



United Technologies Corp. (UTX)

Updated July 23rd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	3.3%	Volatility Percentile:	34.5%
Fair Value Price:	\$122	5 Year Growth Estimate:	3.0%	Momentum Percentile:	47.4%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Growth Percentile:	14.2%
Dividend Yield:	2.2%	5 Year Price Target	\$142	Valuation Percentile:	42.3%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	16.7%

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 \$115 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 11/26/2018. 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.

On 6/9/2019, it was announced that the remaining United Technologies businesses would merge with Raytheon Company (RTN). The deal is expected to close following the spinoffs of Otis and CCS in the first half of 2020. Raytheon shareholders will receive 2.3348 shares in the combined company for each share of Raytheon they own. The new company will be called Raytheon Technologies. Pro forma 2019 sales are expected to be approximately \$74 billion.

United Technologies released financial results for the second quarter on 7/23/2019. The company's adjusted earnings-per-share came to \$2.20 for the quarter, \$0.15 above consensus estimates and increasing 12% from the previous year. Revenue increased 17.5% to \$19.6 billion, which was \$50 higher than expected.

Excluding the Rockwell Collins acquisition, revenue grew 6% during the quarter. Collins Aerospace improved 66% from the previous year, with 9% organic growth. Commercial aftermarket services sales increased 14% while military grew 5%. Pratt & Whitney had 9% organic sales, with commercial OEMs higher by 22% and military growing 15%. Carrier increased 2%, led by a 3% improvement in global HVAC sales. Equipment orders were down 12%. Otis grew 4%, with a 5% improvement in service and a 4% increase in new equipment. New orders were down 6%, due primarily to a high-teens decline in North America.

The company expects Rockwell Collins to contribute \$150 million to 2019 full year sales and add \$0.15 to earnings-per-share. On the negative side, the company expects a \$0.10 impact to earnings-per-share due to the grounding of Boeing's 737 MAX. United Technologies expects adjusted earnings-per-share for the year in a range of \$7.90 to \$8.05, up from \$7.80 to \$8.00 previously. Organic growth is expected to be between 4% and 5%, up from 3% to 5% previously.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.12	\$4.74	\$5.49	\$5.34	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$7.98	\$9.25
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	864	800

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.

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United Technologies raised its dividend 5% for the December payment, giving the company 25 consecutive years of dividend growth. This makes the company one of the newest additions to the Dividend Aristocrats index. The company expects to generate \$4.5 to \$5 billion in free cash flow in 2019, which includes a one-time separation cost of \$1.5 billion.

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	16.8	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 decreased \$6, or 4.3%, since our 4/23/2019 update. Based off of updated guidance for 2019, the stock has a forward price-to-earnings-multiple of 16.8. Reverting to our target price-to-earnings ratio would be a 1.9% 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%

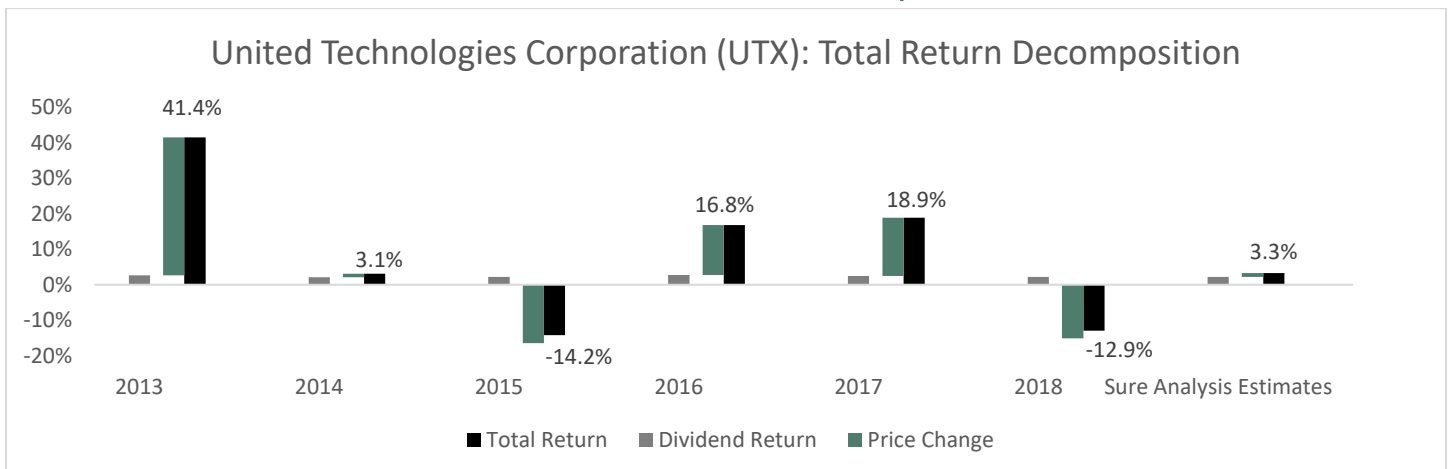
United Technologies did see a decline in earnings during the last recession that took several years to recover from. This would likely be the case again in an adverse economic climate. The company has kept its dividend payout ratio below 40% for much of the past decade. This has allowed the company to 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 acquisition and the merger with Raytheon, United Technologies is poised to see continued growth in these key business areas.

Final Thoughts & Recommendation

United Technologies is expected to offer a total annual return of 3.3% through 2024, up from 2.3% previously. The merger with Raytheon will create one of the largest aerospace and defense companies in the world. While the merger will be slightly dilutive for United Technologies shareholders, we believe that the new company will be able to capitalize on its strength in the aerospace and defense businesses. That said, low expected returns for United Technologies causes the stock to receive a sell rating from Sure Dividend. Investors interested in owning the stock are encouraged to wait for a pullback. We have increased our 2024 price target \$2 to \$142 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	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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