Otis Worldwide Corp. (OTIS)

Updated October 25th, 2023, by Eli Inkrot

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	4.5%	**Market Cap:**	$31 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/17/23[1]
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	12/08/23[1]
Dividend Yield:	1.8%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Otis Worldwide 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). However, the company's history is extensive after being founded in 1853 and having previously gone public in 1920. Today Otis is the leading company for elevator and escalator manufacturing, installation, and service. The company's products move 2 billion people per day and maintain approximately 2.2 million customer units worldwide. Headquartered in Connecticut, the $31 billion market cap company generated $13.7 billion in sales in 2022 and employs 69,000 people.

Previously, Otis was a constituent of the S&P 500 Dividend Aristocrat Index due to its United Technologies lineage. However, the company was removed in 2021. The company has increased its dividend for three years on its own.

On April 25th, 2023, Otis announced a $0.34 quarterly dividend, a 17.2% increase.

On October 25th, 2023, Otis reported Q3 results for the period ending September 30th, 2023. For the quarter total revenue equaled $3.52 billion, a 5.4% increase compared to Q3 2022. New Equipment sales declined -0.8%, while the Service segment saw a 10.1% increase in sales. Adjusted net income equaled $395 million or $0.95 per share compared to $338 million or $0.80 per share in Q3 2022.

Otis also updated its 2023 outlook. The company now expects ~$14.1 billion in sales (from $14.0 billion to $14.3 billion previously), and adjusted earnings-per-share of ~$3.52 (from $3.45 to $3.50 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	$6.21	$6.82	$6.29	$6.61	$6.60	$7.61	$8.26	$2.52	$2.95	$3.17	***$3.52***	***$4.71***
DPS	$2.20	$2.36	$2.56	$2.62	$2.72	$2.84	$2.94	$0.60	$0.92	$1.11	***$1.36***	***$1.82***
Shares[2]	917	909	838	809	799	861	864	433	431	423	***415***	***405***

Note that we have elected to show United Technologies' historical data through 2019, to illustrate the type of operating company from which Otis was spun off. This is an imperfect measure as Otis made up less than 20% of United Technologies sales; however, it does offer some clues into the consistency of the new business.

Otis has a number of long-term growth drivers available in the way of increased urbanization, a growing middle class and digitalization. All these factors will continue to spur demand for Otis' products and should bode well for the category leader. At the very least, Otis stands a very good shot at capturing its "fair share" of growth in the industry. Moreover, the Service segment adds some resiliency to the business. We are forecasting $3.52 in 2023 EPS, management's current guidance, and a 6% growth rate over the next five years. While there is some uncertainty in near-term results, we believe mid-to-high single-digit intermediate-term EPS growth can come to fruition.

[1] Estimated date.
[2] In millions.
Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Otis Worldwide Corp. (OTIS)

Updated October 25th, 2023, by Eli Inkrot

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.0	16.4	17.0	15.3	17.7	16.8	16.1	18.2	26.1	23.7	***21.2***	***18.0***
Avg. Yld.	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	1.3%	1.2%	1.5%	***1.8%***	***2.1%***

We are again using United Technologies history through 2019 to give you a sense for how shares traded in the past. During the past decade shares of UTX traded hands with an average P/E ratio of about 16 times earnings. We are using 18 times earnings as a fair starting multiple for Otis, taking into consideration the enhanced risk to the standalone business paired against strong growth avenues and reoccurring revenue from servicing. Still, with shares currently trading near 21 times expected earnings, this could result in a valuation headwind. The $0.34 quarterly dividend implies a payout ratio of about 39% of anticipated earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

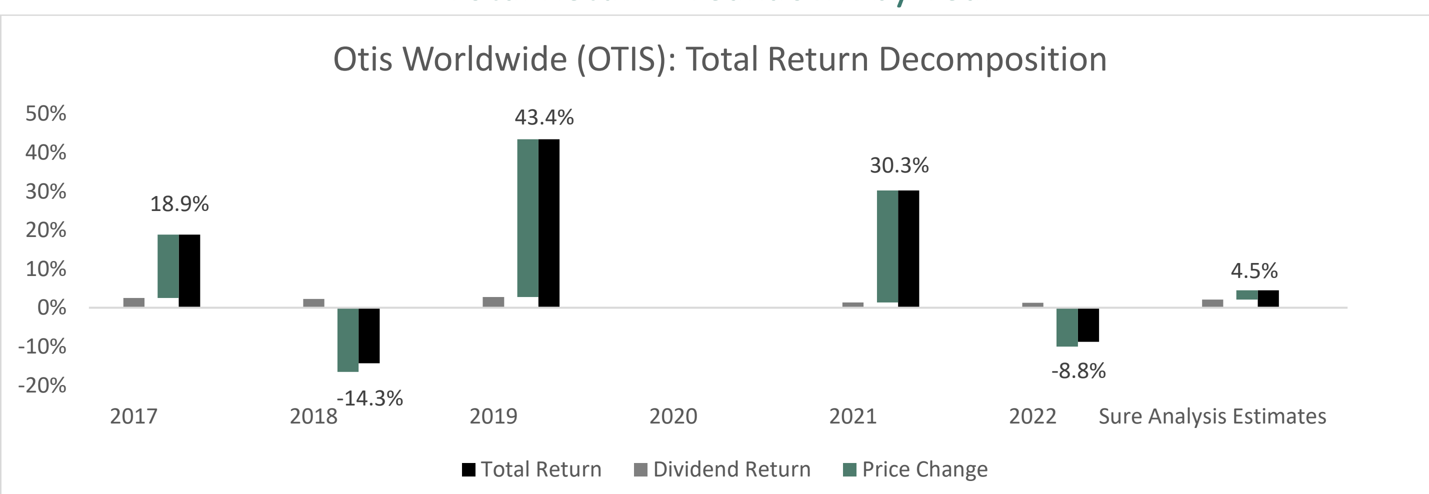
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	35%	41%	40%	41%	37%	36%	24%	31%	35%	***39%***	***39%***

