



United Technologies Corp. (UTX)

Updated October 22nd, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$141	5 Year CAGR Estimate:	5.3%	Volatility Percentile:	36.3%
Fair Value Price:	\$130	5 Year Growth Estimate:	5.0%	Momentum Percentile:	57.6%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Growth Percentile:	40.6%
Dividend Yield:	2.1%	5 Year Price Target	\$165	Valuation Percentile:	48.0%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	30.2%

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 \$122 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. 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. Shareholders for both companies approved the merger on 10/11/2019.

United Technologies reported financial results for the third quarter on 10/22/2019. The company's adjusted earnings-per-share came to \$2.21, \$0.18 higher than consensus estimates and improving 14.5% from the previous year. Revenue increased 18.1% to \$19.5 billion, \$190 million above estimates. The Rockwell Collins acquisition added 14% to revenue growth. Organic revenue grew 5% for the quarter. Collins Aerospace had sales growth of 64%, with 7% organic growth. Commercial aftermarket sales were up 17% with military revenue growing 5%. Sales for Pratt & Whitney improved 10% organically. Commercial OEM increased 17% and aftermarket services were higher by 6%. Military sales were up 15% on volume growth. Carrier declined 1% as a 2% increase in Global Fire & Security sales were more than offset by a 6% drop in Transport Refrigeration and flat HVAC sales. Otis grew 4% as Services improved 6%. New equipment orders were up 6% overall, with 10% growth in the U.S. and 6% growth in China.

For the third consecutive quarter, United Technologies raised its guidance for 2019. The company now expects adjusted earnings-per-share to range from \$8.05 to \$8.15, up from a range of \$7.90 to \$8.05. Organic growth is still expected to fall between 4% and 5%. Free cash flow is expected to be ~\$5.5 billion, up from \$4.75 billion previously. This includes estimated one-time portfolio separation costs of \$1 billion, down from \$1.5 billion 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	\$8.10	\$10.32
DPS	\$1.54	\$1.70	\$1.87	\$2.03	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.80	\$2.94	\$3.75
Shares¹	937	921	907	919	917	909	838	809	799	795	861	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. Due to upward

¹ Share count in millions

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revised guidance, organic growth, the expected divestiture of Otis and Carrier and the merger with Raytheon, we are raising our expected earnings growth rate to 5% from 3%.

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.

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	17.4	16.0
Avg. Yld.	2.8%	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.5%	2.1%	2.3%

Shares of United Technologies have increased \$7, or 5.2%, since our 7/23/2019 update. Based off of updated guidance for 2019, the stock has a forward price-to-earnings-multiple of 17.4. We are raising our 2024 target P/E to 16 from 15.3 due to organic growth, upcoming divestitures and the merger with Raytheon. Reverting to our new target price-to-earnings ratio would be a 1.7% headwind to annual returns through 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

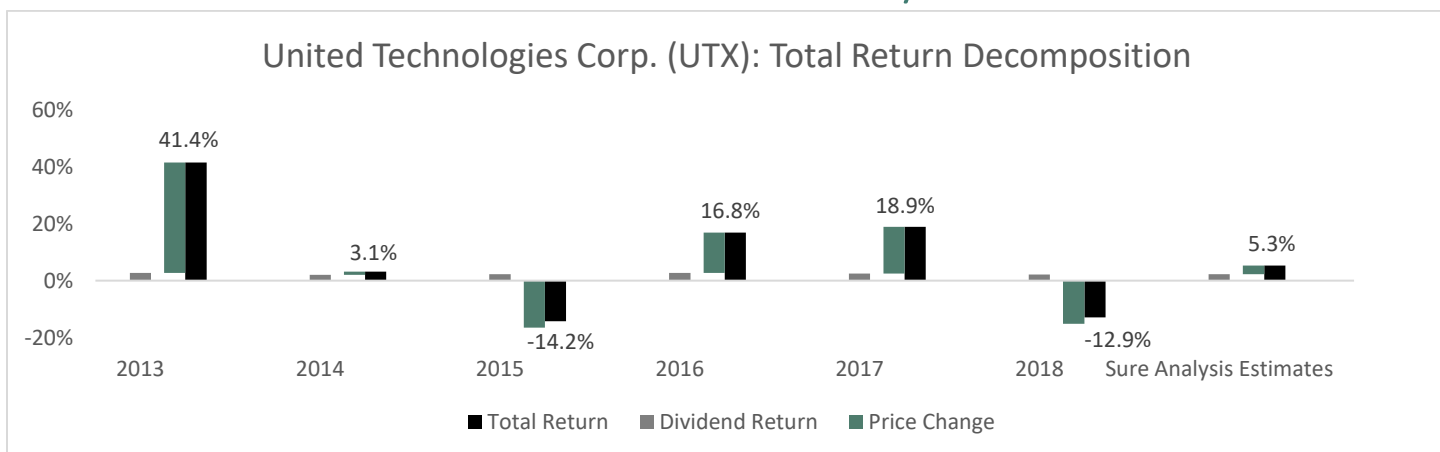
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	37%	36%	34%	38%	35%	35%	41%	40%	41%	37%	36%	36%

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 forecasted to offer a total annual return of 5.3% through 2024, up from 3.3% previously. The company's trimming of lowering performance segments, along with its transformational merger with Raytheon, has caused us to increase our expected earnings growth rate and 2024 target P/E. United Technologies' Collins Aerospace and Pratt & Whitney segments continue to perform quite well and the company has also increased its expected earnings for 2019. United Technologies rating is moved to hold from sell and we have increased our 2024 price target to \$165.

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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