

## Honeywell International Inc.

## 2024 guidance: look for re-acceleration in 2H24

Reiterate Rating: BUY | PO: 250.00 USD | Price: 196.11 USD

## 2024 guide brackets the Street, 1Q comes in below

Honeywell reported 4Q earnings that came in above the Street. The stock was down 2% vs. the S&P up 1% on the day of earnings. Investor pushback on the name reflects a relative lack of catalyst path until 2H24 and a 2H-weighted guidance. The organic growth guidance of 4-6% was a touch below the long-term 4-7% target on the high end. The guide incorporates an improvement in the company's various short-cycle businesses in 2H24. We view the quarter as a non-event and it does not fundamentally change our view on the stock. The company continues to execute well and improve margins. We see reason that volumes can re-reaccelerate in the 2H after two years of 0% volume growth. High-single digit 2H24 growth rates will bring investors back to the stock, in our view. The company has expanded margins 160bps since 2021 on no volume growth. We expect that as volumes come back, incrementals will be quite strong. We reiterate our Buy rating and \$250 price objective.

## 2H24 guide requires short-cycle improvement

2023 reflected a stronger 1H and a weaker 2H. Management expects 2024 to reflect the opposite, with a weaker 1H and a stronger 2H on both easier y/y comps, lapping destock, and improving short-cycle fundamentals. The company is seeing signs of bottoming across its various businesses and we see trough levels in 4Q23/1Q24. The Industrial Automation business (Sensing; Productivity Solutions) and Building Products should return to growth in 2H24. These are margin-accretive businesses to their segments. We forecast 21.8% of earnings in 1Q, 23.7% in 2Q, 26.4% in 3Q, and 28.1% in 4Q.

## 2024 estimates: maintain adj. EPS, tweaking growth

We maintain our adj. EPS at \$10.10. This is at the high end of guidance for \$9.80-\$10.10. Our +5.1% organic growth estimate is 30bp lower as we raise our Aerospace estimates and lower our forecasts for Industrial Automation (the Safety & Productivity Solutions businesses combined with Honeywell Process Solutions) and Energy & Sustainability Solutions (now just Advanced Materials and UOP). We are lowering our 1Q24 adj. EPS estimate from \$2.30 to \$2.20. Our estimates incorporate a material acceleration in volumes in 2H24.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.06	8.76	9.16	10.10	11.21
GAAP EPS	7.91	8.76	9.16	10.10	11.21
EPS Change (YoY)	13.5%	8.7%	4.6%	10.3%	11.0%
Consensus EPS (Bloomberg)			9.16	9.96	10.93
DPS	3.77	3.97	4.12	4.41	4.72
Valuation (Dec)					
P/E	24.3x	22.4x	21.4x	19.4x	17.5x
GAAP P/E	24.8x	22.4x	21.4x	19.4x	17.5x
Dividend Yield	1.9%	2.0%	2.1%	2.2%	2.4%
EV / EBITDA*	18.0x	17.9x	16.6x	15.5x	14.5x
Free Cash Flow Yield*	3.5%	3.1%	3.0%	4.0%	4.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 14.

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Timestamp: 05 February 2024 05:00AM EST

05 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2023E Rev (m)	36,895.1	36,656.3
2024E Rev (m)	39,018.7	38,690.5
2025E Rev (m)	41,266.5	40,908.6
2023E EPS	9.19	9.16
2025E EPS	11.23	11.21

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## Stock Data

Price	196.11 USD
Price Objective	250.00 USD
Date Established	8-Dec-2023
Investment Opinion	B-1-7
52-Week Range	174.88 USD - 210.87 USD
Mrkt Val (mn) / Shares Out (mn)	145,886 USD / 743.9
Free Float	99.7%
Average Daily Value (mn)	604.76 USD
BofA Ticker / Exchange	HON / NYS
Bloomberg / Reuters	HON US / HON.OQ
ROE (2023E)	32.7%
Net Dbt to Eqty (Dec-2022A)	54.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Honeywell International Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.7%	13.0%	14.2%	15.1%	16.7%
Return on Equity	30.5%	32.7%	32.7%	30.7%	32.0%
Operating Margin	22.4%	22.0%	23.2%	23.8%	24.3%
Free Cash Flow	5,143	4,508	4,359	5,810	6,863

