Honeywell International (HON)

Updated February 9th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$149	**5 Year CAGR Estimate:**	6.1%	**Volatility Percentile:**	10.3%
Fair Value Price:	$127	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	49.0%
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Growth Percentile:**	65.0%
Dividend Yield:	2.2%	**5 Year Price Target**	$178	**Valuation Percentile:**	22.5%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	24.4%

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 trades with a current market capitalization of $110 billion and generates more than $36 billion in annual revenues.

Honeywell International completed its spin-off of its Transportation Systems unit, called Garret Motion, on October 1st. The company then spun off its Homes & Global Distribution business, called Resideo Technologies, on October 29th.

Honeywell International released financial results for the fourth quarter and full year 2018 on 2/1/19. Adjusting for the impact of the completed spin offs, earnings-per-share totaled $1.91 for the quarter. This was $0.02 above consensus estimates. Adjusted revenue increased 5.4% to $9.7 billion, topping estimates by $30 million. For the year, adjusted earnings-per-share of $8.01 was a 12% increase from 2017 and $0.03 above the midpoint of Honeywell International's guidance. Revenue increased 3% to $40.5 billion. Organic growth was 6% for the full year.

Revenues for the company's Aerospace segment grew 10% organically as volumes for both business aviation and defense shipments were strong. Commercial aftermarket services had robust demand in the areas of avionics, navigation and safety. Divesting the Transportation Systems division helped increase Aerospace's margins. Home & Building sales were higher by 1% as gains in commercial fire products and building solutions were offset by declines in air and water products in China. Performance Materials revenues were flat year-over-year. While Solstice, Honeywell International's foam blowing insulation product, continues to show strength, declines in smart energy products and the timing of large products led to flat organic growth. The Safety & Productivity division grew revenues by 15% during the quarter. This division has seen acceleration of product sales in its sensing, retail and Internet of Things businesses. Intelligrated, the company's warehouse automation product line, continues to post double digit growth rates. Safety & Productivity also experienced double-digit sales growth rates in China and India due to industrial safety products.

Honeywell International expects earnings-per-share for 2019 to be between $7.80-$8.10. Adjusting for the spinoffs, the midpoint of this forecast would represent 8% growth from 2018. Revenue is expected to increase 2%-5% to $36-$36.9 billion during the year. The company also expects to repurchase up to 1% of the existing share count in 2019. Segment margins should improve at least 110 basis points.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.85	$3.00	$3.79	$4.48	$4.97	$5.56	$6.04	$6.59	$7.11	$8.01	***$7.95***	***$11.15***
DPS	$1.21	$1.21	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	***$3.28***	***$4.60***
Shares	764	783	775	783	784	782	770	761	751	740	***732***	***700***

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. We expect that the combination of organic growth, margin expansion and share repurchases should cause earnings-per-share to grow at least 7% per year through 2024.

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

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Honeywell International has paused, but 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 2018 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12	14.7	14.3	13.2	16.0	16.9	16.9	17.0	18.9	16.5	***18.7***	***16.0***
Avg. Yld.	3.5%	2.7%	2.5%	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	2.3%	***2.2%***	***2.6%***

Honeywell International shares have declined $4, or 2.6%, since our October 20th report. Factoring in the earnings-per-share guidance for 2019, shares have a forward multiple of 18.7. Due to organic growth projections, we have a target price-to-earnings multiple of 16 for the stock, slightly above the 10-year average multiple of 15.6. If shares reverted to our target multiple, total returns could be reduced 3.1% per year through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	42.5%	40.3%	36.1%	34.2%	33.8%	33.6%	35.6%	37.2%	38.5%	38.2%	***41.3%***	***41.3%***

