

Honeywell (HON)

\$137.25 (As of 05/01/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/27/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Honeywell's first-quarter 2020 earnings surpassed the Zacks Consensus Estimate by 11.6%, while sales missed the same by 2.5%. Strength in defense and space businesses as well as solid demand for its warehouse automation products will likely boost revenues in the quarters ahead. Also, increased productivity and operational excellence initiatives are likely to improve its near-term profitability. Also, it is committed to rewarding shareholders handsomely. However, over the past six months, it has underperformed the industry. The company believes that the coronavirus outbreak-led market downturn and the volatile oil market will adversely impact its near-term results. Given its extensive geographic presence, its business is subject to political, economic and geopolitical issues. Rise in debt levels can increase its financial obligations.

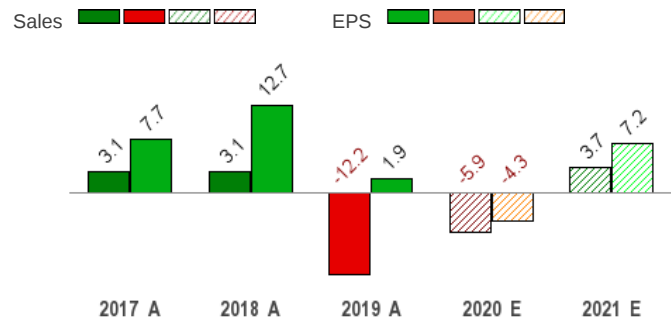
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$184.06 - \$101.08
20 Day Average Volume (sh)	3,329,914
Market Cap	\$97.8 B
YTD Price Change	-22.5%
Beta	1.04
Dividend / Div Yld	\$3.60 / 2.5%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 37% (160 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.6%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	-3.2%
Expected Report Date	NA
Earnings ESP	-5.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,607 E	8,605 E	8,947 E	9,573 E	35,818 E
2020	8,463 A	8,418 E	8,575 E	9,240 E	34,549 E
2019	8,884 A	9,243 A	9,086 A	9,496 A	36,709 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.97 E	\$2.02 E	\$2.06 E	\$2.14 E	\$8.37 E
2020	\$2.21 A	\$1.82 E	\$1.91 E	\$2.09 E	\$7.81 E
2019	\$1.92 A	\$2.10 A	\$2.08 A	\$2.06 A	\$8.16 A

*Quarterly figures may not add up to annual.

P/E TTM	16.2
P/E F1	17.6
PEG F1	1.9
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

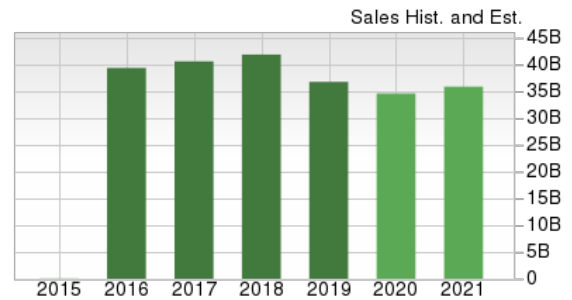
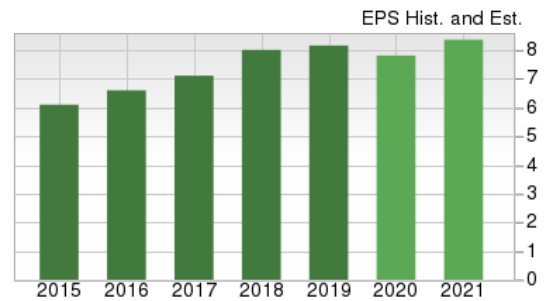
Overview

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 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** (39.7% revenues came from this segment in first-quarter 2020) 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 (28.3%) 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 (15.1%) 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** (16.9%) includes sensing & productivity solutions and industrial safety, as well as the recently acquired Intelligrated business.



