Honeywell International (HON)

Updated October 28th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$202	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$138 B
Fair Value Price:	$149	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	11/09/22
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	12/02/22
Dividend Yield:	2.0%	**5 Year Price Target**	$229	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 99,000 employees around the world and more than 40% of sales come from international markets. The company generates about $36 billion in annual revenues.

On September 30th, Honeywell International announced a 5.1% increase in the quarterly dividend rate to $1.03, extending the company's dividend growth streak to 13 consecutive years.

On October 27th, 2022, Honeywell International announced third quarter results for the period ending September 30th, 2022. Revenue grew 5.7% to $8.95 billion, which was $50 million less than expected. Adjusted earnings-per-share of $2.25 compared favorably to $2.02 in the prior year and was $0.10 above estimates.

Organic sales grew 9%, or 10% when excluding lost Russian sales. Segment margin expanded 60 basis points to 21.8% as pricing offset inflation. Backlog improved 9% to $29.1 billion. Aerospace grew 10% organically due to 25% growth in commercial aftermarket that was offset by lower defense volumes. The segment margin expanded 40 basis points to 27.5%. Revenue for Honeywell Building Technologies was up 19%, led by gains in fire products and building management systems. Segment margin expanded 60 basis points to 24.1%. Performance Materials & Technologies grew 14%. Advanced materials remain the standout, but all areas of the portfolio grew during the period. Segment margin expanded 40 basis points to 22.6%. Safety & Productivity Solutions declined 4% due to weakness in warehouse automation and personal protective equipment. This was a deacceleration in year-over-year declines compared to the second quarter of the year. Segment margin expanded 250 basis points to 15.7%.

Honeywell International provided an updated outlook for 2022 as well. The company expects revenue in a range of $35.4 billion to $35.7 billion, compared to $35.5 billion to $36.1 billion and $35.5 billion to $36.4 billion previously. Organic growth is now expected to be 6% to 7%, compared to 5% to 7% and 7% to 9% previously. Adjusted earnings-per-share are now projected in a range of $8.70 to $8.80, compared to $8.55 to $8.80, $8.50 to $8.80, and $8.40 to $8.70 previously. We have updated our forecast accordingly.

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	***$8.75***	***$13.46***
DPS	$1.53	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	$3.63	$3.77	***$4.12***	***$6.34***
Shares[1]	783	784	782	770	761	751	740	723	710	696	***680***	***665***

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. 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	***23.1***	***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%***	***2.8%***

Honeywell International shares have decreased $16, or 7.3%, since our October 28th, 2022 report. We are reaffirming our 2027 target P/E of 17 due to our belief that Honeywell International will see a continued 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 23.1, implying a possible headwind from multiple reversion. If shares reverted to our target multiple by 2027 then total returns could be reduced by 5.9% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

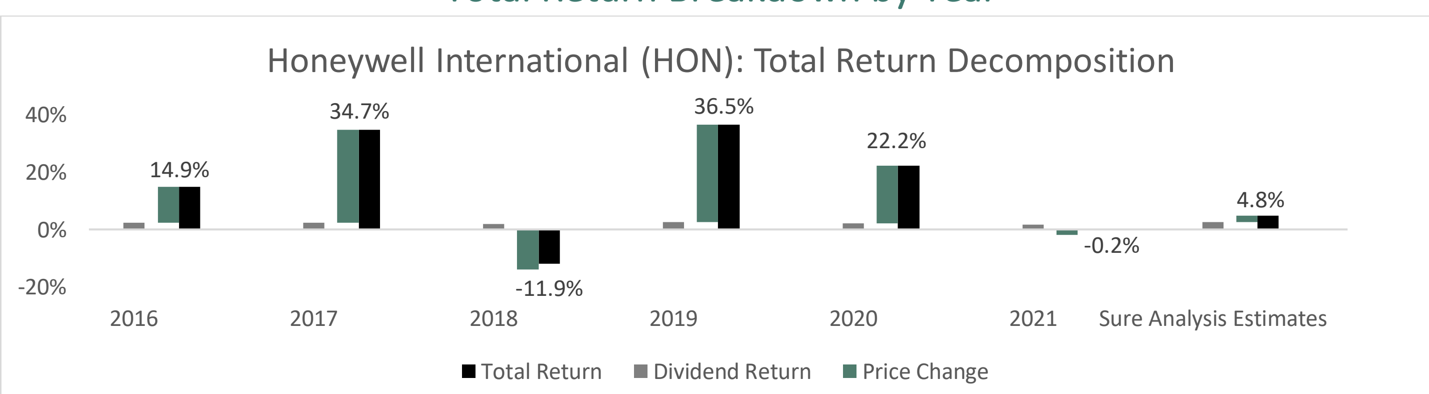
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	34%	34%	36%	37%	39%	38%	41%	51%	47%	***47%***	***47%***

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 over the last two years. 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 4.8% annually through 2027, down from our previous estimate of 5.6%. 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. Honeywell International continues to see strength in most areas and the decline in COVID-19-related sales are beginning to lessen. Encouragingly, Aerospace continues to rebound from weaker periods as well. We have raised our five-year price target $2 to $229 due to EPS estimates for 2022. Honeywell International earns a hold rating 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.