



Carrier Global Corp. (CARR)

Updated October 29th, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	6.1%	Market Cap:	\$33.6 B
Fair Value Price:	\$37	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/22/22 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	02/10/22
Dividend Yield:	1.5%	5 Year Price Target	\$50	Years Of Dividend Growth:	2
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Carrier Global Corp. debuted as an independent, publicly traded company on April 3rd, 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 54%, 20% and 26% of last year's sales, respectively. The \$33.6 billion market cap company generated \$21 billion in sales last year and has 53,000 employees offering solutions in 160 countries.

Previously Carrier was a constituent of the S&P 500 Dividend Aristocrat Index due to its United Technologies lineage; however, the security has since been removed. On December 9th, 2020, Carrier increased its dividend 50% from \$0.08 to \$0.12 per quarter. On December 8th, 2021, Carrier announced a \$0.15 quarterly dividend, marking a 25.0% increase.

On October 27th, 2022, Carrier reported Q3 results for the period ending September 30th, 2022. For the quarter, sales came in at \$5.5 billion, 2% higher compared to Q3-2021, despite the Chubb divestiture. Specifically, organic sales grew 8%, and acquisitions contributed another 8%. These increases were offset by the Chubb divestiture, which reduced sales by about 10%, and currency headwinds, which reduced sales by another 4%.

Sales strength continued in the HVAC segment, with North America residential and light commercial up 12% and 15% compared to last year. Refrigeration sales were down 1% organically due to supply shortages and a decline in Container sales. Organic sales for the Fire & Security segment were up 5%. Adjusted net income equaled \$600 million or \$0.70 per share compared to \$635 million or \$0.71 per share in Q3-2021.

Carrier also revised its 2022 outlook, expecting ~\$20.4 billion in sales and \$2.30 to \$2.35 in adjusted earnings-per-share (up from \$2.25 to \$2.35 previously).

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.34	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$1.66	\$2.26	\$2.33	\$3.12
DPS	\$2.03	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$0.16	\$0.48	\$0.60	\$0.88
Shares²	919	917	909	838	809	799	861	864	880	890	857	830

Note that the historical numbers through 2019 reflect United Technologies' combined results, including Carrier, Otis, Pratt & Whitney, and Collins Aerospace. Moving forward this report only focuses on Carrier, which represented approximately a fourth of the old business.

Carrier has several 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 most of its industries, to capture its fair share of a long-term tailwind. The COVID-19 pandemic and global geopolitical turmoil hurt Carrier's short-term performance, although 2020 results were better than expectations. Still, without the benefit of three other successful and distinct segments, Carrier is now poised to show increased cyclical. We are using the midpoint of

¹ Estimated dates based on past dividend dates.

² In millions.

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management's guidance of \$2.33 in earnings-per-share and a 6% annual growth rate over the intermediate term. Previously management expected high-single digit adjusted EPS growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.7	16.0	16.4	17.0	15.3	17.7	16.8	16.1	12.3	21.8	17.1	16.0
Avg. Yld.	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	0.8%	1.0%	1.5%	1.8%

Once again, we have elected to show United Technologies' history through 2019 as an imperfect, but relevant guide. We are using 16 times earnings for Carrier as a fair value baseline, on the basis that a stand-alone business warrants a lower multiple as well as due to currently increased cyclicality and short-term concerns. These points are balanced against strong guidance so far. Trading at 17.1x expected earnings, the stock could be subject to valuation headwinds.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	35%	35%	41%	40%	41%	37%	36%	10%	21%	26%	28%