Reasons To Buy:

- ▲ Honeywell's persistent strength across its defense and space businesses, supported by healthy demand for guidance and navigation systems along with strong backlog will act as tailwinds in the quarters ahead. Also, going forward, growth in demand for warehouse automation products and supply-chain analytics will likely support its Intelligrated business. In addition, surge in demand for personal protective equipment, medical sensors, and hand sanitizers will act as tailwinds for its Safety and Productivity Solutions segment. Notably, the company's pro-active steps to expand manufacturing operations at its Smithfield and Phoenix facilities for the production of personal protective equipment will boost its top-line performance during the coronavirus-led global market downturn. Moreover, Honeywell's focus on investing in product introductions and next-generation innovation across its portfolio will likely be beneficial over the long term. Further, in response to the coronavirus crisis, the company has been executing several cost-control measures to maintain a healthy capital structure. Some of the actions taken by it include the reduction of discretionary expenses, a hiring freeze and repositioning actions. In the quarters ahead, the measures will likely help the company to maintain a healthy margin performance amid the crisis.
- ▲ Honeywell reported better-than-expected earnings for the March-ended quarter. The bottom line beat the Zacks Consensus Estimate by 11.6%, and also improved 15% year over year. The company noted that the upswing was driven by higher operating profit, lower share count and a lower adjusted effective tax rate. Also, the company's segment margin for the first quarter was 21.8%, up 140 basis points (bps) year over year, backed by higher commercial and operational excellence, repositioning benefits, and cost-control measures. Moving ahead, Honeywell expects that the three transformation initiatives — the Connected Enterprise, Integrated Supply Chain and Honeywell Digital — will drive its profitability.
- ▲ Strong cash flows allow the company to effectively deploy capital for making acquisitions, repurchasing shares and dividend payouts. Notably, in the first quarter of 2020, it paid out dividends worth \$635 million to shareholders, higher than \$606 million paid out in the year-ago quarter. Also, the company repurchased shares worth \$1,923 million, higher than \$750 million a year ago. 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 addition, Honeywell acquired the Rebellion Photonics in December 2019, which has been augmenting its portfolio of automation, process technologies and gas detection solutions. Also, the company's buyout of TruTrak Flight Systems (July 2019) has been expanding its capabilities in the aviation market. The tactical initiatives will help it concentrate on high-growth industrial businesses and boost sales growth.

Strength in Intelligrated and defense businesses, greater operational excellence and its portfolio-transformation strategy are likely to drive Honeywell's profitability.

Reasons To Sell:

- ▼ In the first quarter, Honeywell's revenues declined 4% on an organic basis on account of weakness in its commercial aerospace, and oil and gas end markets due to the coronavirus outbreak. Notably, the company expects that headwinds across its commercial original equipment business due to ongoing 737 MAX-related issues, temporary operational shutdowns and lower business jet demand will significantly affect its revenues. Also, significant reduction in global air transport flight hours, owing to the coronavirus-led issues will affect its commercial aftermarket business. Notably, it anticipates Aerospace revenues to decline more than 25% in the second quarter on a year-over-year basis. The company expects the Performance Materials and Technologies segment's revenues to fall in excess of 15% year over year in the second quarter, owing to the volatile oil market, weak outlook for oil and gas capital expenditure, and the coronavirus outbreak-related supply chain disruptions. Moreover, owing to softness in building solutions projects and low demand for security and building management products, Honeywell Building Technologies segment's revenues are anticipated to decline by more than 10% in the second quarter. Further, persistent weakness in its productivity products and retail businesses remain concerning for its top-line performance. Notably, on uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, the company has now temporarily suspended its guidance for 2020.
- ▼ Honeywell's long-term debt in the last five years (2015-2019) increased 14.9% (CAGR). At the end of the first quarter of 2020, the company's long-term debt was \$11,542 million, up 3.9% sequentially. High-debt levels can increase its financial obligations and prove detrimental to profitability in the quarters ahead. In addition, analysts have become increasingly bearish about the company over the past 30 days. Consequently, the Zacks Consensus Estimate for second-quarter 2020 earnings has trended down from \$1.93 to \$1.82 on three downward estimate revisions against none upward. Also, estimates for 2020 and 2021 have been lowered by 3.2% and 2.6%, respectively, during the same timeframe. Over the past six months, Honeywell's shares have fallen 24% compared with the industry's decline of 17.5%.
- ▼ Honeywell operates across diverse geographies, which exposes it to certain political, economic and geopolitical issues. For instance, forex woes adversely impacted sales in the first quarter of 2020 by 1%. Fluctuations in foreign exchange rates may affect the company's top line in the quarters ahead.

The coronavirus outbreak-led market downturn, high-debt levels and unfavorable movements in foreign currencies remain concerning for Honeywell.

Last Earnings Report

Honeywell Q1 Earnings Beat Estimates, Revenues Miss

Honeywell has reported mixed first-quarter 2020 results, wherein earnings beat estimates but revenues lagged the same.

Earnings & Revenues

Adjusted earnings were \$2.21 per share, surpassing the Zacks Consensus Estimate of \$1.98. The bottom line also jumped 15% year over year, driven by higher operating profit.

