Honeywell International (HON)

Updated July 24th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$229	**5 Year CAGR Estimate:**	0.5%	**Market Cap:**	$158 billion
Fair Value Price:	$137	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	8/13/2021[1]
% Fair Value:	168%	**5 Year Valuation Multiple Estimate:**	-9.9%	**Dividend Payment Date:**	9/3/2021
Dividend Yield:	1.6%	**5 Year Price Target**	$210	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.3%

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 103,000 employees around the world and more than 40% of sales come from international markets. The company generates about $35 billion in annual revenues.

Honeywell International reported second quarter earnings results on 7/23/2021. Revenue grew nearly 18% to $8.8 billion, which beat estimates by $150 million. Adjusted earnings-per-share of $2.02 was a $0.76, or 60%, increase from the prior year and topped expectations by $0.07.

Organic sales grew 15% as the company is beginning to see improvements in multiple areas. Q2 2020 was also the weakest quarter for Honeywell International last year. Segment margins expanded 190 basis points to 20.4%. Aerospace appears to be stabilizing as organic sales increased 7%. This segment was the most impacted by the COVID-19 pandemic, but commercial original equipment demand has picked up. It should be noted that Aerospace growth came in below analysts' estimates, which likely led to the decline in share price following the earnings release. The segment margin improved 490 basis points to 25.7%. Revenue for Honeywell Building Technologies was higher by 13% as this segment benefited from double-digit orders and high demand for healthy building solutions. Higher sales volumes led to a 120 expansion in margins to 22.4%. Performance Materials & Technologies grew 10% due to strength across the board, especially in the area of advance materials. Margins improved 20 basis points to 14%. Safety & Productivity Solutions continues to be the best performing segment for Honeywell International. Sales increased 35%, driven by gains in warehouse and workflow solutions and personal protective equipment. Margins expanded 20 basis points to 14%.

Honeywell International provided updated guidance for 2021 as well. The company now expects adjusted earnings-per-share of $7.95 to $8.10, up from $7.75 to $8.00 previously. Honeywell International expects organic sales of 4% to 6%, up from 3% to 5%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.79	$4.48	$4.97	$5.56	$6.04	$6.59	$7.11	$8.01	$8.16	$7.10	***$8.03***	***$12.36***
DPS	$1.37	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	$3.63	***$3.72***	***$5.72***
Shares[2]	775	783	784	782	770	761	751	740	723	710	***703***	***690***

While Honeywell International did see earnings decline 24% during the last recession, the company has managed to grow earnings every year since 2010 outside of 2020. 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 increasing our expected growth rate through 2026 to 9% from 7% due to a combination of organic growth, margin expansion and share repurchases.

[1] Estimated ex-dividend date

[2] In millions of shares

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

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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 3.3% for the 12/4/2020. Honeywell International had increased its dividend by a double-digit rate for the last decade. In order to be conservative, we forecast that dividend will grow in line with earnings going forward.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.3	13.2	16.0	16.9	16.9	17.0	18.9	18.8	20.3	23.0	***28.5***	***17.0***
Avg. Yld.	2.5%	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	2.0%	2.0%	2.2%	***1.6%***	***2.7%***

Honeywell International shares have increased $4, or 1.8%, since our 4/23/2021 report. We are reaffirming our 2026 target P/E to 17 due to our belief that Honeywell will see a recovery from the COVID-19 pandemic as well as to better match the stock's average valuation since 2011. Using adjusted earnings-per-share estimates for 2021, shares have a forward multiple of 28.5, implying a possible significant headwind from multiple reversion. If shares reverted to our target multiple by 2026 then total returns could be reduced 9.8% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

