Honeywell International (HON)

Updated April 29th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$200	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$133 B
Fair Value Price:	$155	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	05/11/23
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	06/02/23
Dividend Yield:	2.1%	**5 Year Price Target**	$239	**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 April 27th, 2023, Honeywell International announced first quarter results for the period ending March 31st, 2023. For the quarter, revenue grew 5.7% to $8.86 billion, which was $360 million more than expected. Adjusted earnings-per-share of $2.07 compared favorably to $1.91 in the prior year and was $0.15 above estimates.

Organic sales grew 8% for the reporting period. Segment margin expanded 90 basis points to 22.0% as pricing offset inflation. The backlog improved 6% to a record $30.3 billion. Aerospace grew 14% organically due double-digit growth in commercial aviation. Defense also returned to growth. The segment margin contracted 80 basis points to 26.6%. Revenue for Honeywell Building Technologies was up 9%, driven by a 20% growth rate in building projects and continued gains in fire products. Segment margin expanded 170 basis points to 25.2%. Performance Materials & Technologies again grew 15%. Demand was high for fluorine products and process solutions. Segment margin contracted 20 basis points to 20.6%. Safety & Productivity Solutions decreased 11% due to weaker results in warehouse automation offset by gains in sensing and safety technologies. Segment margin expanded 270 basis points to 17.2%.

Honeywell International provided a revised outlook for 2023 as well. The company now expects revenue in a range of $36.5 to $37.3 billion, up from $36 billion to $37 billion previously. Adjusted earnings-per-share is now forecasted to be in a range of $9.00 to $9.25, up from $8.80 to $9.20 previously. At the midpoint for adjusted earnings-per-share, this would represent growth of 4.2% from 2022. Organic growth is projected to be 3% to 6%, up from 2% to 5% previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.97	$5.56	$6.04	$6.59	$7.11	$8.01	$8.16	$7.10	$8.06	$8.76	***$9.13***	***$14.05***
DPS	$1.68	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	$3.63	$3.77	$3.97	***$4.12***	***$6.34***
Shares[1]	784	782	770	761	751	740	723	710	696	677	***673***	***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 2028 due to a combination of organic growth, margin expansion, and share repurchases.

[1] In millions of shares

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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	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	***21.9***	***17.0***
Avg. Yld.	2.1%	2.0%	2.1%	2.2%	2.0%	2.0%	2.0%	2.2%	1.8%	1.9%	***2.1%***	***2.7%***

Honeywell International shares are lower by 3%, or 1.5%, since our February 7th, 2023 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 21.9, implying a possible headwind from multiple reversion. If shares reverted to our target multiple by 2028 then total returns could be reduced by 4.9% per year over this time frame.

Safety, Quality, Competitive Advantage, & Recession Resiliency

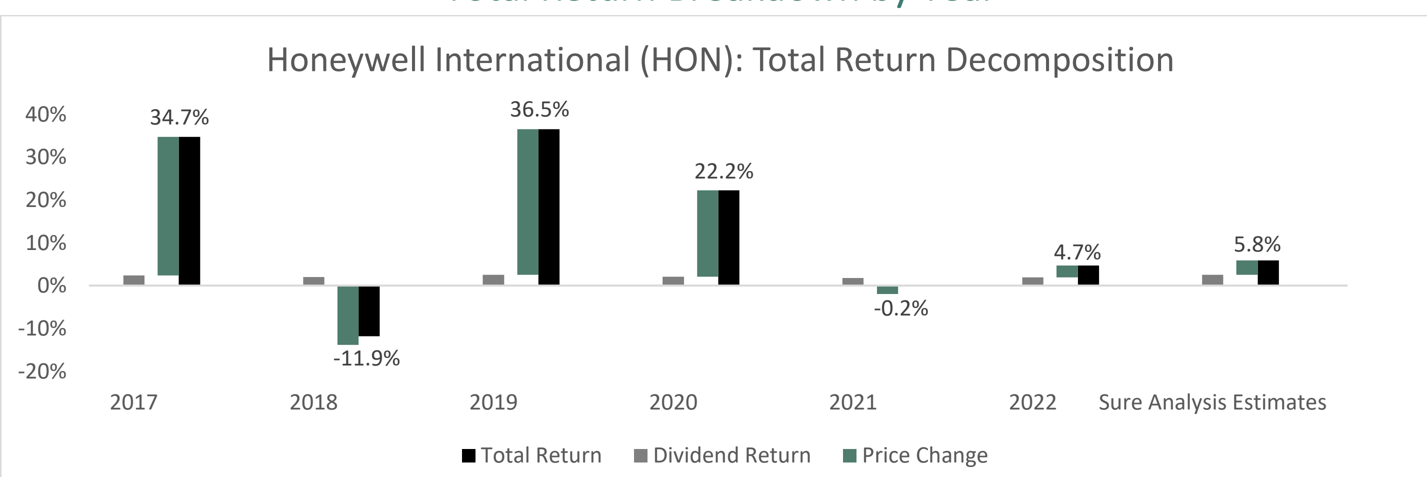
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	34%	36%	37%	39%	38%	41%	51%	47%	45%	***45%***	***45%***