Honeywell's first-quarter revenues were \$8,463 million, missing the consensus estimate of \$8,679 million. The top line recorded a decline of 5% on a year-over-year basis. Notably, the fall was primarily attributable to a 4% decline in organic revenues on account of weakness in its commercial aerospace, and oil and gas end markets due to the coronavirus outbreak.

Segmental Breakup

Aerospace's revenues were \$3,361 million, up 1% year over year. Honeywell Building Technologies' revenues declined 8% to \$1,281 million. Performance Materials and Technologies generated \$2,397 million revenues, down 7%, while that for Safety and Productivity Solutions declined 10% to \$1,424 million.

Costs/Margins

The company's total cost of sales in the reported quarter was \$5,534 million, down 5.9% year over year. Selling, general and administrative expenses declined 9.2% to \$1,238 million. Interest expenses and other financial charges were \$73 million compared with \$85 million a year ago.

Operating income margin in the first quarter was 20%, up 150 basis points year over year.

Balance Sheet/Cash Flow

Exiting the first quarter of 2020, Honeywell had cash and cash equivalents of \$7,721 million compared with \$9,067 million as of Dec 31, 2019. Long-term debt was \$11,542 million, higher than \$11,110 million recorded at the end of 2019.

During the first three months of 2020, the company generated \$939 million in cash from operating activities compared with \$1,134 million generated in the year-ago comparable period. Capital expenditure was \$139 million compared with \$141 million incurred in the year-ago comparable period.

Adjusted free cash flow was \$800 million, down 30.9% year over year.

Outlook

Honeywell expects its near-term revenues to be adversely impacted by soft aerospace, and oil and gas end markets, owing to the coronavirus-led issues and supply-chain disruptions. However, it remains focused on its operational excellence measures to boost profitability.

Notably, on uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, the company has now temporarily suspended its guidance for 2020.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	-2.49%
EPS Surprise	11.62%
Quarterly EPS	2.21
Annual EPS (TTM)	8.45

Recent News

On **Apr 17, 2020**, Honeywell's board of directors approved the payout of a quarterly dividend of 90 cents to shareholders of record as of May 15, 2020. The dividend will be paid out on June 5, 2020.

On **Mar 31, 2020**, Honeywell announced that it entered a \$6-billion two-year delayed draw term loan deal. Notably, this will enable the company to maximize its financial flexibility and further boost liquidity position.

On **Mar 30, 2020**, Honeywell announced that it has been working on enhancing its manufacturing capacities at the Phoenix site to produce N95 face masks. The manufacturing facility will primarily support the delivery of the face masks to the U.S. Department of Health and Human Services, which will add to the American stockpile. The expansion of the Phoenix mask production line will help in generating more than 500 jobs in Arizona.

On **Mar 22, 2020**, Honeywell highlighted its pro-active steps to expand manufacturing operations at its Smithfield, RI-based site for the production of N95 face masks. Honeywell's delivery of face masks to the U.S. Department of Health and Human Services will add to the American stockpile. Notably, the addition of the Smithfield mask production line will help in generating a minimum of 500 jobs.

On **Mar 17, 2020**, Honeywell announced the introduction of a data-driven analytics platform — Honeywell Forge — for the business aviation industry. Designed as a cost-effective solution to implement, the software solution will offer aviation companies with mission-management competences in several fields, including flight operations, connectivity, navigation databases and maintenance.

On **Feb 11, 2020**, Honeywell announced that it has collaborated with Nexceris to jointly address lithium-ion battery system safety.

On **Feb 4, 2020**, Honeywell announced the introduction of a platform of liquid heat transfer agents. As noted by the company, the heat transfer agents have the capacity to cool high-performance electronics with greater efficiency compared to traditional procedures.

On **Jan 17, 2020**, Honeywell announced that it has secured a long-term contract from Lockheed Martin to produce NASA's Orion spacecraft. Per the agreement, Honeywell will provide major components of the Orion crew module and service module from its facility in Clearwater, FL. In addition, the company will perform some of the work pertaining to the deal from its facilities based in Arizona, Glendale and Puerto Rico. Notably, it will work on providing 14 product types for Artemis missions III through V.

Valuation

Honeywell shares are down 22.4% and 20.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are down 19.8% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 16.8%.

The S&P 500 index has declined 12.1% year to date and 3.7% in the past year.

