

Honeywell (HON)

\$180.79 (As of 01/02/20)

Price Target (6-12 Months): **\$190.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/27/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Over the past year, Honeywell has outperformed the industry. The company believes that strength in its defense, warehouse automation, process solutions and building technologies businesses as well as solid demand for its commercial fire products will boost revenues in the quarters ahead. Stronger sales volume, increased productivity and operational excellence initiatives are likely to improve its near-term profitability. The company is committed toward rewarding shareholders handsomely through dividend payouts and share buybacks. However, the stock looks overvalued compared with the industry. Given Honeywell's extensive geographic presence, its business is subject to certain political, economic & geopolitical issues. It is experiencing softness in its productivity products business. Rise in debt levels can increase its financial obligations.

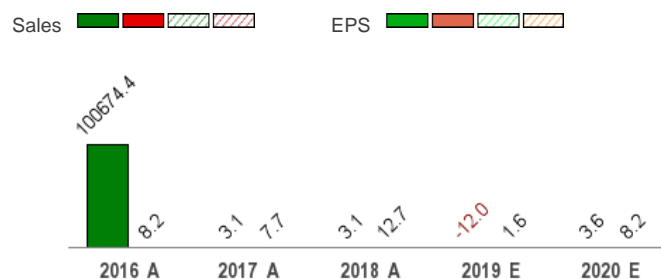
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$183.12 - \$129.07
20 Day Average Volume (sh)	2,059,513
Market Cap	\$129.2 B
YTD Price Change	2.1%
Beta	1.09
Dividend / Div Yld	\$3.60 / 2.0%
Industry	Diversified Operations
Zacks Industry Rank	Top 41% (104 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/07/2020
Earnings ESP	0.0%
P/E TTM	22.6
P/E F1	20.5
PEG F1	2.2
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	9,098 E	9,553 E	9,479 E	9,980 E	38,116 E
2019	8,884 A	9,243 A	9,086 A	9,586 E	36,797 E
2018	10,392 A	10,919 A	10,762 A	9,729 A	41,802 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.05 E	\$2.27 E	\$2.24 E	\$2.32 E	\$8.81 E
2019	\$1.92 A	\$2.10 A	\$2.08 A	\$2.04 E	\$8.14 E
2018	\$1.95 A	\$2.12 A	\$2.03 A	\$1.91 A	\$8.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

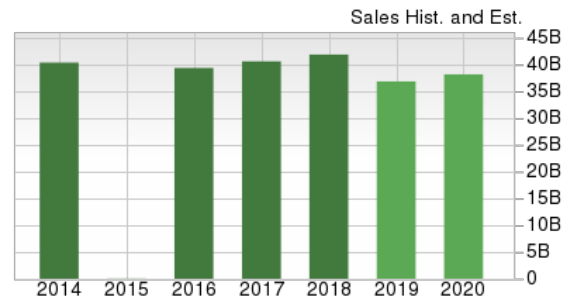
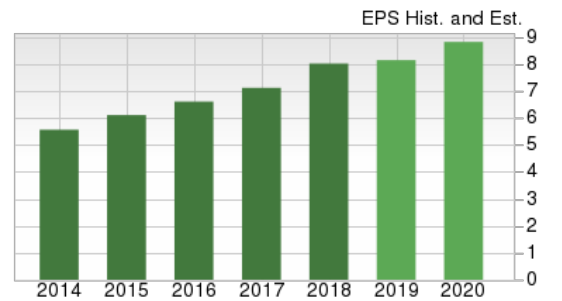
Overview

Based in Morris Township, NJ, Honeywell International Inc. is a global diversified technology and manufacturing company with a wide range of aerospace products and services. The company, which employs around 1,14,000 employees globally, has operations in the United States, Europe, Canada, Asia and Latin America.

The company is a global leader in refrigerants, aerosols, and foam-insulation blowing agents that are used to replace ozone-depleting Chlorofluorocarbon and Hydro Chlorofluorocarbons. These products also improve the energy efficiency of homes, appliances, and commercial refrigeration systems.