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.9x	0.9x	1.0x	1.1x
Asset Replacement Ratio	0.7x	0.6x	0.7x	0.8x	0.8x
Tax Rate	22.6%	19.1%	20.9%	21.0%	21.0%
Net Debt-to-Equity Ratio	42.0%	54.6%	43.1%	28.2%	31.9%
Interest Cover	22.5x	18.9x	11.1x	11.5x	15.1x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	34,392	35,466	36,656	38,691	40,909
% Change	5.4%	3.1%	3.4%	5.5%	5.7%
Gross Profit	10,998	11,641	14,058	14,653	15,575
% Change	5.1%	5.8%	20.8%	4.2%	6.3%
EBITDA	8,942	9,017	9,711	10,369	11,112
% Change	14.0%	0.8%	7.7%	6.8%	7.2%
Net Interest & Other Income	(343)	(414)	(765)	(801)	(658)
<b>Net Income (Adjusted)</b>	<b>5,643</b>	<b>5,986</b>	<b>6,119</b>	<b>6,626</b>	<b>7,336</b>
<b>% Change</b>	<b>11.7%</b>	<b>6.1%</b>	<b>2.2%</b>	<b>8.3%</b>	<b>10.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	5,643	5,986	6,119	6,626	7,336
Depreciation & Amortization	1,223	1,204	1,192	1,180	1,168
Change in Working Capital	288	(745)	(1,920)	(736)	(286)
Deferred Taxation Charge	178	(180)	0	0	0
Other Adjustments, Net	(1,294)	(991)	(141)	(319)	(364)
Capital Expenditure	(895)	(766)	(891)	(941)	(991)
<b>Free Cash Flow</b>	<b>5,143</b>	<b>4,508</b>	<b>4,359</b>	<b>5,810</b>	<b>6,863</b>
<b>% Change</b>	<b>-3.0%</b>	<b>-12.3%</b>	<b>-3.3%</b>	<b>33.3%</b>	<b>18.1%</b>
Share / Issue Repurchase	(3,151)	(3,880)	(817)	(753)	(4,537)
Cost of Dividends Paid	(2,626)	(2,719)	(2,751)	(2,893)	(3,090)
Change in Debt	(2,396)	317	416	(3,382)	(1,250)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	11,523	10,110	11,089	9,872	7,860
Trade Receivables	6,830	7,440	7,589	8,000	8,402
Other Current Assets	7,019	7,432	6,961	7,152	6,950
Property, Plant & Equipment	5,562	5,471	5,170	4,931	4,754
Other Non-Current Assets	33,536	31,822	32,573	33,142	33,763
<b>Total Assets</b>	<b>64,470</b>	<b>62,275</b>	<b>63,382</b>	<b>63,097</b>	<b>61,729</b>
Short-Term Debt	5,345	4,447	1,705	0	0
Other Current Liabilities	14,163	15,491	15,079	15,189	15,351
Long-Term Debt	14,254	15,123	18,053	16,376	15,126
Other Non-Current Liabilities	11,459	9,888	8,667	8,674	8,683
<b>Total Liabilities</b>	<b>45,221</b>	<b>44,949</b>	<b>43,505</b>	<b>40,239</b>	<b>39,160</b>
<b>Total Equity</b>	<b>19,249</b>	<b>17,326</b>	<b>20,105</b>	<b>23,086</b>	<b>22,797</b>
<b>Total Equity &amp; Liabilities</b>	<b>64,470</b>	<b>62,275</b>	<b>63,610</b>	<b>63,325</b>	<b>61,957</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 14.

## Company Sector

Industrials/Multi-Industry

## Company Description

Honeywell International is a North Carolina-based diversified, global technology and manufacturing company. Honeywell's operations are organized under four business groups: Aerospace, Home & Building Technologies, Safety & Productivity Solutions, and Performance Materials & Technologies. The company is a premier supplier of avionics, power, and control systems for the aerospace industry.

## Investment Rationale

HON has executed well recently in the volatile macro environment. We are also optimistic on recent initiatives (higher spending on R&D, internal automation investment), which in our view indicate a structural shift towards reinvestment in the business. HON has strong pricing power, well offsetting cost.

## Stock Data

Average Daily Volume 3,083,782

## Quarterly Earnings Estimates

	2022	2023
Q1	1.91A	2.07A
Q2	2.10A	2.23A
Q3	2.25A	2.27A
Q4	2.52A	2.60E

## Maintaining our FY24E estimate

We maintain our 2024 adj. EPS. Our 2024 organic revenue growth forecast is 20bp lower at 5.2%, within guidance for +4-6% growth. We assume 3pts of price and 2.2pts of volumes. Our segment operating margin assumption is for 22.9%, up +30bps y/y, in line with guide for 30-60bp of expansion.