The stock is currently trading at 11.08x forward 12-month EV/EBITDA, which compares to 23.88x for both the Zacks sub-industry and the Zacks sector, and 12.29x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.77x and as low as 8.69x, with a 5-year median of 11.58x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 18.25x 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	11.08	23.88	23.88	12.29
	5-Year High	13.77	79.69	79.69	12.65
	5-Year Low	8.69	17.51	17.51	9.09
	5-Year Median	11.58	21.73	21.73	10.82
P/E F12M	Current	17.16	22.06	22.06	20.18
	5-Year High	22.23	22.06	22.06	20.18
	5-Year Low	12	15.76	15.76	15.19
	5-Year Median	17.8	18.31	18.31	17.44
EV/Sales F12M	Current	2.9	2.88	2.88	2.59
	5-Year High	3.5	4.1	4.1	3.52
	5-Year Low	1.81	2.56	2.56	2.3
	5-Year Median	2.62	3.41	3.41	2.81

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (160 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	4
General Electric Company (GE)	Neutral	3
Garmin Ltd. (GRMN)	Neutral	4
3M Company (MMM)	Neutral	3
Parker-Hannifin Corporation (PH)	Neutral	4
Safran SA (SAFRY)	Neutral	4
Zebra Technologies Corporation (ZBRA)	Neutral	3

Industry Comparison Industry: Diversified Operations				Industry Peers		
	HON	X Industry	S&P 500	GE	MMM	PH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	B	-	-	B	C	B
Market Cap	97.80 B	4.14 B	20.61 B	56.86 B	85.47 B	19.65 B
# of Analysts	10	1	14	8	7	9
Dividend Yield	2.62%	1.95%	2.11%	0.62%	3.96%	2.30%
Value Score	B	-	-	A	C	B
Cash/Price	0.11	0.21	0.06	1.55	0.03	0.06
EV/EBITDA	11.31	8.49	11.87	4.09	14.11	10.68
PEG Ratio	1.88	2.44	2.47	5.23	1.99	1.73
Price/Book (P/B)	5.23	0.85	2.67	1.90	8.44	3.10
Price/Cash Flow (P/CF)	14.35	6.10	10.66	5.27	12.63	10.16
P/E (F1)	17.41	17.57	19.01	30.06	18.86	17.04
Price/Sales (P/S)	2.70	0.69	2.10	0.57	2.64	1.38
Earnings Yield	5.69%	5.50%	5.05%	3.38%	5.30%	5.87%
Debt/Equity	0.59	0.64	0.72	2.36	1.79	1.28
Cash Flow (\$/share)	9.89	2.43	7.01	1.29	12.02	15.57
Growth Score	C	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	8.56%	9.90%	10.88%	-20.84%	5.88%	15.94%
Proj. EPS Growth (F1/F0)	-4.25%	-19.29%	-7.32%	-66.73%	-13.44%	-24.19%
Curr. Cash Flow Growth	-1.43%	2.77%	5.92%	-8.00%	-11.15%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	5.69%	5.78%	8.55%	-12.27%	1.67%	7.55%
Current Ratio	1.34	1.70	1.23	1.70	1.41	1.38
Debt/Capital	37.28%	38.95%	43.84%	70.19%	64.16%	56.21%
Net Margin	16.73%	3.82%	11.08%	-2.39%	15.37%	9.32%
Return on Equity	32.21%	11.50%	16.44%	13.52%	50.07%	24.47%
Sales/Assets	0.62	0.77	0.54	0.35	0.77	0.73
Proj. Sales Growth (F1/F0)	-5.88%	0.00%	-1.42%	-20.28%	-5.28%	-6.97%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	-2.91%	-1.71%	-2.39%	3.34%	-2.78%	0.80%
1 Week Price Chg	-2.02%	-0.13%	-1.74%	-8.48%	0.37%	-2.63%
4 Week Price Chg	6.84%	7.75%	17.07%	-1.45%	10.16%	33.05%
12 Week Price Chg	-19.54%	-21.65%	-18.53%	-47.49%	-6.73%	-24.65%
52 Week Price Chg	-17.20%	-28.20%	-9.82%	-33.66%	-17.77%	-10.20%
20 Day Average Volume	3,329,914	73,460	2,641,413	116,265,264	3,727,484	1,478,902
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-7.41%	-3.01%	0.00%
(F1) EPS Est 4 week change	-3.22%	-8.44%	-6.62%	-26.69%	-9.07%	-6.85%
(F1) EPS Est 12 week change	-11.17%	-29.92%	-13.28%	-49.60%	-17.18%	-16.20%
(Q1) EPS Est Mthly Chg	-5.63%	-27.52%	-11.97%	-26.92%	-17.32%	-41.37%

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	B
Growth Score	C
Momentum Score	C
VGM Score	B

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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