



Otis Worldwide Corp. (OTIS)

Updated February 27th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	2.3%	Market Cap:	\$38 B
Fair Value Price:	\$69	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	2/15/24
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	3/8/24
Dividend Yield:	1.4%	5 Year Price Target	\$97	Years Of Dividend Growth:	3
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Sell

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 \$38 billion market cap company generated \$14.2 billion in sales in 2023 and employs approximately 71,000 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 January 31st, 2024, Otis reported financial results for the fourth quarter of fiscal 2023. Sales and organic sales grew 5% and 4%, respectively, while adjusted earnings-per-share grew 16%, from \$0.75 to \$0.87, beating the analysts' consensus by \$0.01. Otis has not missed the analysts' estimates for 15 consecutive quarters. It was the third consecutive quarter of high-single digit growth of service sales and marked the return of orders for new equipment to growth. Orders for new equipment and backlog grew 3% and 2%, respectively.

Otis provided strong guidance for 2024, expecting 3%-5% growth of organic sales and adjusted earnings-per-share of \$3.80-\$3.90. At the mid-point, this guidance implies 9% growth over the prior year. We have assumed earnings-per-share at the mid-point of the guidance, though this may prove too conservative, given the positive business momentum and the exceptional record of Otis in beating analysts' estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$2.52	\$2.95	\$3.17	\$3.54	\$3.85	\$5.40
DPS	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$0.60	\$0.92	\$1.11	\$1.31	\$1.36	\$1.82
Shares¹	909	838	809	799	861	864	433	431	423	411	400	360

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 \$3.85 in 2024 EPS, management's current guidance, and a 7% 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 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.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	17.0	15.3	17.7	16.8	16.1	18.2	26.1	23.7	23.7	24.4	18.0
Avg. Yld.	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	1.3%	1.2%	1.5%	1.6%	1.4%	1.9%

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. Otis is currently trading at a P/E ratio of 24.4. If it trades at our assumed fair valuation level in five years, it will incur a -5.9% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

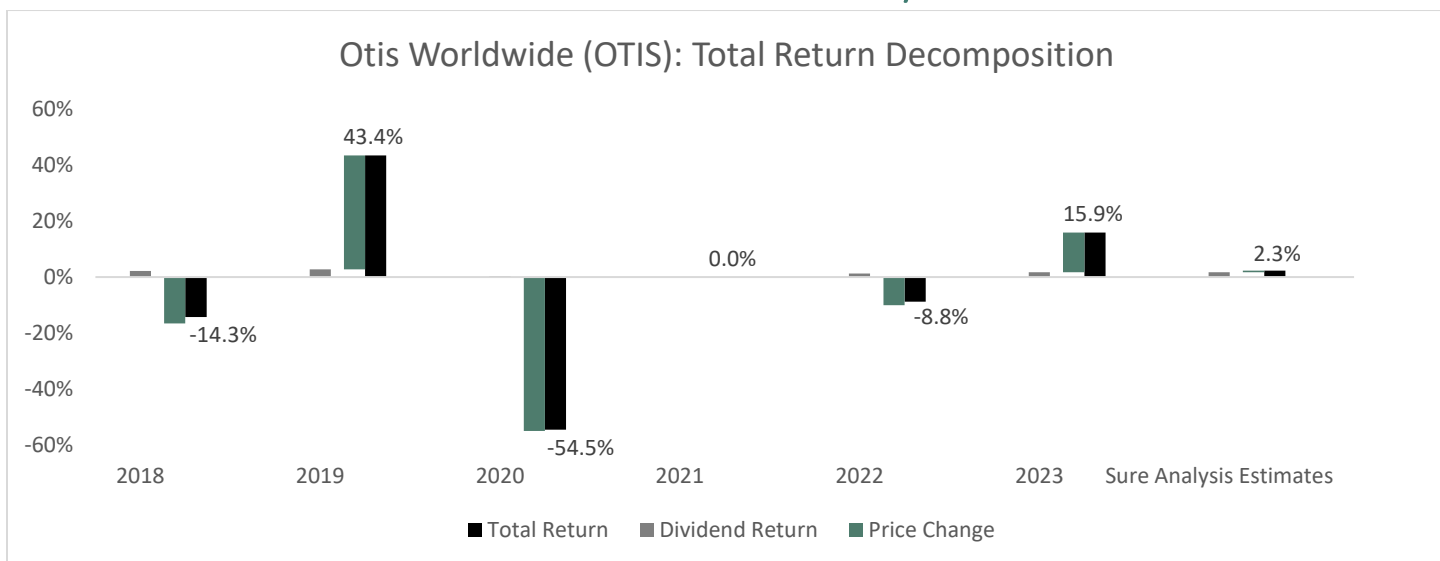
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35%	41%	40%	41%	37%	36%	24%	31%	35%	37%	35%	34%

