Honeywell International (HON)

Updated July 24th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$150	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$105 billion
Fair Value Price:	$112	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	8/14/2020
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	9/4/2020
Dividend Yield:	2.4%	**5 Year Price Target**	$173	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 $32 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 second quarter on 7/24/2020. Revenue was lower by 19% to $7.5 billion, but this was $200 million above what was expected by the analyst community. Adjusted earnings-per-share fell $0.84, or 40%, To $1.26. This topped estimates by $0.02. Organic sales fell 18% while segment margins contracted 280 basis points.

Much of the year-over-year declines were attributed to the ongoing COVID-19 pandemic. Organic sales for Aerospace decreased 27% as strength in U.S. defense and space were more than offset by lower demand for commercial aftermarket services and reduced volumes in commercial end markets. Segment margins were down 510 basis points to 20.8%. The Safety & Productivity Solutions segment had 1% organic growth for the quarter and segment margins improved 150 basis points to 13.8%. SPS was the lone business to see growth for both metrics. Demand for the company's Intelligrated business remains strong as do sales for personal protective equipment. Portable gas sensing remains weak. Sales for Honeywell Building Technologies dropped 17%, but margins improved 50 basis points to 21.2%. Lower volumes in multiple businesses were the primary reasons for the decline in sales. Performance Materials & Technologies suffered a 17% decline in sales and a 460 basis point decline in margins. Specialty products were in high demand during the quarter, but gas processing and volume declines in other businesses more than offset this strength. Honeywell International did achieve $500 million of costs savings that were announced earlier in the year. The company also expects to deliver an additional round of costs savings that will ultimately lower expenses by $1.4 billion to $1.6 billion in 2020. The company declined to provide guidance for the year, but analysts expect that Honeywell International will earn $7.01 per share in 2020, down from the previous estimate of $7.33.

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	***$7.01***	***$10.79***
DPS	$1.21	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	***$3.60***	***$5.54***
Shares[1]	783	775	783	784	782	770	761	751	740	723	***717***	***700***

While Honeywell International did see earnings decline 24% during the last recession, the company has managed to grow earnings every year since 2010. While the short term will be challenging for the company, we expect earnings growth to accelerate following a recovery from the COVID-19 pandemic. Therefore, we are reaffirming our expected

[1] In millions of shares

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growth rate through 2025 to 9% from 7% due to a combination of organic growth, margin expansion and share repurchases.

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	***21.4***	***16.0***
Avg. Yld.	2.7%	2.5%	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	2.3%	1.9%	***2.4%***	***3.2%***

Honeywell International shares have increased $14, or 10.4%, since our 5/5/2020 report. Factoring in revised earnings-per-share estimates for 2020, shares have a forward multiple of 21.4. We reaffirm our 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 5.6% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

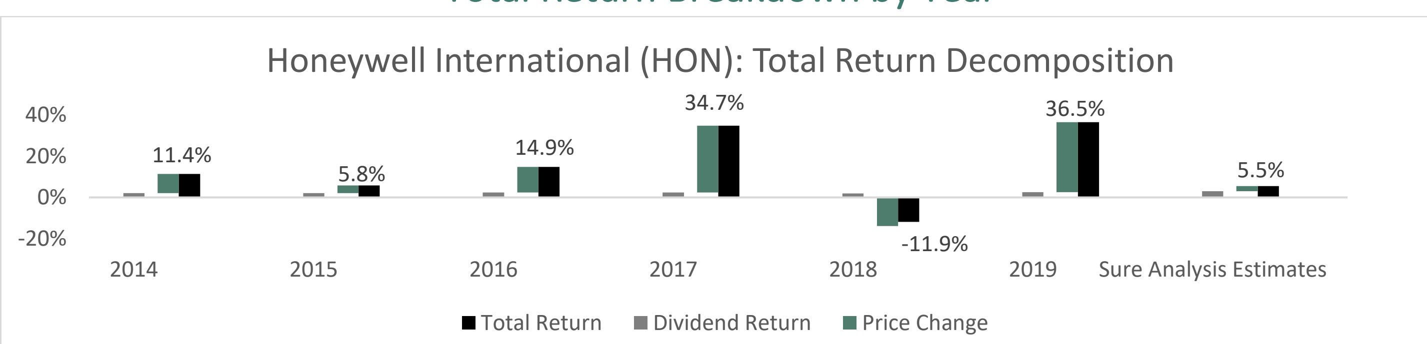
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40%	36%	34%	34%	34%	36%	37%	39%	38%	41%	***51%***	***51%***

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 is seeing earnings decline in this 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, where military products and aftermarket services should see growth as well. With a strong economy, 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 second quarter results, Honeywell International is now expected to return 5.5% annually through 2025, down from our previous estimate of 8.4%. Q2 results were again impacted by the COVID-19 pandemic, but there were some areas of strength within the company's results. Certain segments, like Aerospace, likely need a recovery from the pandemic to return to growth. Once that recovery is allowed to take place, we believe that Honeywell International will be able to grow earnings at a faster than usual rate. We have lowered our 2025 price target $7 to $173 and maintain our hold rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	32350	36529	37665	39055	40306	38581	39302	40534	41802	36709
Gross Profit	7629	7973	9374	10691	11349	11834	11625	12390	12756	12370
Gross Margin	23.6%	21.8%	24.9%	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%
SG&A Exp.	4618	5399	5218	5190	5518	5006	5574	6087	6051	5519
D&A Exp.	987	957	926	989	924	883	1030	1115	1116	1088
Operating Profit	3011	2574	4156	5501	5831	6828	6051	6303	6705	6851
Op. Margin	9.3%	7.0%	11.0%	14.1%	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%
Net Profit	2022	2067	2926	3924	4239	4768	4812	1545	6765	6143
Net Margin	6.3%	5.7%	7.8%	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%
Free Cash Flow	3552	2035	2633	3388	3986	4446	4403	4935	5606	6058
Income Tax	765	417	944	1450	1489	1739	1603	5362	659	1329

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	37834	39808	41853	45435	45451	49316	54146	59470	57773	58679
Cash & Equivalents	2650	3698	4634	6422	6959	5455	7843	7059	9287	9067
Acc. Receivable		6926	6940	7530	7788	7901	8177	8866	7508	7493
Inventories	3958	4264	4235	4293	4405	4420	4366	4613	4326	4421
Goodwill & Int.	14171	14335	14874	15560	14996	20472	22341	22773	19685	19297
Total Liabilities	27047	28906	28788	27856	27667	30898	34599	42805	39415	39973
Accounts Payable	4344	4738	4736	5174	5365	5580	5690	6584	5607	5730
Long-Term Debt	6644	7555	7496	8829	8683	12068	15775	17882	16214	16002
Total Equity	10666	10806	12975	17467	17657	18283	19369	16502	18180	18494
D/E Ratio	0.62	0.70	0.58	0.51	0.49	0.66	0.81	1.08	0.89	0.87

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.5%	5.3%	7.2%	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%
Return on Equity	20.7%	19.3%	24.6%	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%
ROIC	11.9%	11.5%	15.0%	16.7%	16.0%	16.7%	14.6%	4.4%	19.6%	17.7%
Shares Out.	783	775	783	784	782	770	761	751	740	723
Revenue/Share	41.43	46.15	47.56	48.98	50.69	48.88	50.69	52.50	55.51	50.27
FCF/Share	4.55	2.57	3.32	4.25	5.01	5.63	5.68	6.39	7.44	8.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.