Our 2025 estimate is slightly lower at \$11.21. Our estimates incorporate the following assumptions:

- **Aerospace Technologies:** Continued improvement in commercial aftermarket and original equipment. We see OE build rates improving, consistent with management commentary. Better OE volumes will offset volume leverage; given mix headwinds we forecast (30)bp of segment contraction.
- **Building Automation:** While the company is seeing short cycle slowdown, we expect it to return to growth in 2H24 with very positive mix tailwinds. Management expects HBT to be the leader on margin expansion next year. We forecast 110bp margin expansion on +1.6% organic growth.
- **Industrial Automation:** We see flattish growth in 2024, with HPS leading positive growth and y/y declines in the other segments. The 2H inflection in short cycle and easier destocking comps should drive volume acceleration. We forecast (0.3)% organic growth and 70bp of margin expansion as the high margin short cycle businesses return to growth.
- **Energy and Sustainability Solutions:** We are lowering our growth estimates in the segment (now just Advanced Materials and UOP). We conservatively forecast flattish margin expansion next year, with room for upside based on pricing and mix.

We lower our 1Q estimate by \$0.10 to \$2.20. This compares to guidance of \$2.12-2.22.

We assume 1.1% y/y organic revenue growth and 21.8% segment operating margin (20bp of contraction y/y).

### Exhibit 1: FY24 guidance vs. BofA estimates vs. prior consensus

We maintain our adj. EPS estimate at \$10.10

	2024 guidance As of 4Q23	BofA estimate		
		Old	New	Consensus
<b>Adj. EPS</b>	<b>\$9.80-\$10.10</b>	<b>\$10.10</b>	<b>\$10.10</b>	<b>\$9.96</b>
Revenue growth				
Aero		9.5%	12.0%	9.2%
Building Automation		1.0%	1.6%	2.2%
Industrial Automation		2.5%	-0.3%	
ESS		5.6%	3.1%	
<b>Honeywell</b>	<b>4-6%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>4.7%</b>
<b>Sales</b>	<b>\$38.1-\$38.9bn</b>	<b>\$39bn</b>	<b>\$38.7bn</b>	
Operating Margin	23.0-23.3%	23.1%	23.0%	23.2%
Other items:				
Free cash flow	\$5.6-6.0bn	\$6bn	\$5.8bn	
Share count	656mn	661mn	656mn	658mn
Tax rate	21%	21.0%	21.0%	21.3%
Pension income	-\$550mn	-\$541mn	-\$544mn	-\$549mn
Repositioning expense	\$200-300mn	\$384mn	\$250mn	\$392mn

Source: BofA Global Research, company filings, Visible Alpha

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### Exhibit 2: 1Q24 guidance vs. BofA estimates vs. prior consensus

We lower 1Q adj. EPS to \$2.20

	1Q24 guidance	BofA estimate		
		Old	New	Consensus
<b>Adj. EPS</b>	<b>\$2.12-\$2.22</b>	<b>\$2.30</b>	<b>\$2.20</b>	<b>\$2.24</b>
Organic Growth:				
Aero		11.4%	14.4%	9.8%
Building Automation		0.6%	-1.3%	0.8%
Industrial Automation		-2.3%	-10.9%	
ESS		4.3%	-4.6%	
<b>Honeywell</b>	<b>Flat to up 3%</b>	<b>4.1%</b>	<b>0.6%</b>	<b>1.4%</b>
<b>Sales</b>		<b>\$9.3bn</b>	<b>\$9.0bn</b>	<b>\$9.3bn</b>
Operating Margin	21.9-22.2%	22.4%	22.1%	22.3%

Source: BofA Global Research, company filings, Visible Alpha

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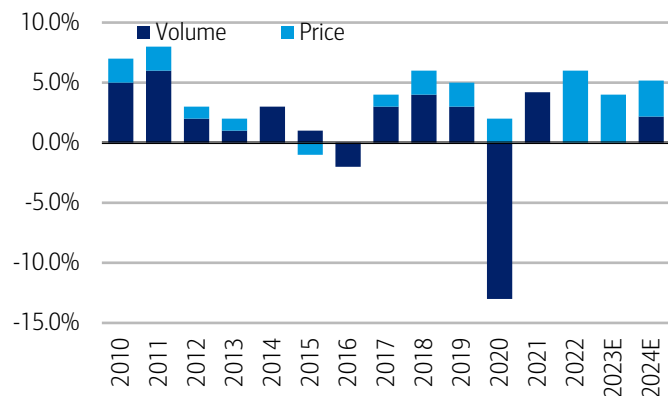


## Volumes finally tick up in 2024E

Honeywell reported 0% volume growth in 2022 and again in 2023. The organic growth was driven entirely by price. The midpoint of guide implies 3% of price and 2pts of volume growth. We forecast improving volumes in 2H24 despite tougher comps to reflect the end of y/y declines in some of the short-cycle businesses as they lap destock.

