Honeywell (HON)

$132.33 (As of 04/16/20)

Price Target (6-12 Months): **$143.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/27/18) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: C	

Summary

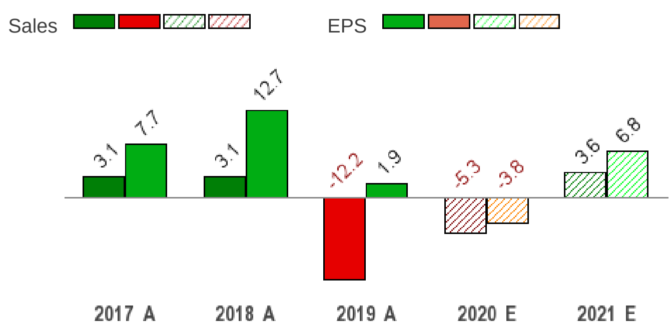
Honeywell believes that strength in defense, commercial aerospace and process solutions as well as solid demand for its commercial fire products will boost revenues in the quarters ahead. Stronger sales volume, increased productivity and operational excellence initiatives are likely to improve its near-term profitability. Also, the company is committed to rewarding shareholders handsomely. However, over the past three months, it has underperformed the industry. Also, the company is experiencing softness in its productivity products business. Given Honeywell's extensive geographic presence, its business is subject to political, economic and geopolitical issues. Rise in debt levels can increase the company's financial obligations. In the past 30 days, earnings estimates for the company have been lowered for 2020 and 2021.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$184.06 - $101.08**
20 Day Average Volume (sh)	**4,527,429**
Market Cap	**$94.3 B**
YTD Price Change	**-25.2%**
Beta	**1.14**
Dividend / Div Yld	**$3.60 / 2.7%**
Industry	**Diversified Operations**
Zacks Industry Rank	**Bottom 30% (177 out of 253)**
Last EPS Surprise	**1.0%**
Last Sales Surprise	**-1.0%**
EPS F1 Est- 4 week change	**-9.0%**
Expected Report Date	**05/01/2020**
Earnings ESP	**-1.2%**
P/E TTM	**16.2**
P/E F1	**16.9**
PEG F1	**1.8**
P/S TTM	**2.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	8,607 E	8,605 E	8,947 E	9,573 E	36,017 E
2020	8,697 E	8,382 E	8,601 E	9,319 E	34,768 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	$8.38 E
2020	$1.98 E	$1.83 E	$1.93 E	$2.11 E	$7.85 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.

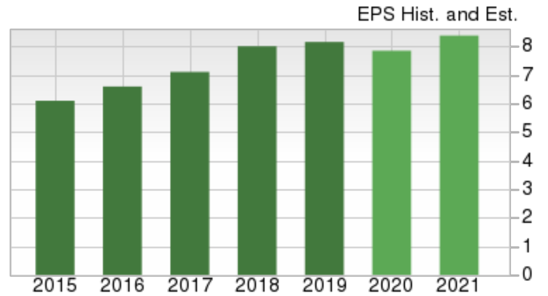
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

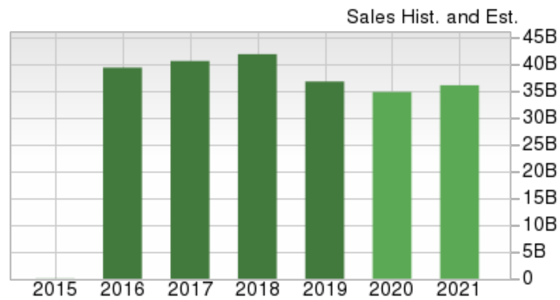
Overview

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** (38.6% revenues came from this segment in fourth-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 (30.1%) 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 (15.4%) 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** (15.9%) includes sensing & productivity solutions and industrial safety, as well as the recently acquired Intelligrated business.

Reasons To Buy:

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

- In the fourth quarter, Honeywell’s revenues improved 2% on an organic basis on the back of strength in its long-cycle businesses in U.S. defense, commercial aerospace, and building management products, as well as broad-based growth in process solutions business. Robust orders across these businesses led to a 10% year-over-year increase in backlog for its long cycle businesses in 2019. 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 revenues. Also, increasing popularity for its JetWave system, supported by solid orders for Honeywell Forge — its industrial IoT platform (launched in June 2019) — and strength in the company’s commercial aftermarket business are likely to support its Aerospace segment. In addition, Honeywell expects strong demand for commercial fire and building management products to boost revenues of Building Technologies segment. Further, strength in process solutions business, and robust orders for UOP equipment and HPS projects are 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 December-ended quarter. The bottom line beat the Zacks Consensus Estimate by about 1%, and also improved 11% year over year. The company noted that this upswing was driven by organic sales growth, lower share count and a lower adjusted effective tax rate. Also, the company’s segment margin for the fourth quarter was 21.4%, up 130 basis points (bps) year over year backed by increased organic sales, commercial and operational excellence and benefits of the portfolio enhancement actions. For 2020, Honeywell expects segment margin to be in the range of 21.3-21.6%, up 20-50 bps year over year, supported by continued productivity improvements, operational excellence initiatives and savings from previously funded repositioning projects. In addition, the company anticipates its share repurchase program to boost earnings by 14 cents per share in 2020. Moving ahead, Honeywell expects that the three transformation initiatives — the Connected Enterprise, Integrated Supply Chain and Honeywell Digital — will drive its profitability. For 2020, the company anticipates earnings to be in the range of $8.60 to $9.00 per share, reflecting year-over-year growth of 7.8% at the mid-point.

