Honeywell International (HON)

Updated February 3rd, 2024 by Nathan Parsh

Key Metrics

Current Price:	$196	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$129 B
Fair Value Price:	$179	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	02/22/24[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	02/11/24[2]
Dividend Yield:	2.2%	**5 Year Price Target**	$276	**Years Of Dividend Growth:**	14
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 $39 billion in annual revenues.

On September 29th, 2023, Honeywell International announced a 4.9% increase in the quarterly dividend rate to $1.08, extending the company's dividend growth streak to 14 consecutive years.

On February 1st, 2024, Honeywell International announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue grew 2.7% to $9.44 billion, but this was $250 million below expectations. Adjusted earnings-per-share of $2.60 compared favorably to $2.52 in the prior year and was $0.01 ahead of estimates. For 2023, revenue grew 3.4% to $36.7 billion while adjusted earnings-per-share of $9.16 compared to $8.76 in the prior year.

Organic sales improved 2% for the quarter. Segment margin expanded 60 basis points to 23.5%. The backlog grew 8% to another new record of $31.8 billion. Aerospace grew 15% organically, led by ongoing strength in commercial aviation, particularly in the aftermarket business. OEM was up 20% for the period. The segment margin of 28.0% was higher by 20 basis points from the prior year. Revenue for Honeywell Building Technologies was lower by 1%, but orders were quite strong. Segment margin contracted 90 basis points to 23.9%. Performance Materials & Technologies increased 4% due to double-digit gains in aftermarket services and fluorine products. Segment margin expanded 200 basis points to 24.0%. Safety & Productivity Solutions fell 24% due to weaker volume in warehouse automation and lower short-cycle demand in productivity solutions. Segment margin contracted 290 basis points to 17.3%.

Honeywell International provided an outlook for 2024 as well. The company expects revenue in a range of $38.1 billion to $38.9 billion for the year. Organic growth is projected to be up 4% to 6% for 2023. Adjusted earnings-per-share is forecasted to be in a range of $9.80 to $10.10, which would represent 8.6% year-over-year growth at the midpoint.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.56	$6.04	$6.59	$7.11	$8.01	$8.16	$7.10	$8.06	$8.76	$9.16	***$9.95***	***$15.31***
DPS	$1.87	$2.15	$2.45	$2.74	$3.06	$3.36	$3.63	$3.77	$3.97	$4.17	***$4.32***	***$6.65***
Shares[3]	782	770	761	751	740	723	710	696	677	661	***661***	***650***

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 2029 due to a combination of organic growth, margin expansion, and share repurchases.

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.9	16.9	17.0	18.9	18.8	20.3	23.0	25.9	24.5	22.9	***19.7***	***18.0***
Avg. Yld.	2.0%	2.1%	2.2%	2.0%	2.0%	2.0%	2.2%	1.8%	1.9%	2.0%	***2.2%***	***2.4%***

Honeywell International shares have increased $19, or 10.7%, since our October 29th, 2023 report. We are raising our target P/E to 18 from 17 to better match the stock's average valuation over the last decade. Using adjusted earnings-per-share estimates for 2024, shares have a forward multiple of 19.7, implying a possible headwind from multiple reversion. If shares reverted to our target multiple by 2029 then total returns could be reduced by 1.8% per year over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

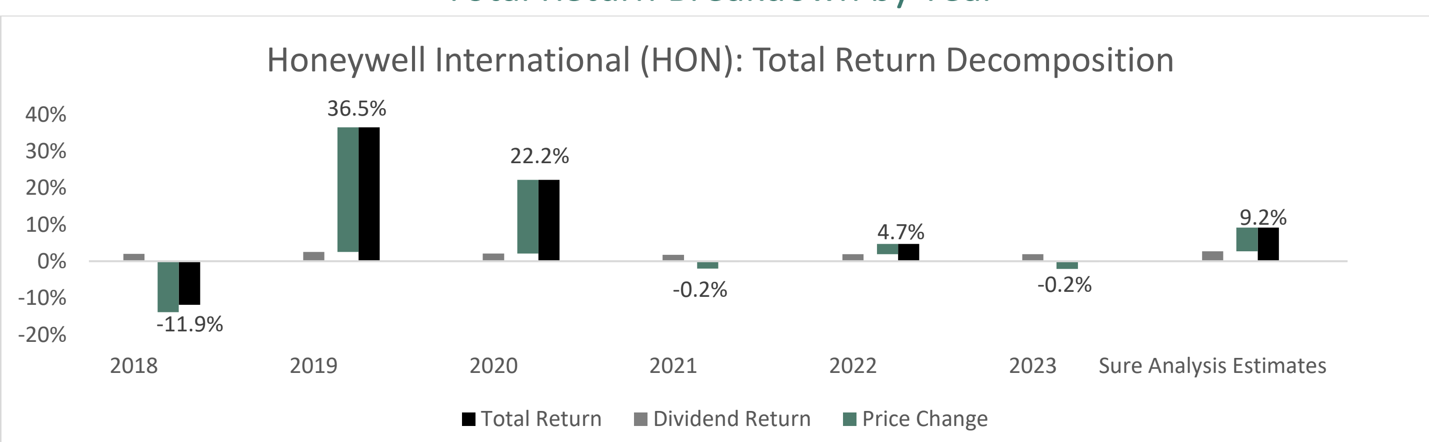
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	36%	37%	39%	38%	41%	51%	47%	45%	46%	***43%***	***43%***

