



United Technologies Corporation (UTX)

Updated April 23rd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$140	5 Year CAGR Estimate:	2.3%	Volatility Percentile:	28.5%
Fair Value Price:	\$121	5 Year Growth Estimate:	3.0%	Momentum Percentile:	64.8%
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Growth Percentile:	12.5%
Dividend Yield:	2.2%	5 Year Price Target	\$140	Valuation Percentile:	29.8%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	10.3%

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 \$118 billion, with annual revenues of about \$77 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. The three companies will pay a combined quarterly dividend \$0.735 per share upon separation, which is expected to be completed in 2020.

United Technologies released financial results for the first quarter on 4/23/2019. The company earned \$1.91 per share, topping estimates by \$0.19 and improving 8% from the previous year. Revenue increased 21.1% to \$18.4 billion, which was \$390 million above expectations. The company had organic growth of 8% during the quarter.

Collins Aerospace organic sales increased 10%. Commercial aftermarket sales increased 64% (9% excluding Rockwell Collins acquisition). Sales for commercial OEM for this segment improved double digits while military sales were up by high single digits. Pratt & Whitney grew 12% as this segment continues to be a source of growth for United Technologies. Commercial OEM improved 35% while military sales increased 16%. Otis grew 7% organically, due mostly to higher volumes of new equipment sales. Sales in China were up 8%. Carrier grew 3% organically and was led by a 9% improvement in refrigeration. Equipment orders for Fire & Security and HVAC were up 5% and 3% respectively. The company retired \$29 million worth of stock during the first quarter.

United Technologies updated its guidance for 2019 and now expects to earn \$7.80 to \$8.00 per share, up from \$7.70 to \$8.00 previously. Achieving the midpoint of this guidance would result in 4% growth from 2018.

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	\$7.90	\$9.16
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	937	921	907	919	917	909	838	809	799	795	793	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. United Technologies expects to generate \$4.5 to \$5 billion in free cash flow, which is inclusive of a one-time separation cost of \$1.5 billion.

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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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	17.7	15.3
Avg. Yld.	2.8%	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.5%	2.2%	2.4%

Shares of United Technologies have increased \$23, or 20%, since our January 23rd update. Based off of updated guidance for 2019, the stock has a forward price-to-earnings-multiple of 17.7. Reverting to our target price-to-earnings ratio would be a 2.9% headwind to annual returns through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	37%	36%	34%	38%	35%	35%	41%	40%	41%	37%	37%	37%

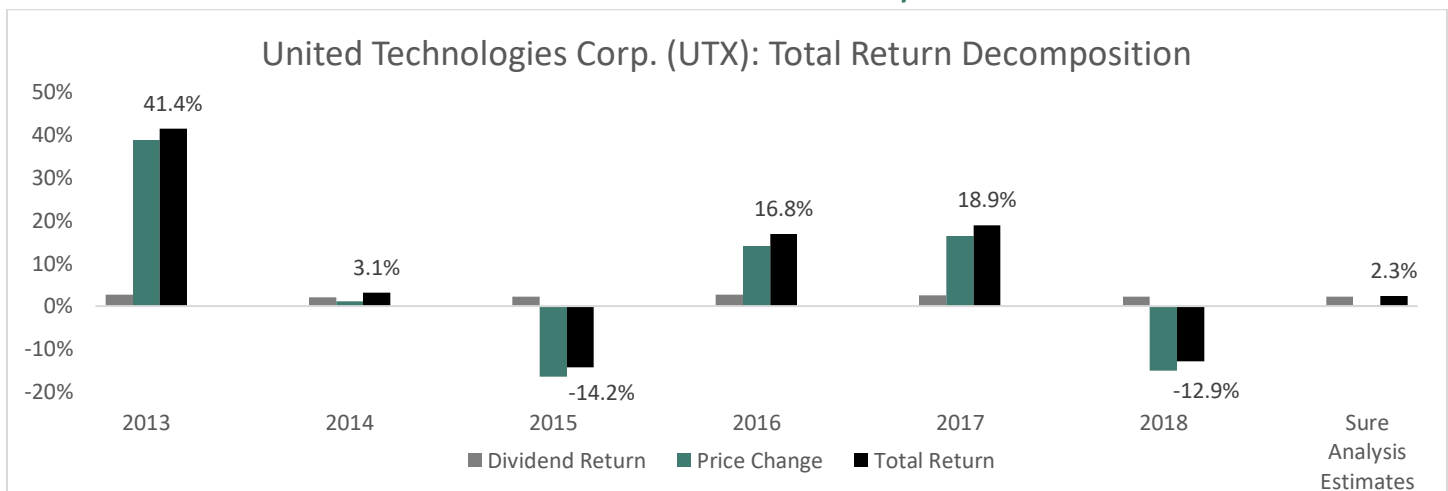
United Technologies did see a decline in earnings during the last recession that took several years to recover from. This would likely be the case again in an adverse economic climate. United Technologies has increased its dividend for 25 years, making it one of the newest members of the Dividend Aristocrats index. 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.

A key competitive advantage for United Technologies is that the company is divesting its Carrier and Otis businesses and focusing on the high growth areas of aerospace and defense. Combined with the Rockwell Collins acquisitions, United Technologies is poised to see continued growth in these key business areas.

Final Thoughts & Recommendation

We believe United Technologies can offer a total annual return of 2.3% through 2024, down from 6.2% previously. The 20% increase in share price over the past three months have removed much of our expected total return. We find the Rockwell Collins acquisition attractive and believe the spin offs of Otis and Carrier will help the company focus on higher margin businesses. That being said, we feel investors should consider taking profits in United Technologies as the stock has had a massive increase in value recently. The stock receives a sell recommendation from Sure Dividend at this time due to low expected returns. Investors looking to initiate a position in the stock should wait until the stock trades near fair value. We have increased our 2024 target price \$2 to \$140 due to revised earnings 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	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.

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