

# Carrier Global Corp. (CARR)

Updated July 30<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$27	<b>5 Year CAGR Estimate:</b>	-0.3%	<b>Market Cap:</b>	\$23.5 B
<b>Fair Value Price:</b>	\$18	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	09/25/20 <sup>1</sup>
<b>% Fair Value:</b>	148%	<b>5 Year Valuation Multiple Estimate:</b>	-7.5%	<b>Dividend Payment Date:</b>	10/20/20 <sup>1</sup>
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$24	<b>Years Of Dividend Growth:</b>	26
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Carrier Global Corp. debuted as an independent, publicly traded company on April 3<sup>rd</sup>, 2020 after being spun off from United Technologies (previously UTX, now Raytheon Technologies, RTX). Carrier operates in three segments: Heating, Ventilating, and Air Conditioning (HVAC), Refrigeration and Fire & Security, which constituted 51%, 20% and 29% of last year's sales, respectively. The \$24 billion market cap company generated nearly \$19 billion in sales last year and has 53,000 employees offering solutions in 160 countries. Carrier is a constituent of the S&P 500 Dividend Aristocrat Index due to its United Technologies lineage.

On July 30<sup>th</sup>, 2020 Carrier reported Q2 2020 results for the period ending June 30<sup>th</sup>, 2020. For the quarter sales came in at \$3.97 billion, a -20.0% decline compared to Q2 2019, as both product and services sales were adversely impacted by the COVID-19 pandemic, declining -20.9% and -15.3% respectively. Adjusted operating profit equaled \$476 million, which was down -42%. Net income equaled \$261 million or \$0.30 per share versus \$784 million or \$0.91 per share in the prior year period. Adjusted net income totaled \$0.33 per share versus \$0.73 in Q2 2019.

Carrier also updated its 2020 outlook. The company now anticipates \$15.5 billion to \$17.0 billion in sales (up from \$15.0 billion to \$17.0 billion), adjusted operating profit of \$1.8 billion to \$2.0 billion (up from \$1.7 billion to \$2.0 billion) and free cash flow of at least \$1.1 billion (up from at least \$1.0 billion).

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.74	\$5.49	\$5.34	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	<b>\$1.30</b>	<b>\$1.74</b>
<b>DPS</b>	\$1.70	\$1.87	\$2.03	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	<b>\$0.32</b>	<b>\$0.52</b>
<b>Shares<sup>2</sup></b>	921	907	919	917	909	838	809	799	861	864	<b>875</b>	<b>875</b>

Note that the historical numbers above reflect United Technologies' combined results, including Carrier, Otis, Pratt & Whitney and Collins Aerospace. Moving forward this report will only focus on Carrier, which represented approximately a fourth of the old business.

Carrier has a number of long-term growth avenues available including an ongoing need for climate and temperature regulation, a trend towards urbanization, a growing middle class and increased digitalization. These factors will drive demand for Carrier's products and should allow the company, which is number one or two in the majority of its industries, to capture its fair share of a long-term tailwind.

With that being said, the COVID-19 pandemic and global contraction have created short-term concerns. Moreover, without the benefit of three other successful and distinct segments, Carrier is now poised to show increased cyclicality. Taking these items collectively, we are forecasting \$1.30 in earnings-per-share - based on ~\$16 billion in projected sales and a ~7% profit margin - to go along with 6% annual growth. This could be too conservative if demand snaps back quickly, but for now we are remaining cautious until more information is available. Previously management expected high-single digit adjusted EPS growth, which may come to fruition but off a lower base this year.

<sup>1</sup> Estimate.

<sup>2</sup> In millions.

*Disclosure: This analyst has no position in the security discussed in this research report and no plans to initiate one in the next 72 hours*

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## 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	16.8	16.1	<b>20.7</b>	<b>14.0</b>
Avg. Yld.	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	<b>1.2%</b>	<b>2.1%</b>

Once again, we have elected to show United Technologies' history as an imperfect, but relevant guide. Over the past decade UTX shares had traded hands with an average P/E ratio of 16 times earnings. We have discounted this to 14 times earnings to reflect the slightly lower anticipated growth rate, increased cyclicality and short-term concerns with Carrier. With shares trading near 21 times expected earnings, this implies the potential for a significant valuation headwind.