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 5.8% annually through 2028, up from our previous estimate of 5.3%. Our projected return stems from a 9% earnings growth rate and a 2.1% starting yield that are partially offset by a mid-single-digit headwind from multiple reversion. Quarterly results again showed strength in multiple areas. We have raised our five-year price target $4 to $239 due to EPS estimates for 2023. Honeywell International continues to earn a hold rating due to projected returns.

Total Return Breakdown by Year



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

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	39,055	40,306	38,581	39,302	40,534	41,802	36,709	32,637	34,392	35,466
Gross Profit	10,691	11,349	11,834	11,625	12,390	12,756	12,370	10,468	10,998	11,641
Gross Margin	27.4%	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%	32.1%	32.0%	32.8%
SG&A Exp.	5,190	5,518	5,006	5,574	6,087	6,051	5,519	4,772	4,798	5,214
D&A Exp.	989	924	883	1,030	1,115	1,116	1,088	1,002	1,223	1,204
Operating Profit	5,501	5,831	6,828	6,051	6,303	6,705	6,851	5,696	6,200	6,427
Op. Margin	14.1%	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%	17.5%	18.0%	18.1%
Net Profit	3,924	4,239	4,768	4,812	1,545	6,765	6,143	4,779	5,542	4,966
Net Margin	10.0%	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%	14.6%	16.1%	14.0%
Free Cash Flow	3,388	3,986	4,446	4,403	4,935	5,606	6,058	5,302	5,143	4,508
Income Tax	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
Total Assets	45,435	45,451	49,316	54,146	59,470	57,773	58,679	64,586	64,470	62,275
Cash & Equivalents	6,422	6,959	5,455	7,843	7,059	9,287	9,067	14,275	10,959	9,627
Acc. Receivable	7,530	7,788	7,901	8,177	8,866	7,508	7,493	6,827	6,830	7,440
Inventories	4,293	4,405	4,420	4,366	4,613	4,326	4,421	4,489	5,138	5,538
Goodwill & Int.	15,560	14,996	20,472	22,341	22,773	19,685	19,297	19,618	21,369	20,719
Total Liabilities	27,689	27,448	30,608	34,596	42,800	39,408	39,966	46,789	45,221	44,949
Accounts Payable	5,174	5,365	5,580	5,690	6,584	5,607	5,730	5,750	6,484	6,329
Long-Term Debt	8,829	8,683	12,068	15,775	17,882	16,214	16,002	22,384	19,599	19,570
Total Equity	17,467	17,657	18,283	19,369	16,502	18,180	18,494	17,549	19,242	17,319
LTD/E Ratio	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
Return on Assets	9.0%	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%	7.8%	8.6%	7.8%
Return on Equity	25.8%	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%	26.5%	30.1%	27.7%
ROIC	16.6%	15.9%	16.6%	14.6%	4.4%	19.6%	17.7%	12.8%	14.0%	13.1%
Shares Out.	784	782	770	761	751	740	723	710	696	677
Revenue/Share	48.98	50.69	48.88	50.69	52.50	55.51	50.27	45.89	49.10	51.92
FCF/Share	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.