

Honeywell (HON)

\$153.08 (As of 07/16/20)

Price Target (6-12 Months): **\$161.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Strength in defense and space businesses as well as solid demand for its warehouse automation products is likely to boost Honeywell's revenues in the quarters ahead. Also, increased productivity and operational excellence initiatives are likely to improve the company's near-term profitability. Its acquisitions will likely prove beneficial. The company is committed to rewarding shareholders handsomely through share repurchases and dividend payouts. However, in 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.

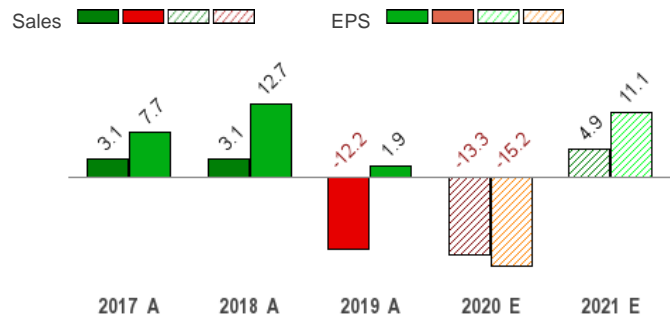
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$184.06 - \$101.08
20 Day Average Volume (sh)	3,286,665
Market Cap	\$107.4 B
YTD Price Change	-13.5%
Beta	1.03
Dividend / Div Yld	\$3.60 / 2.4%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 31% (173 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.6%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	07/24/2020
Earnings ESP	-1.5%
P/E TTM	18.1
P/E F1	22.1
PEG F1	2.4
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	8,545 E	8,209 E	8,558 E	9,119 E	33,376 E
2020	8,463 A	7,237 E	7,721 E	8,583 E	31,821 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	\$2.11 E	\$1.77 E	\$2.05 E	\$2.07 E	\$7.69 E
2020	\$2.21 A	\$1.15 E	\$1.62 E	\$1.91 E	\$6.92 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.

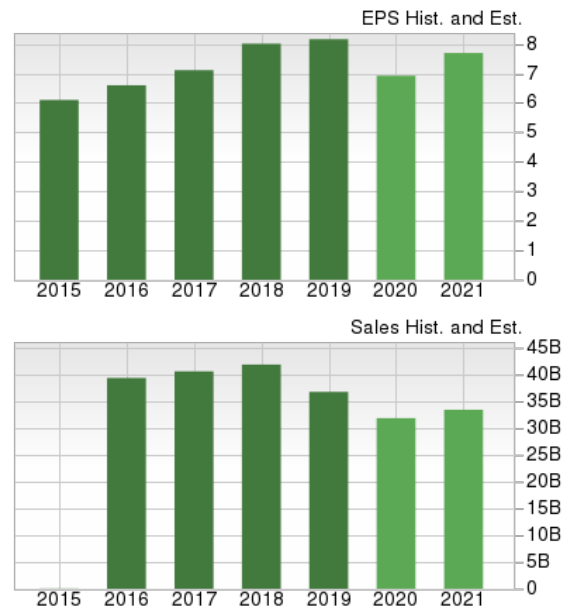
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/16/2020. The reports text is as of 07/17/2020.

Overview

Honeywell International Inc. has solid footprints in the aerospace industry, with commercial aviation and defense being two major business sources. Opportunities within unmanned aerial systems (UAS) and urban air mobility (UAM) industries are encouraging too. Newly formed unit — Unmanned Aerial Systems — is working to leverage from these promising markets. Launch of SATCOM — by far smallest and lightest satellite communication system for unmanned aerial vehicles — is a step forward in the direction.

Based in Morris Township, NJ, Honeywell 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. 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 Integrated 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. Notably, its cash and cash equivalents of \$7,721 million were not sufficient to meet its obligations. Notably, at the end of the first quarter of 2020, Honeywell's total debt-to-capital increased to 41.3% from 40% recorded at the end of fourth-quarter 2019. 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 60 days. Consequently, the Zacks Consensus Estimate for second-quarter 2020 earnings has trended down from \$1.16 to \$1.15 on two downward estimate revisions against one upward. Also, estimates for 2020 have been lowered by 0.1% during the same time frame. Over the past six months, Honeywell's shares have fallen 16.4% compared with the industry's decline of 14.7%.
- ▼ 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 **Jul 16, 2020**, Honeywell announced the opening of its maintenance center for the advanced T55 helicopter engine, following the clearance from the U.S. Army. Located near Honeywell Aerospace's headquarters in Phoenix, AZ, the company's T55 Repair and Overhaul Center of Excellence facility will align the production of the engine with its repair and overhaul activities. As noted, this will enable Honeywell to enhance the operating efficiency of the repair and overhaul team by bringing experts under one platform.