Honeywell operates through four business segments as discussed hereunder:

- **Aerospace** (39% revenues came from this segment in third-quarter 2019) is a leading global provider of integrated avionics, engines, systems and service solutions for aircraft manufacturers, airlines, business and general aviation, military, space and airport operations. In April 2018, the segment announced its decision to develop laser communication products for satellite communication in collaboration with market partners.
- **Performance Materials and Technologies** segment (29.4%) offers leading technologies and high-performance materials, including hydrocarbon processing technologies, catalysts, adsorbents, equipment and services. This segment includes its wholly owned subsidiary, Honeywell UOP, which is an international supplier and licensor of process technology, and consulting services to the petrochemical and petroleum refining industries.
- **Honeywell Building Technologies** segment (15.6%) offers environmental & energy solutions, security and fire, and building solutions. Some of the notable products offered by the segment include sensors, switches, control systems and instruments for energy management as well as advanced software applications for building control and optimization.
- **Safety and Productivity Solutions** (16%) includes sensing & productivity solutions and industrial safety, as well as the recently acquired Intelligrated business.



Reasons To Buy:

- ▲ Over the past year, Honeywell's shares have yielded a 34.3% return compared with the industry's 27.7% growth. In the third quarter, Honeywell's revenues improved 3% on an organic basis on the back of continued strength in its long-cycle businesses in U.S. defense, warehouse automation, process solutions and building technologies, as well as robust demand for aftermarket service business. Healthy global demand for guidance and navigation systems coupled with higher aftermarket volumes on the U.S. Department of Defense programs is likely to strengthen Honeywell's Aerospace segment's revenues. Also, solid orders and backlogs in U.S. defense business along with strength in the company's commercial aftermarket business with strong demand across both air transport and business aviation markets are likely to boost its Aerospace revenues. In addition, Honeywell expects strong demand for commercial fire and building management products, particularly in Americas region, coupled with strength in software and increased project growth to boost the revenues of Building Technologies segment. Further, strength in process solutions business driven by strength across the automation portfolio coupled with strong demand for equipment is likely to keep boosting revenues of its Performance Materials and Technology segment. Honeywell believes that strength in its Intelligrated aftermarket service business driven by healthy demand for life cycle support and services will boost Safety and Productivity Solutions' revenues.
- ▲ Honeywell reported better-than-expected earnings for the September-ended quarter. The bottom line beat the Zacks Consensus Estimate by about 3.5%, and also improved 9.5% year over year. The company noted that this upswing was driven by organic sales growth, continued productivity improvements, operational excellence initiatives and savings from previously funded repositioning projects. In addition, share repurchases made during the quarter boosted earnings by 7 cents per share. Also, the company's segment margin for the third quarter was 21.2%, up 180 basis points (bps) year over year backed by increased sales volumes and benefits of the portfolio enhancement actions. For 2019, the company raised the low end of its segment margin guidance by 20 bps to a new range of 20.9-21%. Moving ahead, Honeywell expects that greater operational excellence, share buybacks and its three transformation initiatives — the Connected Enterprise, Integrated Supply Chain and Honeywell Digital — will drive its profitability. For 2019, the company anticipates earnings to be in the range of \$8.10 to \$8.15 per share compared with \$7.95-\$8.15 guided earlier.
- ▲ Honeywell remains committed to rewarding shareholders handsomely through dividend payments and share repurchase program. Notably, in the third quarter of 2019, the company paid out dividends worth \$595 million to shareholders and repurchased shares worth \$1 billion. It is worth noting that the quarterly dividend rate was hiked 10% in September 2019, marking its 10th double digit increment in dividend rate since 2010. Such diligent capital deployment strategies boost shareholders' wealth. In 2018, Honeywell completed its portfolio transformation move and reorganized operating segments, with the spin-off of its Homes product portfolio, ADI Global Distribution business and Transportation Systems business. In addition, Honeywell acquired the TruTrak Flight Systems in July 2019 to expand its capabilities in the aviation market. Further, the company completed the buyout of German firm Transnorm in November 2018. These tactical initiatives will help it concentrate on high-growth industrial businesses and boost sales growth.

