



# Honeywell International (HON)

Updated February 7<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$203	<b>5 Year CAGR Estimate:</b>	5.3%	<b>Market Cap:</b>	\$136 B
<b>Fair Value Price:</b>	\$153	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	02/24/23 <sup>1</sup>
<b>% Fair Value:</b>	133%	<b>5 Year Valuation Multiple Estimate:</b>	-5.5%	<b>Dividend Payment Date:</b>	03/11/23 <sup>2</sup>
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$235	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 30<sup>th</sup>, 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 February 2<sup>nd</sup>, 2023, Honeywell International announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue grew 6.1% to \$9.19 billion, which was \$70 million less than expected. Adjusted earnings-per-share of \$2.52 compared favorably to \$2.09 in the prior year and was \$0.01 above estimates. For the year, revenue grew 3% to \$35.5 billion while adjusted earnings-per-share of \$8.76 compared to \$8.06 in 2021.

For the quarter, organic sales grew 10% when excluding lost Russian sales. Segment margin expanded 70 basis points to 21.7% as pricing offset inflation. The backlog improved 7% to a record \$29.6 billion. Aerospace grew 11% organically due to 23% growth in commercial aftermarket that was offset by lower defense volumes. The segment margin contracted 120 basis points to 27.8%. Revenue for Honeywell Building Technologies was up 15%, led by strength in building products and an improvement in volume growth. Segment margin expanded 370 basis points to 24.8%. Performance Materials & Technologies grew 15%. Lifecycle solutions and process solutions were the top performers. Segment margin contracted 100 basis points to 22.0%. Safety & Productivity Solutions declined 5% as growth in sensing and safety technologies was offset by lower volumes in warehouse automation and productivity solutions and services. Segment margin expanded 940 basis points to 20.2%.

Honeywell International provided an outlook for 2023 as well. The company expects revenue in a range of \$36 billion to \$37 billion and adjusted earnings-per-share in a range of \$8.80 to \$9.20. At the midpoint, this would represent growth of 2.8% and 2.7%, respectively, from 2022. Organic growth is projected to be 2% to 5% for the year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.97	\$5.56	\$6.04	\$6.59	\$7.11	\$8.01	\$8.16	\$7.10	\$8.06	\$8.76	<b>\$9.00</b>	<b>\$13.85</b>
<b>DPS</b>	\$1.68	\$1.87	\$2.15	\$2.45	\$2.74	\$3.06	\$3.36	\$3.63	\$3.77	\$3.97	<b>\$4.12</b>	<b>\$6.34</b>
<b>Shares<sup>3</sup></b>	784	782	770	761	751	740	723	710	696	677	<b>677</b>	<b>665</b>

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

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> In millions of shares

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



# Honeywell International (HON)

Updated February 7<sup>th</sup>, 2023 by Nathan Parsh

COVID-19 pandemic and we expect earnings growth to continue to be strong. We are reaffirming our expected growth rate of 9% through 2028 due to a combination of organic growth, margin expansion, and share repurchases.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.0	16.9	16.9	17.0	18.9	18.8	20.3	23.0	25.9	24.5	<b>22.6</b>	<b>17.0</b>
Avg. Yld.	2.1%	2.0%	2.1%	2.2%	2.0%	2.0%	2.0%	2.2%	1.8%	1.9%	<b>2.0%</b>	<b>2.7%</b>

Honeywell International shares are relatively unchanged since our October 28<sup>th</sup>, 2022 report. We are reaffirming our 2028 target P/E of 17 to better match the stock's average valuation over the last decade. Using adjusted earnings-per-share estimates for 2023, shares have a forward multiple of 22.6, implying a possible headwind from multiple reversion. If shares reverted to our target multiple by 2028 then total returns could be reduced by 5.5% per year over this time frame.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

