



United Technologies Corp. (UTX)

Updated January 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$153	5 Year CAGR Estimate:	5.0%	Market Cap:	\$132 billion
Fair Value Price:	\$140	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/14/2020 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	3/10/2020 ²
Dividend Yield:	1.9%	5 Year Price Target	\$178	Years Of Dividend Growth:	25
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	5%

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). 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. Both spinoffs are expected to take place in the second quarter of 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. Shareholders for both companies approved the merger on 10/11/2019.

United Technologies reported earnings results for the fourth quarter and full year on 1/28/2020. Adjusted earnings-per-share totaled \$1.94, \$0.10 above estimates, but \$0.01 below the previous year. Revenue grew 8.4% to \$19.6 billion, \$200 million higher than expected. For the full year, adjusted earnings-per-share grew 9% \$8.26, \$0.16 above the midpoint of the company's guidance. Revenue improved 16% to \$77 billion. Top and bottom line totals for the year were a record. The company had organic growth of 1% for the quarter and 5% for 2019.

Collins Aerospace grew 32% for the quarter and 1% organically. Commercial after market and military sales were both higher by double-digits. Pratt & Whitney had organic growth of 2%. Military was up 12%, while commercial aftermarket was flat. Commercial OEM was lower by 7%. Otis had 4% organic growth due to gains in service sales and new equipment. Currency reduced results by 2%. Carrier sales declined 3%, primarily due to an 8% drop in Global Refrigeration. Free cash flow came to \$6.6 billion for 2019, but \$400 million of this was due to one-time cash payments related to separation activities. United Technologies remains on track to close on the merger with Raytheon early in the second quarter. Guidance for the combined companies will be distributed following the merger. For now, analysts expected adjusted earnings-per-share of \$8.73 for 2020. The company did warn that the production suspension of the 737 MAX will impact Collins Aerospace.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
EPS	\$4.74	\$5.49	\$5.34	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$8.73	\$11.14
DPS	\$1.70	\$1.87	\$2.03	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.80	\$2.94	\$2.94	\$3.75
Shares³	921	907	919	917	909	838	809	799	795	867	867	867

¹ Estimated date

² Estimated dividend payment date

³ Share count in millions

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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 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 2018 payment, giving the company 25 consecutive years of dividend growth, qualifying the company as a member of the Dividend Aristocrats index.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.0	14.6	14.7	16	16.4	17.0	15.3	17.7	15.7	18.1	17.5	16.0
Avg. Yld.	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.5%	2.0%	1.9%	2.1%

Shares of United Technologies have increased \$12, or 8.5%, since our 10/22/2019 update. Based off of estimates for 2020, the stock has a forward price-to-earnings-multiple of 17.5. We are raising our 2025 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 1.8% headwind to annual returns through 2025.

Safety, Quality, Competitive Advantage, & Recession Resiliency

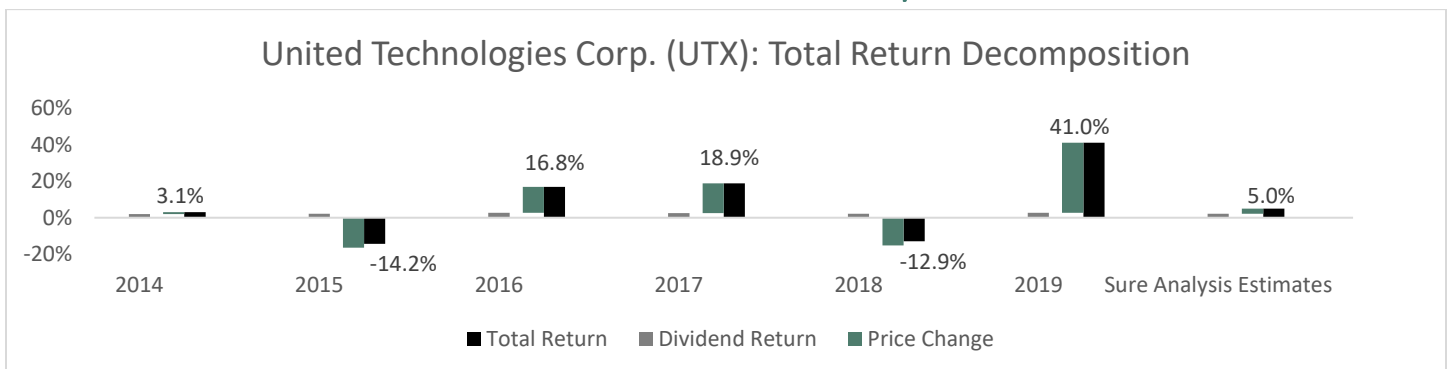
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36%	34%	38%	35%	35%	41%	40%	41%	37%	36%	34%	34%

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 5% through 2025, down slightly from our previous forecast of 5.3%. The company ended 2019 on a high note, topping estimates for both revenue and adjusted earnings-per-share. 2020 will be a year of transformation for United Technologies as it divests Otis and Carrier and completes its merger with Raytheon. United Technologies continues to receive a hold recommendation from Sure Dividend due to projected returns, but we do raise our 2025 price target \$13 to \$178 due to expected earnings-per-share for 2020.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	52,425	52,275	55,754	57,708	56,600	57,900	56,098	57,244	59,837	66,501
Gross Profit	13,564	14,321	15,385	15,555	16,132	17,002	15,667	15,773	15,636	16,516
Gross Margin	25.9%	27.4%	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%
SG&A Exp.	6,036	5,798	6,161	6,452	6,364	6,172	5,886	5,958	6,429	7,066
D&A Exp.	1,258	1,300	1,263	1,524	1,735	1,820	1,863	1,962	2,140	2,433
Operating Profit	6,377	6,898	7,846	7,684	8,549	9,593	7,291	8,221	8,138	8,553
Op. Margin	12.2%	13.2%	14.1%	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%
Net Profit	3,829	4,373	4,979	5,130	5,721	6,220	7,608	5,055	4,552	5,269
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	4,527	5,068	5,661	3,714	4,586	5,134	4,294	1,793	3,237	4,020
Income Tax	1,581	1,725	2,134	1,711	1,999	2,244	2,111	1,697	2,843	2,626

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	55,762	58,493	61,452	89,409	90,594	91,206	87,484	89,706	96,920	134,211
Cash & Equivalents	4,449	4,083	5,960	4,819	4,619	5,229	7,075	7,157	8,985	6,152
Acc. Receivable	8,469	8,925	9,546	11,099	11,458	10,448	10,653	11,481	12,595	14,271
Inventories	7,509	7,766	7,797	9,537	10,330	7,642	8,135	8,704	9,881	10,083
Goodwill & Int.	19,836	21,781	21,861	42,990	43,689	42,976	42,904	42,743	43,793	74,536
Total Liabilities	34,374	35,844	38,632	62,340	57,375	58,642	58,640	60,537	65,499	93,601
Accounts Payable	4,634	5,206	5,570	6,431	6,965	6,250	6,875	7,483	9,579	11,080
Long-Term Debt	9,744	10,289	10,260	23,221	20,241	19,701	20,425	23,901	27,485	45,537
Total Equity	20,066	21,385	21,880	25,914	31,866	31,213	27,358	27,579	29,610	38,446
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.	928	921	907	919	917	909	838	809	799	795
Revenue/Share	56.44	56.65	61.48	63.65	61.85	63.51	63.52	69.29	74.88	82.09
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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