Honeywell International (HON)

Updated February 2nd, 2020 by Nathan Parsh

Key Metrics

Current Price:	$173	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$124 billion
Fair Value Price:	$141	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	2/21/2020[1]
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date:**	3/9/2020[2]
Dividend Yield:	2.1%	**5 Year Price Target**	$197	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	9.8%

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 generates nearly $38 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 released earnings results for the fourth quarter and full year 2019 on 1/31/2020. The company earned $2.06 per share, $0.02 above estimates and a 7.9% increase from the previous year. Revenue declined 2.4% to $9.5 billion, missing estimates by $126 million. Adjusting for the spinoffs, earnings-per-share grew 11% and revenue improved 2.2%. Segment margins improved 130 bps to 21.4% in the quarter when factoring spinoffs. For the year, earnings-per-share improved 1.5% to $8.13 and revenue decreased 12% to $36.7 billion. Adjusting for spinoffs, earnings-per-share grew 10% in 2019, organic growth improved 5% and margins were higher by 150 bps to 21.1%.

As with previous quarters, Aerospace was the best performer in the quarter, producing 7% organic growth. Margins improved 270 bps to 26.1%. Aerospace benefited from aftermarket services, increases in U.S. and international defense and space sales and the backlog was up double-digits. Honeywell Building Technologies had organic growth of 3% and margins were up 170 bps. Demand in commercial fire, security and building management products offset weakness in building solutions projects. Connected building sales were up more than 10%. Margins for both Aerospace and Honeywell Building Technologies benefited from the spinoff of lower margin businesses. Performance Materials & Technologies had 3% organic growth, though margins decreased 80 bps to 20.3%. Process Solutions continues to see impressive revenue, orders and backlog growth. This segment was hurt by illegal imports of hydrofluorocarbons into the European Union after the EU reduced its supply by nearly 40% in 2018. Organic growth for Safety & Productivity Solutions was down 11% during the quarter and margins declined 330 bps to 12.7%. This segment had growth in gas sensing sales in China, but this was offset by a drop in safety products. Honeywell International retired $4.4 billion worth of stock in 2019. Honeywell International expects earnings-per-share of $8.60 to $9.00 for 2020 on revenue of $36.7 to $37.8 billion. Organic growth should range from 0% to 3% for the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.00	$3.79	$4.48	$4.97	$5.56	$6.04	$6.59	$7.11	$8.01	$8.13	***$8.80***	***$12.34***
DPS	$1.21	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	***$3.60***	***$5.05***
Shares[3]	783	775	783	784	782	770	761	751	740	723	***720***	***700***

[1] Estimated date
[2] Estimate dividend payment date
[3] In millions of shares

Disclosure: This analyst has a long position in the security discussed in this research report.

Honeywell International (HON)

Updated February 2nd, 2020 by Nathan Parsh

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 2025.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.7	14.3	13.2	16.0	16.9	16.9	17.0	18.9	16.5	21.8	***19.7***	***16.0***
Avg. Yld.	2.7%	2.5%	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	2.3%	1.9%	***2.1%***	***2.6%***

Honeywell International shares have increased $7, or 4.2%, since our 10/19/2019 report. Factoring in earnings-per-share guidance for 2020, shares have a forward multiple of 19.7. 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 2025, total returns could be reduced 4.0% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

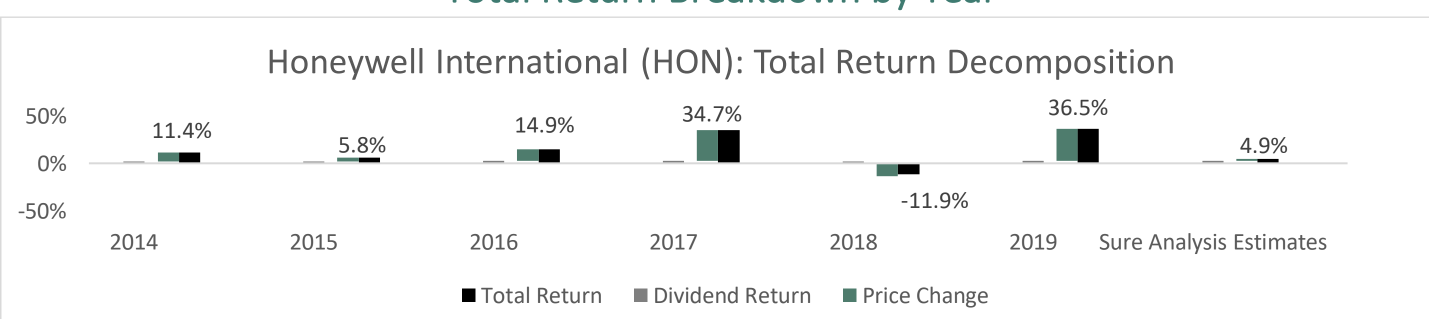
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40%	36%	34%	34%	34%	36%	37%	39%	38%	41%	***41%***	***41%***

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

Following fourth quarter and full year results, Honeywell International is expected to return 4.9% annually through 2025, up from our previous estimate of 4.3%. Adjusting for spinoffs, the company had a solid year on both the top and bottom lines. Most segments saw organic growth and improvements in margins. Shares trade above our target valuation, which has reduced our projected returns over the next five years. We continue to find the company an attractive business, but caution investors to wait for a pullback before buying shares of Honeywell International. We have raised our 2025 price target $15 to $197 due to guidance for 2020, and rate the stock a hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has a long position in the security discussed in this research report.

Honeywell International (HON)

Updated February 2nd, 2020 by Nathan Parsh

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.