Strength in end markets, greater operational excellence and its portfolio transformation strategy are likely to drive Honeywell's profitability.

Reasons To Sell:

- ▼ Honeywell is experiencing persistent weakness in the Safety and Productivity Solutions segment. Notably, the Safety and Productivity Solutions segment is experiencing lower volumes of sales due to softness in its productivity products business, distributor destocking and fewer large project rollouts. As a matter of fact, the company expects these headwinds to persist in the rest of 2019. Moreover, continued soft demand for general safety products and personal protective equipment remains a concern for its safety business. On a P/E (TTM) basis, Honeywell's shares look overvalued compared to the industry, with respective tallies of 22.57x and 22.14x. Notably, the company's multiple is higher than the industry's one year highest level of 22.14x. This makes us cautious about the stock.
- ▼ Honeywell's long-term debt in the last five years (2014-2018) increased 10% (CAGR). Notably, at the end of third-quarter 2019, the company's long-term debt was \$11,101 million, up 28.9% on a sequential basis. We believe, if unchecked, high-debt levels can increase its financial obligations and prove detrimental to profitability in the quarters ahead. Moreover, the company's cash position has weakened over time. For instance, in the third quarter, its cash from operating activities was down 21.7% on a year-over-year basis. In addition, Honeywell's cash ratio is below 1. Notably, at the end of the quarter, it declined to 0.62 from 0.65 recorded at the end of third-quarter 2018. The metric calculates a company's ability to repay its short-term debt with readily-liquidated cash resources.
- ▼ Honeywell, as a multinational company, operates across diverse geographies, which exposes it to certain political, economic and geopolitical issues. For instance, forex woes adversely impacted sales in third-quarter 2019 by 1%. As a matter of fact, fluctuations in foreign exchange rates may negatively affect the company's top line in the quarters ahead. Further, given its strong presence in China, its top line may reflect the soft macro signals that persist in the country like slowdown in economic growth and persistent trade tensions with the United States.

Softness in productivity products business and high long-term debt remain concerns for Honeywell.

Last Earnings Report

Honeywell Q3 Earnings Surpass Estimates, Revenues Miss

Honeywell reported mixed third-quarter 2019 results with earnings beating estimates but revenues lagging the same. Adjusted earnings were \$2.08 per share, surpassing the Zacks Consensus Estimate of \$2.01. The bottom line also jumped 9.5% year over year driven by organic sales growth.

Honeywell's third-quarter revenues came in at \$9,086 million, missing the consensus estimate of \$9,155 million. Also, the top line declined 15.6% year over year. The fall was primarily attributable to the impact of spin-offs of some of the company's businesses in 2018. However, revenues increased 3% organically on the back of solid demand for commercial fire products, strength in its aerospace business, and broad-based growth in process solutions business.

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	-0.75%
EPS Surprise	3.48%
Quarterly EPS	2.08
Annual EPS (TTM)	8.01

Segmental Breakup

Revenues for **Aerospace** were \$3,544 million, down 12% year over year. **Honeywell Building Technologies** revenues declined 44% to \$1,415 million. **Performance Materials and Technologies** generated \$2,670 million, up 1%, while **Safety and Productivity Solutions** revenues declined 7% to \$1,457 million.

Costs/Margins

The company's total cost of sales in the reported quarter was \$6,038 million, down 20.1% year over year. Selling, general and administrative expenses declined 15% to \$1,296 million. Interest expenses and other financial charges were \$96 million compared with \$99 million a year ago.

Operating income margin for the third quarter was 19.3%, up 370 basis points.