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 during rough economic periods. 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

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 cyclicity of the firm may have increased, we are encouraged by the ongoing service revenue. However, we are concerned over the rich valuation of Otis. Total return potential comes in at 2.3% per annum, driven by 7% growth and a 1.4% dividend, partly offset by a -5.9% valuation headwind. This view could prove too conservative if the valuation remains elevated, but it is highly risky to rely on valuation remaining rich. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	57,900	56,098	57,244	59,837	66,501	77,046	12,760	14,300	13,680	14,209
Gross Profit	17,002	15,667	15,773	15,636	16,516	19,981	3,779	4,193	3,920	4,193
Gross Margin	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%	29.6%	29.3%	28.7%	29.5%
SG&A Exp.	6,172	5,886	5,958	6,429	7,066	8,521	1,924	1,948	1,7630	1,884
D&A Exp.	1,820	1,863	1,962	2,140	2,433	3,783	191	203	191	193
Operating Profit	9,593	7,291	8,221	8,138	8,553	8,966	1,639	2,108	2,033	2,186
Op. Margin	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%	12.8%	14.7%	14.9%	15.4%
Net Profit	6,220	7,608	5,055	4,552	5,269	5537	906	1,246	1,253	1,406
Net Margin	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%	7.1%	8.7%	9.2%	9.9%
Free Cash Flow	5,134	4,294	1,793	3,237	4,020	6,276	1,297	1,594	1,445	1,489
Income Tax	2,244	2,111	1,697	2,843	2,626	2,295	455	541	519	533

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	91,206	87,484	89,706	96,920	134,211	139,716	10,710	12,280	9,819	10,117
Cash & Equivalents	5,229	7,075	7,157	8,985	6,152	7,378	1,782	1,565	1,189	1,274
Acc. Receivable	10,448	10,653	11,481	12,595	14,271	13,524	3,309	3,117	3,357	3,390
Inventories	7,642	8,135	8,704	9,881	10,083	10,950	659	622	617	612
Goodwill & Int.	42,976	42,904	42,743	43,793	74,536	74,109	2,257	2,086	1,936	1,923
Total Liabilities	58,642	58,640	60,537	65,499	93,601	95,485	13,990	15,260	14,480	14,837
Accounts Payable	6,250	6,875	7,483	9,579	11,080	10,809	1,453	1,556	1,717	1,878
Long-Term Debt	19,701	20,425	23,901	27,485	45,537	43,648	5,963	7,273	6,786	6,898
Total Equity	31,213	27,358	27,579	29,610	38,446	41,774	-3,832	-3,625	-4,870	-4,924
LTD/E Ratio	0.63	0.75	0.87	0.93	1.18	1.04	---	---	-1.39	-1.40

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	8.9%	10.8%	11.3%	14.1%
Return on Equity	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	---	---	---	---
ROIC	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%	36.6%	35.3%	39.2%	65.7%
Shares Out.	909	838	809	799	795	864	435	431	423	415
Revenue/Share	63.51	63.52	69.29	74.88	82.09	89.18	29.35	33.14	32.35	34.27
FCF/Share	5.63	4.86	2.17	4.05	4.96	7.26	2.98	3.70	3.42	3.59

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

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