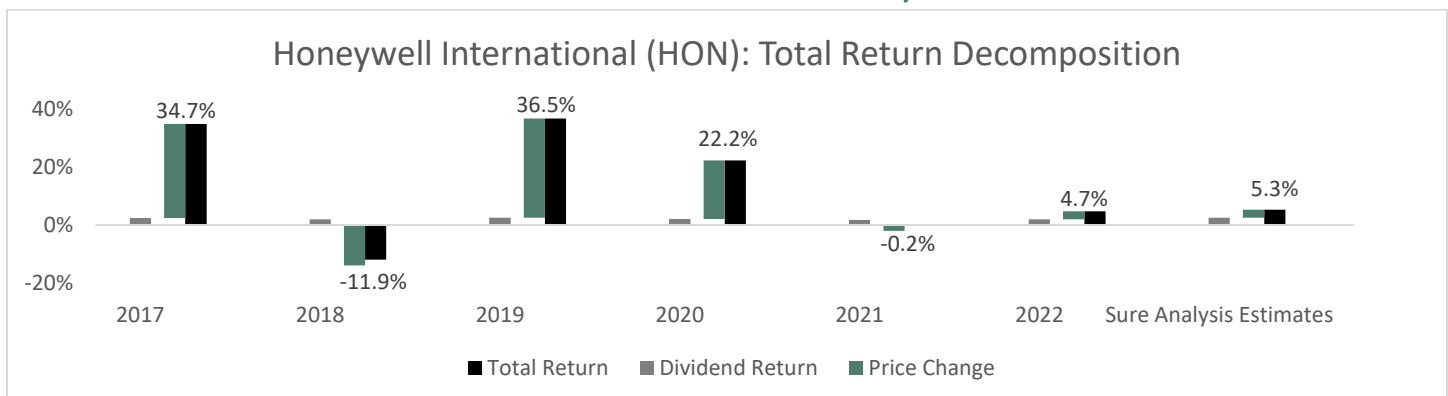
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	34%	36%	37%	39%	38%	41%	51%	47%	45%	<b>46%</b>	<b>46%</b>

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 5.3% annually through 2028, up from our previous estimate of 4.8%. 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. Quarterly and full year results showed strength in multiple areas. We have raised our five-year price target \$6 to \$235 due to EPS estimates for 2023. Honeywell International earns a hold rating due to projected returns.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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



# Honeywell International (HON)

Updated February 7<sup>th</sup>, 2023 by Nathan Parsh

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	39,055	40,306	38,581	39,302	40,534	41,802	36,709	32,637	34,392	35,466
<b>Gross Profit</b>	10,691	11,349	11,834	11,625	12,390	12,756	12,370	10,468	10,998	11,641
<b>Gross Margin</b>	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%	32.1%	32.0%	32.8%
<b>SG&amp;A Exp.</b>	5,190	5,518	5,006	5,574	6,087	6,051	5,519	4,772	4,798	5,214
<b>D&amp;A Exp.</b>	989	924	883	1,030	1,115	1,116	1,088	1,002	1,223	1,204
<b>Operating Profit</b>	5,501	5,831	6,828	6,051	6,303	6,705	6,851	5,696	6,200	6,427
<b>Op. Margin</b>	14.1%	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%	17.5%	18.0%	18.1%
<b>Net Profit</b>	3,924	4,239	4,768	4,812	1,545	6,765	6,143	4,779	5,542	4,966
<b>Net Margin</b>	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%	14.6%	16.1%	14.0%
<b>Free Cash Flow</b>	3,388	3,986	4,446	4,403	4,935	5,606	6,058	5,302	5,143	4,508
<b>Income Tax</b>	1,450	1,489	1,739	1,603	5,362	659	1,329	1,147	1,625	1,412

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	45,435	45,451	49,316	54,146	59,470	57,773	58,679	64,586	64,470	62,275
<b>Cash &amp; Equivalents</b>	6,422	6,959	5,455	7,843	7,059	9,287	9,067	14,275	10,959	9,627
<b>Acc. Receivable</b>	7,530	7,788	7,901	8,177	8,866	7,508	7,493	6,827	6,830	7,440
<b>Inventories</b>	4,293	4,405	4,420	4,366	4,613	4,326	4,421	4,489	5,138	5,538
<b>Goodwill &amp; Int.</b>	15,560	14,996	20,472	22,341	22,773	19,685	19,297	19,618	21,369	20,719
<b>Total Liabilities</b>	27,689	27,448	30,608	34,596	42,800	39,408	39,966	46,789	45,221	44,949
<b>Accounts Payable</b>	5,174	5,365	5,580	5,690	6,584	5,607	5,730	5,750	6,484	6,329
<b>Long-Term Debt</b>	8,829	8,683	12,068	15,775	17,882	16,214	16,002	22,384	19,599	19,570
<b>Total Equity</b>	17,467	17,657	18,283	19,369	16,502	18,180	18,494	17,549	19,242	17,319
<b>LTD/E Ratio</b>	0.51	0.49	0.66	0.81	1.08	0.89	0.87	1.28	1.02	1.13

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%	7.8%	8.6%	7.8%
<b>Return on Equity</b>	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%	26.5%	30.1%	27.7%
<b>ROIC</b>	16.6%	15.9%	16.6%	14.6%	4.4%	19.6%	17.7%	12.8%	14.0%	13.1%
<b>Shares Out.</b>	784	782	770	761	751	740	723	710	696	677
<b>Revenue/Share</b>	48.98	50.69	48.88	50.69	52.50	55.51	50.27	45.89	49.10	51.92
<b>FCF/Share</b>	4.25	5.01	5.63	5.68	6.39	7.44	8.30	7.46	7.34	6.60

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.