Balance Sheet/Cash Flow

Exiting the third quarter, Honeywell had cash and cash equivalents of \$10,908 million compared with \$9,287 million as of Dec 31, 2018. Long-term debt was \$11,101 million, higher than \$9,756 million recorded at the end of 2018.

During the third quarter, the company generated \$1,471 million cash from operating activities, lower than \$1,878 million a year ago. Capital expenditure was \$192 million compared with \$183 million incurred a year ago.

Adjusted free cash flow was \$1,286 million, down 28.9%.

Outlook

Honeywell expects robust demand environment in commercial aerospace business to drive its revenues in the quarters ahead. It also expects greater operational excellence and stock buybacks to boost profitability.

Honeywell revised full-year guidance for 2019. The company anticipates earnings to be in the range of \$8.10 to \$8.15 per share compared with \$7.95-\$8.15 guided earlier. However, it has lowered revenue guidance for 2019 between \$36.7 billion and \$36.9 billion from \$36.7-\$37.2 billion predicted earlier.

Recent News

On **Dec 17, 2019**, Honeywell announced its collaboration with iTRACE and SecureMarking to provide increased security to the e-commerce market of aerospace products through blockchain technology.

Notably, on Dec 16, 2019, Honeywell announced the buyout of Rebellion Photonics. The terms of the deal were not disclosed/kept under wraps. The terms of the deal were kept under wraps. Honeywell believes that the buyout will augment its solid portfolio of automation, process technologies and gas detection solutions.

On **Dec 6, 2019**, Honeywell paid out a quarterly dividend of 90 cents to shareholders of record as of Nov 15, 2019. On Sep 27, 2019, Honeywell's board of directors approved 10% or 32 cents per share hike in the annual dividend rate to \$3.60 per share from \$3.28. Notably, on a quarterly basis, the dividend payout increased to 90 cents from 82 cents per share.

On **Nov 21, 2019**, Honeywell announced that it will provide the Integrated Control and Safety System (ICSS) to BP's Trinidad Cassia Compression platform. As noted, ICSS will enable Bp to enhance digital security, safety and efficiency of its platform.

On **Nov 12, 2019**, Honeywell announced that Honeywell Process Solutions received a contract from Kuwait Integrated Petroleum Industries Company ("KIPIC"). As noted, Honeywell Process Solutions will provide process control and automation technologies to KIPIC's new Petrochemicals and Refinery Integration Al Zour project.

On **Oct 24, 2019**, Honeywell announced formation of Honeywell Robotics, an advanced technology center of excellence. Notably, Honeywell Robotics will focus on developing artificial intelligence, computer vision, machine learning and advanced robotics.

On **Oct 9, 2019**, Honeywell launched the latest smart hearing solution for companies to offer higher protection to workers from noise-related hearing loss. Combined with a cloud-based software and protective headsets, the VeriShield Smart Hearing Solution will allow companies to monitor sound on an instant basis and analyze its patterns.

Valuation

Honeywell shares are up 34.3% over the trailing 12-month period. Over the past year, both the Zacks sub-industry and the Zacks Conglomerates sector are up 27.7%.

The S&P 500 index has moved up 26.3% in the past year.

The stock is currently trading at 13.43x forward 12-month EV/EBITDA, which compares to 26.85x for both the Zacks sub-industry and the Zacks sector, and 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.91x and as low as 8.81x, with a 5-year median of 11.39x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$190 price target reflects 14.11x forward 12-month earnings per share.

The table below shows summary valuation data for HON.