## 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%	<b>25%</b>	<b>30%</b>

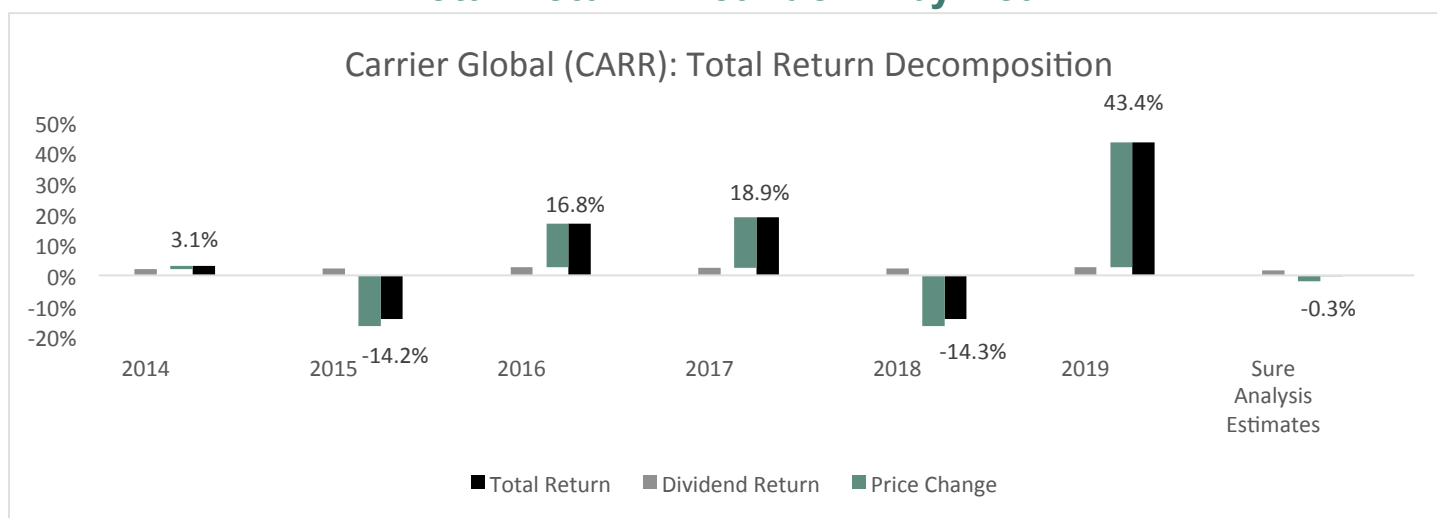
Management anticipated a dividend payout ratio near 40%, but with the initiation of a \$0.08 quarterly dividend, it appears the payout ratio will be lower for now. We believe this is a prudent course of action given the current circumstances but would expect dividend growth to outpace earnings growth over time.

Carrier enjoys a competitive advantage in its namesake brand, along with a #1 industry position in U.S. Residential HVAC, U.S. Light Commercial HVAC, Global Transport Refrigeration, Europe Commercial Refrigeration, Global Residential Fire Detection & Alarm and Global Access Control. During the last recession United Technologies posted earnings-per-share of \$4.90, \$4.12, \$4.74 and \$5.49 during the 2008 through 2011 timeframe. However, we believe the now independent Carrier carries increased risk during lesser times and could post substantially more cyclical results in the next recession.

## Final Thoughts & Recommendation

Shares are up an exceptional 50% since our last report. Carrier enjoys strong brand names and a solid position in needed and growing industries. However, we are forecasting -0.3% annual total return potential, stemming from 6% growth and a 1.2% dividend yield offset by a significant valuation headwind. This could be too conservative if shares continue to demand a premium valuation, but that is a speculation we are not yet comfortable making. With the materially higher valuation, we are reducing our rating from hold to sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	52,275	55,754	57,708	56,600	57,900	56,098	57,244	59,837	66,501	77,046
Gross Profit	14,321	15,385	15,555	16,132	17,002	15,667	15,773	15,636	16,516	19,981
Gross Margin	27.4%	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%
SG&A Exp.	5,798	6,161	6,452	6,364	6,172	5,886	5,958	6,429	7,066	8,521
D&A Exp.	1,300	1,263	1,524	1,735	1,820	1,863	1,962	2,140	2,433	3,783
Operating Profit	6,898	7,846	7,684	8,549	9,593	7,291	8,221	8,138	8,553	8,966
Op. Margin	13.2%	14.1%	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%
Net Profit	4,373	4,979	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5,537
Net Margin	8.4%	8.9%	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%
Free Cash Flow	5,068	5,661	3,714	4,586	5,134	4,294	1,793	3,237	4,020	6,276
Income Tax	1,725	2,134	1,711	1,999	2,244	2,111	1,697	2,843	2,626	2,295

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	58,493	61,452	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,716
Cash & Equivalents	4,083	5,960	4,819	4,619	5,229	7,075	7,157	8,985	6,152	7,378
Acc. Receivable	8,925	9,546	11,099	11,458	10,448	10,653	11,481	12,595	14,271	13,524
Inventories	7,766	7,797	9,537	10,330	7,642	8,135	8,704	9,881	10,083	10,950
Goodwill & Int.	21,781	21,861	42,990	43,689	42,976	42,904	42,743	43,793	74,536	74,109
Total Liabilities	35,844	38,632	62,340	57,375	58,642	58,640	60,537	65,499	93,601	95,485
Accounts Payable	5,206	5,570	6,431	6,965	6,250	6,875	7,483	9,579	11,080	10,809
Long-Term Debt	10,289	10,260	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,648
Total Equity	21,385	21,880	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774
D/E Ratio	0.48	0.47	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.7%	8.3%	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%
Return on Equity	21.1%	23.0%	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%
ROIC	13.7%	15.1%	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%
Shares Out.	921	907	919	917	909	838	809	799	795	864
Revenue/Share	56.65	61.48	63.65	61.85	63.51	63.52	69.29	74.88	82.09	89.18
FCF/Share	5.49	6.24	4.10	5.01	5.63	4.86	2.17	4.05	4.96	7.26

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

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