On **Jul 14, 2020**, Honeywell unveiled an inertial navigation system called HGuide n380. The system — which can deliver precise data even without GPS — is comprised of the company's sensor fusion software, a global navigation satellite system (GNSS) receiver and HGuide i300 inertial measurement unit ("IMU").

On **Jun 25, 2020**, Honeywell introduced a release of Forge Cybersecurity Suite. This can be easily used by industrial clients as a guard against cyber threats for remote operations.

On **Jun 16, 2020**, Honeywell announced the rollout of its lightest and smallest satellite communication system so far for unmanned aerial vehicles. Notably, the new satellite communication system, SATCOM, which weighs one kilogram, provides small unmanned vehicles with some of the similar connectivity features found in large aircraft.

On **Jun 16, 2020**, Honeywell announced a software solution designed for industrial facility operators. Notably, its new software solution, Safety Suite Real Time platform, will help safety managers in monitoring employees' exposure to weather, gas and some physiological conditions instantly. As noted, the software, which can be easily integrated with industrial operations, helps in centralized monitoring of employees and assets, thus, eliminating manual processes.

On **Jun 15, 2020**, Honeywell announced that it created a business unit, Unmanned Aerial Systems ("UAS"), to tap the opportunities in the developing UAS and urban air mobility ("UAM") industries. The new division under Honeywell's Aerospace segment will be endowed with the company's engineering and sales resources to cater to customers' requirements in the UAM market.

On **Jun 15, 2020**, Honeywell entered a multi-million dollar deal with Kuwait Integrated Petroleum Industries Company ("KIPIC"). The five-year deal will involve Honeywell to offer KIPIC with its advanced enterprise performance management software platform, Honeywell Forge, for boosting security and optimizing operations at the Al Zour refinery and liquefied natural gas import terminal based in southern Kuwait.

On **Jun 11, 2020**, Honeywell announced that it entered a partnership with SAP to create a joint cloud-based solution based on Honeywell Forge to facilitate building performance optimization.

On **June 5, 2020**, Honeywell paid out a quarterly cash dividend of 90 cents per share to shareholders of record as of May 15, 2020.

On **Jun 4, 2020**, Honeywell announced its deal with the U.S. Army to exhibit and fly its modernized T55 engine on the Chinook helicopter. The demonstration will take place as part of the Cooperation Research and Development Agreement practice with the U.S. Army.

On **Jun 2, 2020**, Honeywell announced its decision to introduce personalized safety equipment kits that will protect airline passengers and crew while flying. Dubbed Honeywell Safety Packs, this innovative kit will also be available for use in warehouses, offices, schools and public arenas.

On **May 28, 2020**, Honeywell announced the launch of the Fast Track Automation, a combination of proprietary technology innovations for the life sciences industry.

On **May 20, 2020**, Honeywell announced the introduction of an integrated set of solutions. Notably, this set of solutions will allow building owners to improve the health of their building environments, comply with social distancing policies, and operate more cleanly and safely.

On **May 12, 2020**, Honeywell introduced a new temperature monitoring solution for performing personnel screening operations in a facility. Notably, the solution, which includes artificial intelligence-driven advanced software, easily integrates with Honeywell Forge platform.

On **May 11, 2020**, Honeywell announced that Wood, a leader in consulting, projects and operations solutions have adopted the Honeywell Forge Workforce Productivity solution.

Valuation

Honeywell shares are down 13.5% and 12% 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 10.9% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 6.8%.

The S&P 500 Index has moved up 0.4% year to date and 8.4% in the past year.