- Strong cash flows allow Honeywell to effectively deploy capital for making acquisitions, repurchasing shares and dividend payouts. Notably, in 2019, the company paid out dividends worth $2.4 billion to shareholders and repurchased shares worth $4.4 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. Notably, for 2020, the company expects adjusted free cash flow of $5.7-$6.2 billion, driven by income growth and continued working capital improvements. In addition, Honeywell acquired the Rebellion Photonics in December 2019, which will augment 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. These tactical initiatives will help it concentrate on high-growth industrial businesses and boost sales growth.

Reasons To Sell:

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

- Honeywell is experiencing persistent weakness in the Safety and Productivity Solutions segment. Notably, the segment is experiencing lower volumes of sales due to softness in its productivity products business and distributor destocking. As a matter of fact, the company expects these headwinds to persist in the first half of 2020. Moreover, continued soft demand for personal protective equipment and weak demand in the retail business remain concerns for its safety business.

- Honeywell's long-term debt in the last five years (2015-2019) increased 14.9% (CAGR). At the end of 2019, the company's long-term debt was $11,110 million, up 13.9% year over year. 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 first-quarter 2020 earnings has trended down from $2.03 to $1.99 on five downward estimate revisions against none upward. Also, estimates for 2020 and 2021 have been lowered by 9% and 9.8%, respectively, during the same timeframe. Over the past three months, Honeywell's shares have fallen 27.8% compared with the industry's decline of 25.2%.

- Honeywell operates across diverse geographies, which exposes it to certain political, economic and geopolitical issues. For instance, forex woes adversely impacted sales in 2019 by 1%. As a matter of fact, fluctuations in foreign exchange rates may affect the company's top line in the quarters ahead. Further, given the persistent weakness in global industrial production, the company may experience some supply chain inefficiencies, which might affect its top-line performance.

Last Earnings Report

Honeywell Q4 Earnings Beat Estimates, Revenues Miss

Quarter Ending	12/2019
Report Date	Jan 31, 2020
Sales Surprise	-0.97%
EPS Surprise	0.98%
Quarterly EPS	2.06
Annual EPS (TTM)	8.16

Honeywell reported mixed fourth-quarter 2019 results, wherein earnings beat estimates but revenues lagged the same.

Earnings & Revenues

Adjusted earnings were $2.06 per share, surpassing the Zacks Consensus Estimate of $2.04. The bottom line also jumped 11% year over year, driven by organic sales growth.

Honeywell reported adjusted earnings of $8.16 in 2019, an increase of 10% from the prior year.

Honeywell's fourth-quarter revenues came in at $9,496 million, missing the consensus estimate of $9,589 million. Also, the top line declined 2.4% 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 2% organically on the back of solid demand for commercial fire and building management products, strength in its aerospace business, and broad-based growth in process solutions business.

In 2019, the company generated total revenues of $36,709 million compared with $41,802 million in the previous year.

Segmental Breakup

Aerospace's revenues were $3,661 million, up 7% year over year. Honeywell Building Technologies revenues declined 19% to $1,463 million. Performance Materials and Technologies generated $2,857 million, up 2%, while Safety and Productivity Solutions revenues declined 11% to $1,515 million.

Costs/Margins

The company's total cost of sales in the reported quarter was $6,328 million, down 5.3% year over year. Selling, general and administrative expenses declined 3.3% to $1,473 million. Interest expenses and other financial charges were $91 million compared with $90 million a year ago.

Operating income margin in the fourth quarter was 17.8%, up 220 basis points.

Balance Sheet/Cash Flow

Exiting 2019, Honeywell had cash and cash equivalents of $9,067 million compared with $9,287 million as of Dec 31, 2018. Long-term debt was $11,110 million, higher than $9,756 million recorded at the end of 2018.

During the fourth quarter, the company generated $2,614 million cash from operating activities, higher than $1,559 million a year ago. Capital expenditure was $335 million compared with $306 million incurred in fourth-quarter 2018.