Otis enjoys a competitive advantage in its namesake brand, along with the #1 position in the category the company created. Moreover, with the largest installed base of elevators and escalators, reoccurring service revenue can smooth out results in less certain times. 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. While some of that ballast is gone with the company splitting up, we still believe Otis should perform reasonably well in leaner times. Moreover, the targeted ~40% payout ratio will allow for flexibility in the future.

Final Thoughts & Recommendation

Shares are up 10% in the last year. Otis has been a very strong business for 170 years. Now that it is once again a standalone company, it offers a "pure play" on a variety of important and growing trends around the world. While the cyclicality of the firm may have increased, we are encouraged by the ongoing service revenue. However, today's valuation continues to leave something to be desired. Total return potential comes in at 4.5% per annum, driven by 6% growth and a 1.8% dividend yield, offset by the potential for a valuation headwind. This view could be too conservative if the business performs better than expected or if the valuation remains elevated, but we are not yet willing to make either speculation. Shares earn a hold rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Otis Worldwide Corp. (OTIS)

Updated October 25th, 2023, by Eli Inkrot

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	56,600	57,900	56,098	57,244	59,837	66,501	77,046	12,760	14,300	13,680
Gross Profit	16,132	17,002	15,667	15,773	15,636	16,516	19,981	3,779	4,193	3,920
Gross Margin	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%	29.6%	29.3%	28.7%
SG&A Exp.	6,364	6,172	5,886	5,958	6,429	7,066	8,521	1,924	1,948	1,7630
D&A Exp.	1,735	1,820	1,863	1,962	2,140	2,433	3,783	191	203	191
Operating Profit	8,549	9,593	7,291	8,221	8,138	8,553	8,966	1,639	2,108	2,033
Op. Margin	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%	12.8%	14.7%	14.9%
Net Profit	5,721	6,220	7,608	5,055	4,552	5,269	5537	906	1,246	1,253
Net Margin	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%	7.1%	8.7%	9.2%
Free Cash Flow	4,586	5,134	4,294	1,793	3,237	4,020	6,276	1,297	1,594	1,445
Income Tax	1,999	2,244	2,111	1,697	2,843	2,626	2,295	455	541	519

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	90,594	91,206	87,484	89,706	96,920	134,211	139,716	10,710	12,280	9,819
Cash & Equivalents	4,619	5,229	7,075	7,157	8,985	6,152	7,378	1,782	1,565	1,189
Acc. Receivable	11,458	10,448	10,653	11,481	12,595	14,271	13,524	3,309	3,117	3,357
Inventories	10,330	7,642	8,135	8,704	9,881	10,083	10,950	659	622	617
Goodwill & Int.	43,689	42,976	42,904	42,743	43,793	74,536	74,109	2,257	2,086	1,936
Total Liabilities	57,375	58,642	58,640	60,537	65,499	93,601	95,485	13,990	15,260	14,480
Accounts Payable	6,965	6,250	6,875	7,483	9,579	11,080	10,809	1,453	1,556	1,717
Long-Term Debt	20,241	19,701	20,425	23,901	27,485	45,537	43,648	5,963	7,273	6,786
Total Equity	31,866	31,213	27,358	27,579	29,610	38,446	41,774	-3,832	-3,625	-4,870
LTD/E Ratio	0.64	0.63	0.75	0.87	0.93	1.18	1.04	---	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	8.9%	10.8%	11.3%
Return on Equity	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	---	---	---
ROIC	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%	36.6%	35.3%	39.2%
Shares Out.	917	909	838	809	799	795	864	435	431	423
Revenue/Share	61.85	63.51	63.52	69.29	74.88	82.09	89.18	29.35	33.14	32.35
FCF/Share	5.01	5.63	4.86	2.17	4.05	4.96	7.26	2.98	3.70	3.42

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