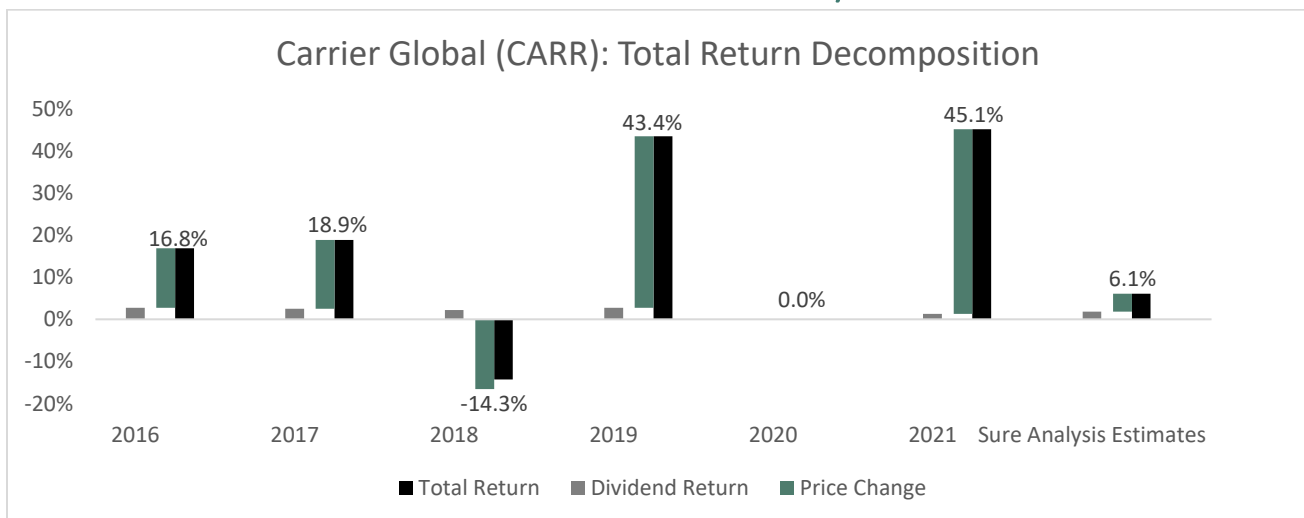
Management anticipated a dividend payout ratio near 40%, but so far, the company has been cautious; first with a \$0.08 quarterly payment, then \$0.12 and now \$0.15 making up ~26% of expected earnings. We believe this is a prudent course of action but would expect dividend growth to outpace earnings growth over the medium-term.

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 down 24% year-to-date. Carrier enjoys strong brand names and a solid position in growing industries. We are forecasting an annual total return potential of 6.1%, stemming from 6% growth and a 1.5% dividend yield, which could be offset by a valuation headwind. This could be too conservative if shares end up demanding a more premium valuation in the future, but we are not ready to make that speculation yet. Accordingly, shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	57,708	56,600	57,900	56,098	57,244	59,837	66,501	77,046	17,460	20,610
Gross Profit	15,555	16,132	17,002	15,667	15,773	15,636	16,516	19,981	5,109	5,980
Gross Margin	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%	29.3%	29.0%
SG&A Exp.	6,452	6,364	6,172	5,886	5,958	6,429	7,066	8,521	2,820	3,120
D&A Exp.	1,524	1,735	1,820	1,863	1,962	2,140	2,433	3,783	336	338
Operating Profit	7,684	8,549	9,593	7,291	8,221	8,138	8,553	8,966	1,870	2,357
Op. Margin	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%	10.7%	11.4%
Net Profit	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5,537	1,982	1,664
Net Margin	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%	11.4%	8.1%
Free Cash Flow	3,714	4,586	5,134	4,294	1,793	3,237	4,020	6,276	1,380	1,893
Income Tax	1,711	1,999	2,244	2,111	1,697	2,843	2,626	2,295	849	699

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,716	25,090	26,170
Cash & Equivalents	4,819	4,619	5,229	7,075	7,157	8,985	6,152	7,378	3,115	2,987
Acc. Receivable	11,099	11,458	10,448	10,653	11,481	12,595	14,271	13,524	2,567	2,403
Inventories	9,537	10,330	7,642	8,135	8,704	9,881	10,083	10,950	1,629	1,970
Goodwill & Int.	42,990	43,689	42,976	42,904	42,743	43,793	74,536	74,109	11,180	9,858
Total Liabilities	62,340	57,375	58,642	58,640	60,537	65,499	93,601	95,485	18,520	19,080
Accounts Payable	6,431	6,965	6,250	6,875	7,483	9,579	11,080	10,809	1,936	2,334
Long-Term Debt	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,648	10,230	9,696
Total Equity	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774	6,252	6,767
LTD/E Ratio	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04	1.64	1.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	8.4%	6.5%
Return on Equity	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	19.5%	25.6%
ROIC	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%	12.6%	9.9%
Shares Out.	919	917	909	838	809	799	795	864	880	890
Revenue/Share	63.65	61.85	63.51	63.52	69.29	74.88	82.09	89.18	19.83	23.15
FCF/Share	4.10	5.01	5.63	4.86	2.17	4.05	4.96	7.26	1.57	2.13

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

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