HVAC improved 12% while global refrigeration added 7%. Carrier had 6% organic sales growth in 2018. The company guided towards a midpoint for EPS of $7.85 for 2019. This represents growth of 3.2% growth from 2018's results. Shares were up more than 5% at the end of the trading day.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
EPS	$4.12	$4.74	$5.49	$5.34	$6.21	$6.82	$6.29	$6.61	$6.60	$7.61	***$7.85***	***$9.05***
DPS	$1.54	$1.70	$1.87	$2.03	$2.20	$2.36	$2.56	$2.62	$2.72	$2.80	***$2.94***	***$3.41***
Shares	936.7	921.3	907.2	918.9	916.7	909.4	838.3	808.7	799.13	795	***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. If the slimmed down version of the company shows accelerated growth, we may increase our expected earnings growth rate.

United Technologies generated $4.4 billion in free cash flow in 2018, in line with expectations. The company raised its dividend 5% for the December payment, giving the company 25 consecutive years of dividend growth.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.4	15.0	14.6	14.7	16	16.4	17.0	15.3	17.7	*15.7*	***14.9***	***15.3***
Avg. Yld.	2.8%	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	*2.5%*	***2.7%***	***2.5%***

Shares of United Technologies had decreased $13, or 10%, since our October 24th update. Based off of 2019 guidance, the stock has a forward price-to-earnings-multiple of 14.9. If shares were to revert to their 10-average P/E, then shareholders could see the stock's multiple expand 0.5% annually through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

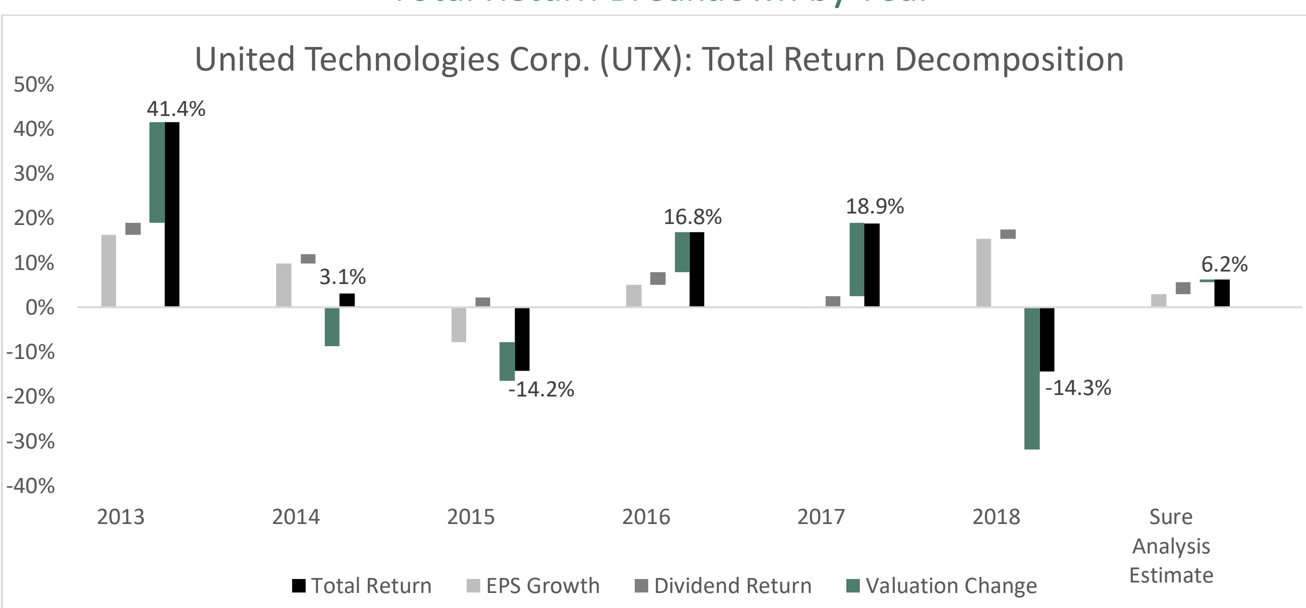
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	37.4%	35.9%	34.1%	38%	35.4%	34.6%	40.7%	39.6%	41.2%	36.8%	***37.5%***	***37.7%***

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. After the Rockwell Collins acquisitions and the announced spinoffs of Carrier and Otis, United Technologies is now almost completely focused on aerospace and defense. While this will likely lead to higher growth under current economic conditions, United Technologies may experience greater difficultly in remaining profitable if either of these businesses suffers a decline. The company 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 when earnings have declined.

Final Thoughts & Recommendation

After fourth quarter and full year results, we have raised our expected total annual return for United Technologies to 6.2% from 2.2%. The company outperformed analysts' expectations by wide margins on both the top and bottom lines. Removing the lower growth business should cause the earnings growth rate to accelerate. While we are not yet ready to recommend investors purchase shares at the current price due to lower expected total return, we do find United Technologies to be much more attractive than it was a quarter ago. We rate the stock as a hold at current prices.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	52425	52275	55754	57708	56600	57900	56098	57244	59837	66501
Gross Profit	13564	14321	15385	15555	16132	17002	15667	15784	15884	16516
Gross Margin	25.9%	27.4%	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.5%	24.8%
SG&A Exp.	6036	5798	6161	6452	6364	6172	5886	6060	6183	7066
D&A Exp.	1258	1300	1263	1524	1735	1820	1863	1962	2140	2433
Operating Profit	6377	6898	7846	7684	8549	9593	7291	8172	8672	8553
Op. Margin	12.2%	13.2%	14.1%	13.3%	15.1%	16.6%	13.0%	14.3%	14.5%	12.9%
Net Profit	3829	4373	4979	5130	5721	6220	7608	5055	4552	5269
Net Margin	7.3%	8.4%	8.9%	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%
Free Cash Flow	4527	5068	5661	3714	4586	5134	4294	1793	3237	4020
Income Tax	1581	1725	2134	1711	1999	2244	2111	1697	2843	2626

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	55.76	58.49	61.45	89.41	90.59	91.21	87.48	89.71	96.92	134.21
Cash & Equivalents	4449	4083	5960	4819	4619	5229	7075	7157	8985	6152
Acc. Receivable	8469	8925	9546	11099	11458	10448	10653	11481	12595	14271
Inventories	7509	7766	7797	9537	10330	7642	8135	8704	9881	10083
Goodwill & Int.	19836	21781	21861	42990	43689	42976	42904	42743	43793	74536
Total Liabilities	34374	35844	38632	62340	57375	58642	58640	60537	65499	93601
Accounts Payable	4634	5206	5570	6431	6965	6250	6875	7483	9579	11080
Long-Term Debt	9744	10289	10260	23221	20241	19701	20425	23901	27485	45537
Total Equity	20066	21385	21880	25914	31866	31213	27358	27579	29610	38446
D/E Ratio	0.49	0.48	0.47	0.90	0.64	0.63	0.75	0.87	0.93	1.18

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.8%	7.7%	8.3%	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%
Return on Equity	21.4%	21.1%	23.0%	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%
ROIC	12.9%	13.7%	15.1%	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%
Shares Out.	936.7	921.3	907.2	918.9	916.7	909.4	838.3	808.7	799.13	795
Revenue/Share	56.44	56.65	61.48	63.65	61.85	63.51	63.52	69.29	74.88	82.10
FCF/Share	4.87	5.49	6.24	4.10	5.01	5.63	4.86	2.17	4.05	4.96

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