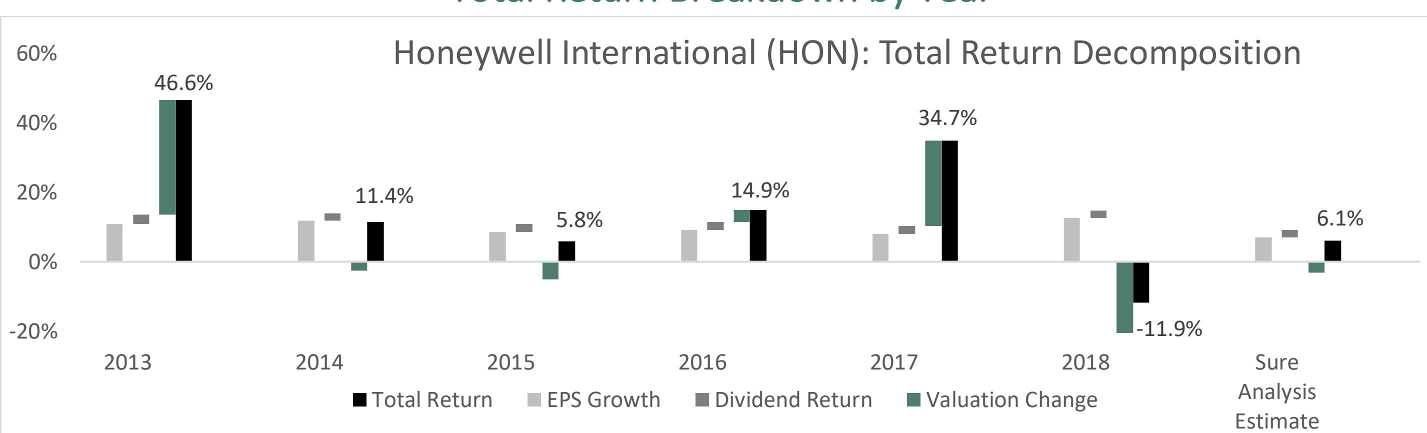
Industrial companies tend to perform very well when the economy is strong, but struggle in weak economic climates. As with most industrial companies, Honeywell International would likely see earnings declines in the next recession.

Honeywell International has divested two lower margin businesses in the form of spin offs last October. This should allow the company to focus on its higher margin businesses, particularly in Aerospace. Commercial and military products remain in high demand. With higher sales for this division, aftermarket services should see growth as well. As long as the economy remains strong, the company's other products, such as Intelligrated and industrial products like Solstice, should perform well.

Final Thoughts & Recommendation

After reviewing fourth quarter and full year results, we forecast that Honeywell International can offer a total annual return of 6.1% through 2024, up from our previous guidance of 5.7%. Honeywell International had a strong year in 2018. Almost every division saw growth and organic growth for the whole company came in as expected. That being said, the company's valuation earns it a hold recommendation from Sure Dividend at current prices. We would be buyers of Honeywell International if the stock were to trade at fair value. We have lowered our 2024 price target $1 to $178 due to updated guidance.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30908	32350	36529	37665	39055	40306	38581	39302	40534	41802
Gross Profit	6896	7629	7973	9374	10691	11349	11834	11625	12390	12756
Gross Margin	22.3%	23.6%	21.8%	24.9%	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%
SG&A Exp.	4443	4618	5399	5218	5190	5518	5006	5574	6087	6051
D&A Exp.	957	987	957	926	989	924	883	1030	1115	1116
Operating Profit	2453	3053	2538	4154	5493	5822	6806	5850	6221	6648
Op. Margin	7.9%	9.4%	6.9%	11.0%	14.1%	14.4%	17.6%	14.9%	15.3%	15.9%
Net Profit	1548	2022	2067	2926	3924	4239	4768	4812	1545	6765
Net Margin	5.0%	6.3%	5.7%	7.8%	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%
Free Cash Flow	3337	3552	2035	2633	3388	3986	4446	4403	4935	5606
Income Tax	465	765	417	944	1450	1489	1739	1603	5362	659

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	35993	37834	39808	41853	45435	45451	49316	54146	59470	57773
Cash & Equivalents	2801	2650	3698	4634	6422	6959	5455	7843	7059	9287
Acc. Receivable	N/A	N/A	6926	6940	7530	7788	7901	8177	8866	7508
Inventories	3446	3958	4264	4235	4293	4405	4420	4366	4613	4326
Goodwill & Int.	12668	14171	14335	14874	15560	14996	20472	22341	22773	19685
Total Liabilities	27022	27047	28906	28788	27856	27667	30898	34599	42805	39415
Accounts Payable	3633	4344	4738	4736	5174	5365	5580	5690	6584	5607
Long-Term Debt	7607	6644	7555	7496	8829	8683	12068	15775	17882	16214
Total Equity	8861	10666	10806	12975	17467	17657	18283	19369	16502	18180
D/E Ratio	0.86	0.62	0.70	0.58	0.51	0.49	0.66	0.81	1.08	0.89

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.3%	5.5%	5.3%	7.2%	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%
Return on Equity	19.3%	20.7%	19.3%	24.6%	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%
ROIC	9.6%	11.9%	11.5%	15.0%	16.7%	16.0%	16.7%	14.6%	4.4%	19.6%
Shares Out.	764	783	775	783	784	782	770	761	751	740
Revenue/Share	40.93	41.43	46.15	47.56	48.98	50.69	48.88	50.69	52.50	55.51
FCF/Share	4.42	4.55	2.57	3.32	4.25	5.01	5.63	5.68	6.39	7.44

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