



Honeywell International (HON)

Updated February 5th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$192	5 Year CAGR Estimate:	5.4%	Market Cap:	\$132 billion
Fair Value Price:	\$145	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	2/25/2022
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	3/12/2022
Dividend Yield:	2.0%	5 Year Price Target	\$224	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	5.4%

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 \$36 billion in annual revenues.

Honeywell International announced fourth quarter and full year 2022 earnings results on 2/3/2022. For the quarter, revenue declined 2.7% to \$8.66 billion and missed estimates by \$80 million. Adjusted earnings-per-share of \$2.09 was a slight improvement from \$2.07 in the same period of the prior year and was \$0.01 ahead of expectations. For 2021, revenue grew 5.4% to \$34.4 billion while adjusted earnings-per-share of \$8.06 increased 13.5% from the previous year.

For the quarter, organic sales fell 2%, mostly due to lower COVID-19 mask sales and fewer days in the period. Segment margin expanded 30 basis points to 21.4% as pricing offset inflation. Lower volume and supply chain disruptions were also headwinds during the period. Aerospace fell 3% as lower U.S. defense volumes offset gains in aviation aftermarket and commercial aviation. The segment margin improved 140 basis points to 29%. Revenue for Honeywell Building Technologies was lower by 1% due to supply chain constraints. Building solutions remains in high demand. Segment margin contracted 30 basis points to 21.1%. Performance Materials & Technologies grew 2% as catalyst and gas processing shipments were higher. Segment margin expanded 430 basis points to 23%. Safety & Productivity Solutions was down 6% as COVID-19 mask demand was down considerably from the prior year. Productivity solutions and services and advanced sensing technologies had double-digit growth. Segment margin fell 450 basis points to 10.8% due to disruptions in supply chains.

Honeywell International provided an outlook for 2022 as well. The company expects revenue in a range of \$35.4 billion to \$36.4 billion and organic growth of 4% to 7%, or 5% to 8% excluding the impact of lower COVID-19 mask sales. Adjusted earnings-per-share are expected to be in a range of \$8.40 to \$8.70.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.48	\$4.97	\$5.56	\$6.04	\$6.59	\$7.11	\$8.01	\$8.16	\$7.10	\$8.06	\$8.55	\$13.16
DPS	\$1.53	\$1.68	\$1.87	\$2.15	\$2.45	\$2.74	\$3.06	\$3.36	\$3.63	\$3.77	\$3.92	\$6.03
Shares¹	783	784	782	770	761	751	740	723	710	696	693	685

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. The company appears to have rebounded from the worst of the COVID-19 pandemic and we expect earnings growth to continue to be strong. We are reaffirming our expected growth rate of 9% through 2027 due to a combination of organic growth, margin expansion, and share repurchases.

¹ 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 5.4% for the 12/3/2021 payment date. We forecast that dividend will grow in line with earnings going forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.2	16.0	16.9	16.9	17.0	18.9	18.8	20.3	23.0	25.9	22.5	17.0
Avg. Yld.	2.6%	2.1%	2.0%	2.1%	2.2%	2.0%	2.0%	2.0%	2.2%	1.8%	2.0%	2.7%

Honeywell International shares have decreased \$26, or 11.9%, since our 10/22/2021 report. We are reaffirming our 2027 target P/E of 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 over the last decade. Using adjusted earnings-per-share estimates for 2022, shares have a forward multiple of 22.5, implying a possible headwind from multiple reversion. If shares reverted to our target multiple by 2027 then total returns could be reduced by 5.4% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