Valuation Multiples - HON					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	13.43	26.85	26.85	12.66
	5-Year High	13.91	81.18	81.18	12.66
	5-Year Low	8.81	17.61	17.61	9.08
	5-Year Median	11.39	22.01	22.01	10.78
P/E F12M	Current	22.21	19.01	19.01	19.06
	5-Year High	22.21	20.06	20.06	19.34
	5-Year Low	13.95	15.31	15.31	15.17
	5-Year Median	17.58	17.75	17.75	17.44
EV/Sales F12M	Current	3.5	4.22	4.22	3.26
	5-Year High	3.5	4.24	4.24	3.37
	5-Year Low	1.81	2.82	2.82	2.3
	5-Year Median	2.58	3.66	3.66	2.78

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 253)



Top Peers

Garmin Ltd. (GRMN)	Outperform
Danaher Corporation (DHR)	Neutral
General Electric Company (GE)	Neutral
3M Company (MMM)	Neutral
Safran SA (SAFRY)	Neutral
United Technologies Corporation (UTX)	Neutral
Zebra Technologies Corporation (ZBRA)	Neutral
Emerson Electric Co. (EMR)	Underperform

Industry Comparison Industry: Diversified Operations				Industry Peers		
	HON Neutral	X Industry	S&P 500	GE Neutral	MMM Neutral	UTX Neutral
VGM Score	D	-	-	D	B	A
Market Cap	129.18 B	7.63 B	23.76 B	104.19 B	103.51 B	132.20 B
# of Analysts	10	4	13	7	6	7
Dividend Yield	1.99%	1.38%	1.78%	0.34%	3.20%	1.92%
Value Score	C	-	-	D	C	C
Cash/Price	0.10	0.13	0.04	0.78	0.08	0.06
EV/EBITDA	14.26	9.63	13.97	-15.48	13.41	14.02
PEG Ratio	2.22	2.12	2.02	2.52	1.96	1.99
Price/Book (P/B)	7.06	1.28	3.38	3.57	9.62	3.09
Price/Cash Flow (P/CF)	18.43	11.84	13.70	7.47	13.47	14.27
P/E (F1)	20.52	16.98	18.83	17.01	18.66	17.53
Price/Sales (P/S)	3.50	1.42	2.68	0.92	3.24	1.75
Earnings Yield	4.87%	5.87%	5.30%	5.87%	5.36%	5.71%
Debt/Equity	0.61	0.72	0.72	2.67	1.68	0.93
Cash Flow (\$/share)	9.81	1.94	6.94	1.60	13.37	10.73
Growth Score	D	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	8.86%	9.00%	10.56%	-20.34%	6.54%	3.31%
Proj. EPS Growth (F1/F0)	8.29%	7.36%	7.41%	14.99%	6.57%	7.36%
Curr. Cash Flow Growth	8.22%	7.31%	14.83%	-18.18%	8.64%	15.39%
Hist. Cash Flow Growth (3-5 yrs)	7.62%	4.88%	9.00%	-8.86%	5.24%	2.98%
Current Ratio	1.32	2.23	1.23	1.84	2.30	1.06
Debt/Capital	37.76%	41.81%	42.92%	72.76%	62.66%	48.29%
Net Margin	17.06%	5.57%	11.08%	-4.39%	15.48%	6.72%
Return on Equity	32.01%	9.97%	17.10%	11.69%	54.02%	16.81%
Sales/Assets	0.63	0.78	0.55	0.38	0.81	0.55
Proj. Sales Growth (F1/F0)	3.59%	3.19%	4.20%	-1.68%	5.03%	3.60%
Momentum Score	C	-	-	F	A	B
Daily Price Chg	2.14%	0.79%	0.33%	6.90%	2.03%	2.26%
1 Week Price Chg	0.04%	0.04%	0.13%	1.36%	1.08%	0.53%
4 Week Price Chg	3.90%	2.71%	3.31%	10.56%	9.51%	5.42%
12 Week Price Chg	12.31%	8.90%	9.70%	41.18%	18.18%	14.35%
52 Week Price Chg	38.99%	2.41%	30.28%	48.01%	-2.05%	47.99%
20 Day Average Volume	2,059,513	64,906	1,603,615	45,137,568	2,469,059	2,299,075
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.81%	0.49%	0.00%
(F1) EPS Est 12 week change	-0.56%	-0.75%	-0.57%	-5.58%	-3.61%	-0.84%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.45%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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