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 9.2% annually through 2029, up from our previous estimate of 8.6%. Our projected return stems from a 9% earnings growth rate and a 2.2% starting yield that are partially offset by a low single-digit headwind from multiple reversion. The company's fourth quarter was mixed, but Honeywell International experienced decent growth last year. Certain areas of the company, such as Aerospace, performed very well in 2023 and the backlog remains robust. We have raised our five-year price target $37 to $276. Honeywell International continues to earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	40,306	38,581	39,302	40,534	41,802	36,709	32,637	34,392	35,466	36,662
Gross Profit	11,349	11,834	11,625	12,390	12,756	12,370	10,468	10,998	11,641	13,667
Gross Margin	28.2%	30.7%	29.6%	30.6%	30.5%	33.7%	32.1%	32.0%	32.8%	37.3%
SG&A Exp.	5,518	5,006	5,574	6,087	6,051	5,519	4,772	4,798	5,214	5,127
D&A Exp.	924	883	1,030	1,115	1,116	1,088	1,002	1,223	1,204	1,176
Operating Profit	5,831	6,828	6,051	6,303	6,705	6,851	5,696	6,200	6,427	7,084
Op. Margin	14.5%	17.7%	15.4%	15.5%	16.0%	18.7%	17.5%	18.0%	18.1%	19.3%
Net Profit	4,239	4,768	4,812	1,545	6,765	6,143	4,779	5,542	4,966	5,658
Net Margin	10.5%	12.4%	12.2%	3.8%	16.2%	16.7%	14.6%	16.1%	14.0%	15.4%
Free Cash Flow	3,986	4,446	4,403	4,935	5,606	6,058	5,302	5,143	4,508	4,301
Income Tax	1,489	1,739	1,603	5,362	659	1,329	1,147	1,625	1,412	1,487

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	45,451	49,316	54,146	59,470	57,773	58,679	64,586	64,470	62,275	61,525
Cash & Equivalents	6,959	5,455	7,843	7,059	9,287	9,067	14,275	10,959	9,627	7,925
Acc. Receivable	7,788	7,901	8,177	8,866	7,508	7,493	6,827	6,830	7,440	7,530
Inventories	4,405	4,420	4,366	4,613	4,326	4,421	4,489	5,138	5,538	6,178
Goodwill & Int.	14,996	20,472	22,341	22,773	19,685	19,297	19,618	21,369	20,719	21,280
Total Liabilities	27,448	30,608	34,596	42,800	39,408	39,966	46,789	45,221	44,949	45,084
Accounts Payable	5,365	5,580	5,690	6,584	5,607	5,730	5,750	6,484	6,329	6,849
Long-Term Debt	8,683	12,068	15,775	17,882	16,214	16,002	22,384	19,599	19,570	20,443
Total Equity	17,657	18,283	19,369	16,502	18,180	18,494	17,549	18,569	16,697	16,434
LTD/E Ratio	0.49	0.66	0.81	1.08	0.89	0.87	1.28	1.06	1.17	1.24

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.3%	10.1%	9.3%	2.7%	11.5%	10.6%	7.8%	8.6%	7.8%	9.1%
Return on Equity	24.1%	26.5%	25.6%	8.6%	39.0%	33.5%	26.5%	30.7%	28.2%	34.2%
ROIC	15.9%	16.6%	14.6%	4.4%	19.6%	17.7%	12.8%	14.0%	13.1%	15.3%
Shares Out.	782	770	761	751	740	723	710	696	677	661
Revenue/Share	50.69	48.88	50.69	52.50	55.51	50.27	45.89	49.10	51.92	54.87
FCF/Share	5.01	5.63	5.68	6.39	7.44	8.30	7.46	7.34	6.60	6.44

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