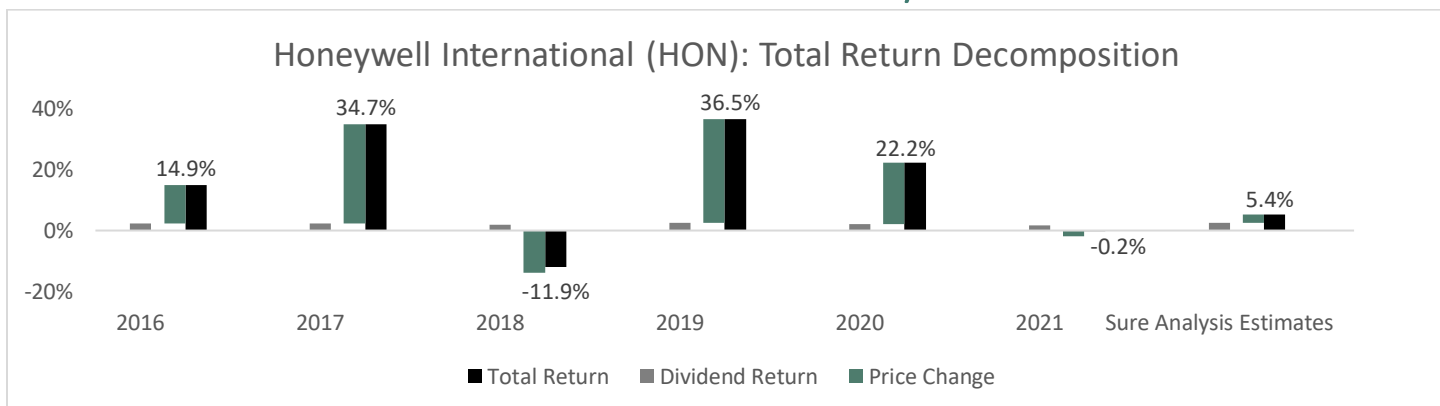
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	34%	34%	36%	37%	39%	38%	41%	51%	47%	46%	46%

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 saw earnings decline in 2020, but results improved greatly in the most recent year. 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 5.4% annually through 2027, up from our previous estimate of 1.6%. Our projected return stems from a 9% earnings growth rate and a 2.0% starting yield that are partially offset by a mid-single-digit headwind from multiple reversion. Supply chain constraints were an issue in several segments. The company gave solid guidance for 2022, though both revenue and earnings-per-share estimates were below what analysts had anticipated. We have raised our five-year price target \$13 to \$224 due to EPS estimates for 2022 and now view shares of Honeywell International as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	37,665	39,055	40,306	38,581	39,302	40,534	41,802	36,709	32,637	34,392
Gross Profit	9,374	10,691	11,349	11,834	11,625	12,390	12,756	12,370	10,468	10,998
Gross Margin	24.9%	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%	32.1%	32.0%
SG&A Exp.	5,218	5,190	5,518	5,006	5,574	6,087	6,051	5,519	4,772	4,798
D&A Exp.	926	989	924	883	1,030	1,115	1,116	1,088	1,002	1,223
Operating Profit	4,156	5,501	5,831	6,828	6,051	6,303	6,705	6,851	5,696	6,200
Op. Margin	11.0%	14.1%	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%	17.5%	18.0%
Net Profit	2,926	3,924	4,239	4,768	4,812	1,545	6,765	6,143	4,779	5,542
Net Margin	7.8%	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%	14.6%	16.1%
Free Cash Flow	2,633	3,388	3,986	4,446	4,403	4,935	5,606	6,058	5,302	5,143
Income Tax	944	1,450	1,489	1,739	1,603	5,362	659	1,329	1,147	1,625

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	41,853	45,435	45,451	49,316	54,146	59,470	57,773	58,679	64,586	64,470
Cash & Equivalents	4,634	6,422	6,959	5,455	7,843	7,059	9,287	9,067	14,275	10,959
Acc. Receivable	6,940	7,530	7,788	7,901	8,177	8,866	7,508	7,493	6,827	6,830
Inventories	4,235	4,293	4,405	4,420	4,366	4,613	4,326	4,421	4,489	5,138
Goodwill & Int.	14,874	15,560	14,996	20,472	22,341	22,773	19,685	19,297	19,618	21,369
Total Liabilities	28,638	27,689	27,448	30,608	34,596	42,800	39,408	39,966	46,789	45,221
Accounts Payable	4,736	5,174	5,365	5,580	5,690	6,584	5,607	5,730	5,750	6,484
Long-Term Debt	7,496	8,829	8,683	12,068	15,775	17,882	16,214	16,002	22,384	19,599
Total Equity	12,975	17,467	17,657	18,283	19,369	16,502	18,180	18,494	17,549	19,242
LTD/E Ratio	0.58	0.51	0.49	0.66	0.81	1.08	0.89	0.87	1.28	1.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.2%	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%	7.8%	8.6%
Return on Equity	24.6%	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%	26.5%	30.1%
ROIC	14.9%	16.6%	15.9%	16.6%	14.6%	4.4%	19.6%	17.7%	12.8%	14.0%
Shares Out.	783	784	782	770	761	751	740	723	710	696
Revenue/Share	47.56	48.98	50.69	48.88	50.69	52.50	55.51	50.27	45.89	49.10
FCF/Share	3.32	4.25	5.01	5.63	5.68	6.39	7.44	8.30	7.46	7.34

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

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