The stock is currently trading at 20.9x forward 12-month P/E, which compares to 26.68x for both the Zacks sub-industry and the Zacks sector, and 22.89x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.48x and as low as 12x, with a 5-year median of 18.06x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$161 price target reflects 21.95x 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
Current	20.9	26.68	26.68	22.89

P/E F12M	5-Year High	22.48	26.68	26.68	22.89
	5-Year Low	12	15.76	15.76	15.25
	5-Year Median	18.06	18.4	18.4	17.52
	Current	3.3	3.72	3.72	3.58
P/S F12M	5-Year High	3.53	3.72	3.72	3.58
	5-Year Low	1.72	2.29	2.29	2.53
	5-Year Median	2.59	3.03	3.03	3.02

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (173 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
General Electric Company (GE)	Neutral	4
Garmin Ltd. (GRMN)	Neutral	3
3M Company (MMM)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Safran SA (SAFRY)	Neutral	3
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)	3	-	-	4	3	3
VGM Score	D	-	-	F	A	A
Market Cap	107.44 B	5.00 B	22.43 B	61.67 B	92.32 B	23.65 B
# of Analysts	10	3	14	8	7	10
Dividend Yield	2.35%	2.07%	1.82%	0.57%	3.66%	1.91%
Value Score	C	-	-	C	C	A
Cash/Price	0.09	0.24	0.07	1.53	0.05	0.04
EV/EBITDA	12.24	8.64	13.00	3.51	14.74	12.09
PEG Ratio	2.39	3.43	2.97	62.67	2.12	1.64
Price/Book (P/B)	6.01	1.07	3.13	1.67	9.04	3.75
Price/Cash Flow (P/CF)	15.48	6.99	12.13	5.47	13.35	11.85
P/E (F1)	22.12	20.86	21.97	282.00	20.11	19.35
Price/Sales (P/S)	2.96	0.91	2.38	0.62	2.85	1.66
Earnings Yield	4.52%	4.56%	4.35%	0.43%	4.97%	5.17%
Debt/Equity	0.65	0.77	0.75	1.80	1.94	1.28
Cash Flow (\$/share)	9.89	2.35	6.94	1.29	12.02	15.57
Growth Score	C	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	8.38%	10.44%	10.85%	-21.62%	5.11%	17.20%
Proj. EPS Growth (F1/F0)	-15.17%	-22.80%	-9.37%	-96.15%	-12.31%	-2.02%
Curr. Cash Flow Growth	-1.43%	9.67%	5.51%	-8.00%	-11.15%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	5.69%	7.02%	8.55%	-12.27%	1.67%	7.55%
Current Ratio	1.30	1.49	1.30	1.91	1.65	1.49
Debt/Capital	39.26%	43.23%	44.33%	64.30%	66.04%	56.22%
Net Margin	17.38%	3.56%	10.59%	-2.39%	15.37%	9.32%
Return on Equity	33.60%	11.58%	15.74%	13.66%	50.24%	24.30%
Sales/Assets	0.62	0.75	0.54	0.36	0.75	0.72
Proj. Sales Growth (F1/F0)	-13.32%	-0.95%	-2.44%	-24.81%	-4.71%	0.07%
Momentum Score	F	-	-	F	A	A
Daily Price Chg	0.76%	0.00%	-0.06%	-1.26%	0.73%	-1.26%
1 Week Price Chg	-1.77%	-1.75%	-0.41%	-1.91%	-2.67%	-4.14%
4 Week Price Chg	3.27%	0.81%	1.63%	-3.16%	0.81%	-0.46%
12 Week Price Chg	13.66%	8.13%	15.55%	8.13%	11.20%	39.27%
52 Week Price Chg	-11.96%	-19.41%	-4.26%	-29.92%	-7.26%	11.27%
20 Day Average Volume	3,286,665	62,179	2,236,294	75,772,088	2,375,750	1,119,508
(F1) EPS Est 1 week change	-0.07%	0.00%	0.00%	-39.39%	0.90%	-0.06%
(F1) EPS Est 4 week change	-0.07%	0.00%	0.01%	-39.39%	0.90%	2.14%
(F1) EPS Est 12 week change	-11.86%	-14.29%	-5.24%	-93.40%	-2.17%	4.00%
(Q1) EPS Est Mthly Chg	-0.09%	0.00%	0.00%	-44.44%	2.25%	1.85%

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	C
Momentum Score	F
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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