Adjusted free cash flow was $2,292 million, up 54.2%.

Outlook

Honeywell has given bullish full-year 2020 earnings guidance. Earnings are currently anticipated to lie within the $8.60-$9.00 per share range. The company projects 2020 revenues between $36.7 billion and $37.8 billion (estimating organic growth of 0-3% year over year).

Recent News

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 **Mar 6, 2020**, Honeywell paid out a quarterly dividend of 90 cents to shareholders of record as of Feb 28, 2020.

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 25.2% and 21.8% 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 21.9% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 19.5%.

The S&P 500 Index has declined 13.6% year to date and 4.6% 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 $143 price target reflects 15.58x 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	21.64	21.64	10.82
P/E F12M	Current	14.69	19.63	19.63	18.65
	5-Year High	22.23	20.61	20.61	19.34
	5-Year Low	13.29	15.76	15.76	15.19
	5-Year Median	17.85	18.28	18.28	17.45
EV/Sales F12M	Current	2.75	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	3.43	3.43	2.8

As of 04/16/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (177 out of 253)

Top Peers

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

Industry Comparison Industry: Diversified Operations

Industry Peers

	HON Neutral	X Industry	S&P 500	GE Neutral	MMM Underperform	PH Neutral
VGM Score	C	-	-	A	D	B
Market Cap	94.30 B	4.11 B	19.06 B	54.55 B	83.32 B	16.17 B
# of Analysts	10	1	14	8	7	9
Dividend Yield	2.72%	2.05%	2.26%	0.64%	4.06%	2.79%
Value Score	D	-	-	A	D	B
Cash/Price	0.10	0.19	0.06	1.36	0.03	0.06
EV/EBITDA	10.55	8.29	11.49	3.64	13.55	9.07
PEG Ratio	1.91	2.21	2.09	2.87	1.87	1.42
Price/Book (P/B)	5.04	0.77	2.55	1.83	8.23	2.55
Price/Cash Flow (P/CF)	13.38	5.57	10.06	4.84	12.05	8.09
P/E (F1)	17.68	14.93	17.56	16.48	17.76	13.98
Price/Sales (P/S)	2.57	0.71	1.94	0.52	2.59	1.14
Earnings Yield	5.93%	6.42%	5.57%	6.09%	5.63%	7.15%
Debt/Equity	0.59	0.75	0.70	2.36	1.79	1.28
Cash Flow ($/share)	9.89	2.43	7.01	1.29	12.02	15.57
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	8.56%	9.90%	10.92%	-20.84%	5.88%	15.94%
Proj. EPS Growth (F1/F0)	-3.76%	-9.84%	-3.36%	-41.73%	-10.36%	-23.96%
Curr. Cash Flow Growth	-1.43%	3.76%	5.93%	-8.00%	-11.15%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	5.69%	5.63%	8.55%	-12.27%	1.67%	7.55%
Current Ratio	1.34	2.00	1.24	1.70	1.41	1.38
Debt/Capital	37.28%	42.18%	42.78%	70.19%	64.16%	56.21%
Net Margin	16.73%	4.06%	11.64%	-4.71%	14.22%	9.63%
Return on Equity	32.21%	10.89%	16.74%	14.12%	51.39%	25.18%
Sales/Assets	0.62	0.78	0.54	0.37	0.78	0.77
Proj. Sales Growth (F1/F0)	-5.29%	0.00%	-0.14%	-18.27%	-2.70%	-6.97%
Momentum Score	C	-	-	D	F	C
Daily Price Chg	-1.86%	-0.49%	-0.20%	-4.00%	-0.18%	-3.82%
1 Week Price Chg	12.54%	10.03%	16.01%	6.09%	10.46%	25.35%
4 Week Price Chg	11.24%	11.91%	14.56%	-3.70%	5.37%	20.89%
12 Week Price Chg	-26.31%	-26.41%	-22.94%	-46.98%	-18.48%	-37.57%
52 Week Price Chg	-21.73%	-33.12%	-15.02%	-33.26%	-33.80%	-33.66%
20 Day Average Volume	4,527,429	87,419	3,220,598	106,438,160	4,828,290	1,802,470
(F1) EPS Est 1 week change	-1.21%	0.00%	0.00%	-5.02%	-0.40%	-1.48%
(F1) EPS Est 4 week change	-8.97%	-8.86%	-7.09%	-26.81%	-12.70%	-12.63%
(F1) EPS Est 12 week change	-10.76%	-18.16%	-9.32%	-45.45%	-15.07%	-16.73%
(Q1) EPS Est Mthly Chg	-15.55%	-18.65%	-10.68%	-57.78%	-21.74%	-54.76%

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	D
Growth Score	C
Momentum Score	C
VGM Score	C

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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