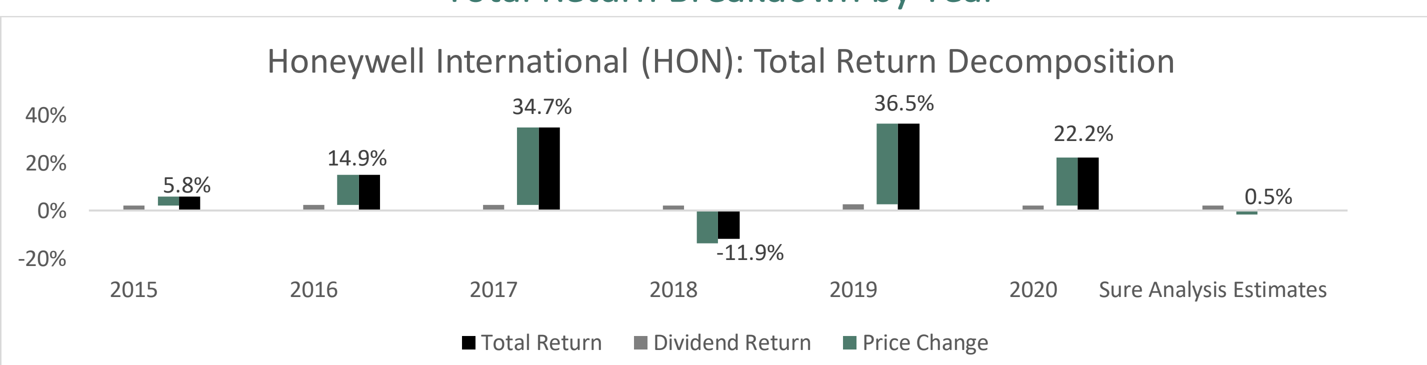
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36%	34%	34%	34%	36%	37%	39%	38%	41%	51%	***46%***	***46%***

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 saw earnings decline in 2020. Honeywell International divested two lower margin businesses in the form of spin offs recently. 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

Honeywell International is expected to return 0.5% annually through 2026, matching our previous estimate. Our projected return stems from a 9% earnings growth rate and a 1.6% starting yield that are nearly offset by a high single-digit multiple reversion. Honeywell International produced an excellent quarter, with all segments showing year-over-year growth. Some of this is due to lapping weak results, but demand in certain areas, such as Aerospace, has begun to pick up. While we view Honeywell International as a quality firm, we do note that it is trading at nearly 170% of our fair value estimate. Investors may want to consider taking profits at current levels. We have increased our 2026 price target $4 to EPS guidance, but rate shares a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	36529	37665	39055	40306	38581	39302	40534	41802	36709	32637
Gross Profit	7973	9374	10691	11349	11834	11625	12390	12756	12370	10468
Gross Margin	21.8%	24.9%	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%	32.1%
SG&A Exp.	5,399	5,218	5,190	5,518	5,006	5,574	6,087	6,051	5,519	4,772
D&A Exp.	957	926	989	924	883	1,030	1,115	1,116	1,088	1,002
Operating Profit	2,574	4,156	5,501	5,831	6,828	6,051	6,303	6,705	6,851	5,696
Op. Margin	7.0%	11.0%	14.1%	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%	17.5%
Net Profit	2,067	2,926	3,924	4,239	4,768	4,812	1,545	6,765	6,143	4,779
Net Margin	5.7%	7.8%	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%	14.6%
Free Cash Flow	2,035	2,633	3,388	3,986	4,446	4,403	4,935	5,606	6,058	5,302
Income Tax	417	944	1,450	1,489	1,739	1,603	5,362	659	1,329	1,147

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	39808	41853	45435	45451	49316	54146	59470	57773	58679	64586
Cash & Equivalents	3698	4634	6422	6959	5455	7843	7059	9287	9067	14275
Acc. Receivable	6926	6940	7530	7788	7901	8177	8866	7508	7493	6827
Inventories	4264	4235	4293	4405	4420	4366	4613	4326	4421	4489
Goodwill & Int.	14335	14874	15560	14996	20472	22341	22773	19685	19297	19618
Total Liabilities	28906	28788	27856	27667	30898	34599	42805	39415	39973	46796
Accounts Payable	4738	4736	5174	5365	5580	5690	6584	5607	5730	5750
Long-Term Debt	7555	7496	8829	8683	12068	15775	17882	16214	16002	22384
Total Equity	10806	12975	17467	17657	18283	19369	16502	18180	18494	17790
D/E Ratio	0.70	0.58	0.51	0.49	0.66	0.81	1.08	0.89	0.87	1.26

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.3%	7.2%	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%	7.8%
Return on Equity	19.3%	24.6%	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%	26.3%
ROIC	11.5%	15.0%	16.7%	16.0%	16.7%	14.6%	4.4%	19.6%	17.7%	12.8%
Shares Out.	775	783	784	782	770	761	751	740	723	710
Revenue/Share	46.15	47.56	48.98	50.69	48.88	50.69	52.50	55.51	50.27	45.89
FCF/Share	2.57	3.32	4.25	5.01	5.63	5.68	6.39	7.44	8.30	7.46

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