Honeywell International (HON)

Updated October 19th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$166	**5 Year CAGR Estimate:**	4.3%	**Volatility Percentile:**	16.6%
Fair Value Price:	$130	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	53.2%
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Growth Percentile:**	71.4%
Dividend Yield:	2.2%	**5 Year Price Target**	$182	**Valuation Percentile:**	22.5%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	24.0%

Overview & Current Events

Honeywell International is a diversified industrial company. The company has four divisions: Aerospace, Honeywell Building Technologies, Performance Materials & Technologies and Safety & Productivity Solutions. Honeywell International has more than 130,000 employees around the world and more than 40% of sales come from international markets. The company trades with a current market capitalization of $119 billion and generates more than $37 billion in annual revenues.

Honeywell International completed its spin-off of its Transportation Systems unit, called Garret Motion, on 10/1/2018 The company then spun off its Homes & Global Distribution business, called Resideo Technologies, on 10/29/2018.

Honeywell International reported financial results for the third quarter on 10/17/2019. The company earned $2.08 per share, $0.07 above estimates and a 2.5% increase from the previous year. Revenue declined 15.6% to $9.1 billion, missing estimates by $34 million. Adjusting for the spinoffs, earnings-per-share grew 9% and organic revenue growth was 3%. Margins improved 180bps to 21.2% in the quarter.

Aerospace continues to be a source of strength for Honeywell International, posting 10% organic growth and 350 bps improvement in segment margins. This segment continues to see high demand for defense and space products and for aftermarket services. Honeywell Building Technologies had 3% organic growth and a 390bps improvement in segment margins. Commercial fire and building management products were the primary reasons for growth. Margins for both Aerospace and Honeywell Building Technologies benefited from the spinoff of lower margin businesses. Organic sales for the Performance Materials & Technologies segment was 3% for the quarter. Margins for this segment were high by 60bps. Higher sales, orders and backlog growth for process solutions was slightly offset by lower gas processing sales and declines in advanced materials. Safety & Productivity Solutions saw an 8% decrease in organic sales and a 320bps decline in margins. Much of this decline was due to a distributor destocking that caused lower sales volumes for productivity products. Higher sales for lower margin products also impacted this segment. Honeywell International bought back $1 billion worth of shares during the quarter, bringing their year-to-date repurchases total to $3.7 billion. Honeywell International updated its guidance for 2019 and now expects the midpoint for adjusted earnings-per-share to be $8.13, up from $8.05 previously. This is the third consecutive quarter where Honeywell International has raised its guidance for adjusted earnings-per-share. Adjusted for the spinoffs, this midpoint represents a 10% increase from 2018.

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	***$8.13***	***$11.40***
DPS	$1.21	$1.21	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	***$3.60***	***$5.05***
Shares[1]	764	783	775	783	784	782	770	761	751	740	***727***	***700***

While Honeywell International did see earnings decline 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 to drive earnings-per-share to grow at least 7% per year through 2024.

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[1] In millions of shares

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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 9.8% for the 12/6/2019. This is the tenth 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	***20.4***	***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%***	***2.8%***

Honeywell International shares have declined $6, or 3.5%, since our 7/18/2019 report. Factoring in the updated earnings-per-share guidance for 2019, shares have a forward multiple of 20.4. 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 by 2024, total returns could be reduced 4.7% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43%	40%	36%	34%	34%	34%	36%	37%	39%	38%	***44%***	***44%***

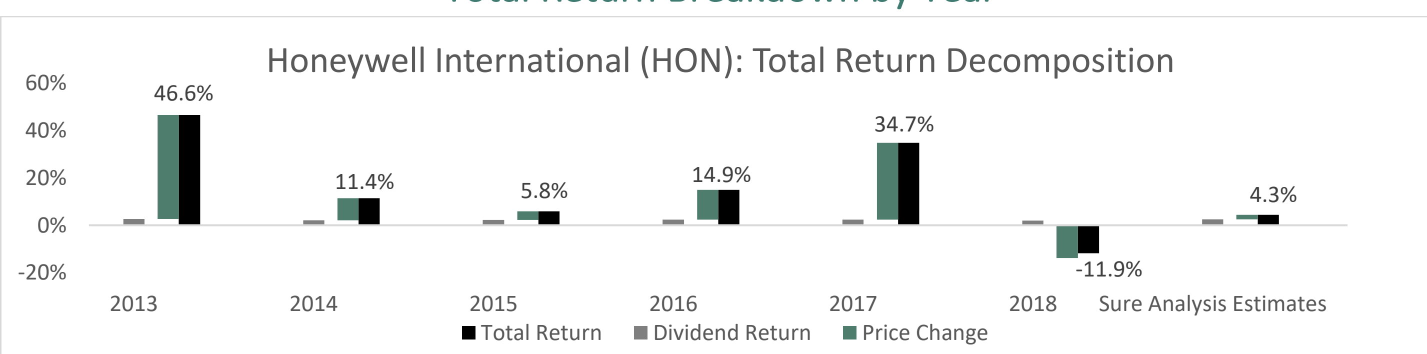
Industrial companies tend to perform very well when the economy is strong, but struggle in weak economic climates. As with most industrial companies, Honeywell International would likely see earnings declines in the next recession.

Honeywell International 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. We see Honeywell's strong position in these markets as its competitive advantage.

Final Thoughts & Recommendation

After reviewing third quarter results, Honeywell International is expected to return 4.3% annually through 2024, up from our previous estimate of 3.2%. Honeywell International saw organic sales growth in three out of four divisions, with the strongest growth in its largest division, Aerospace. Margins improvements in Aerospace and Honeywell Building Technologies were especially strong, showing the company's decisions to spinoff lower margin businesses was correct. Honeywell International also raised its guidance for adjusted earnings-per-share yet again. Despite these positive developments, we maintain our hold recommendation on shares of Honeywell due to expected total returns through 2024. On a pullback, we would find the stock very attractive. We have raised our 2024 price target $1 to $182 to reflect updated guidance for 2019.

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.