### Exhibit 3: Honeywell organic growth contribution from volume and price, annual

We forecast +3% price and +2.4% volumes in 2024E



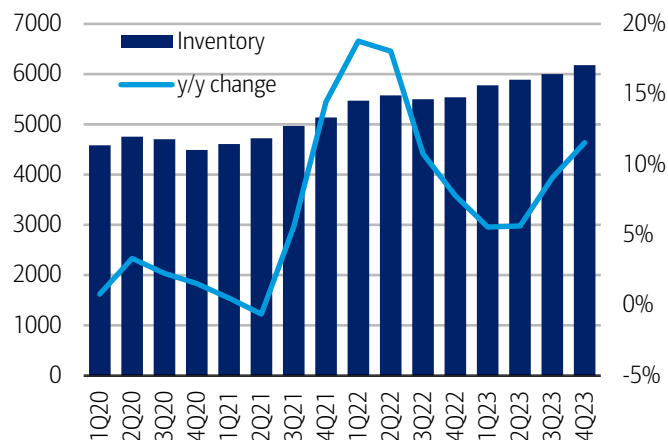
Source: BofA Global Research, company filings

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We also look at Honeywell inventories and days sales outstanding, Inventories rose 3% sequentially, up +12% y/y in 4Q (vs. +9% y/y in 3Q). Elevated inventories likely reflect more Aerospace backlog. Days sales outstanding were up only 1% from pre-COVID levels as more aggressive collection terms normalize.

### Exhibit 5: inventories rose 3% sequentially, 12% y/y

Honeywell inventories and y/y change

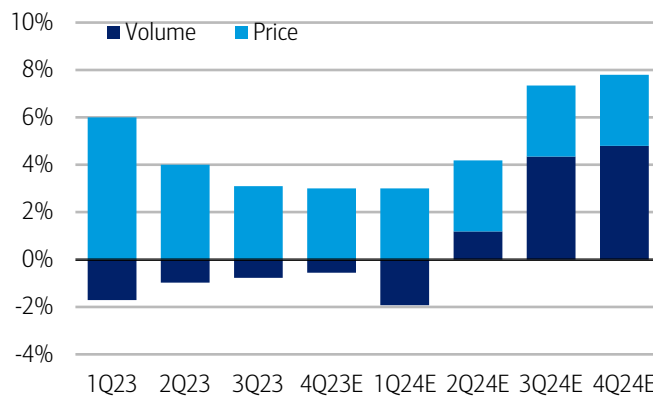


Source: BofA Global Research, company filings

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### Exhibit 4: Honeywell organic growth contribution from volume and price, quarterly

We forecast volumes ramping sequentially through the year

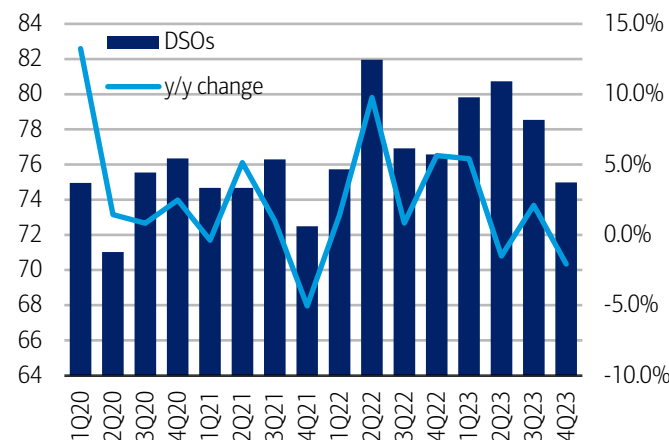


Source: BofA Global Research, company filings

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### Exhibit 6: DSOs are up 1% above pre-COVID levels in 4Q

DSOs vs. y/y change



Source: BofA Global Research, company filings

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# A look at quarterly estimates

## Exhibit 7: Honeywell business unit quarterly sales growth trends (organic) and BofA forecasts

We forecast +5.2% organic growth in 2024E

Organic growth rates	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E
Commercial Aviation Original Equipment	-37%	-3%	1%	7%	11%	21%	30%	25%	14%	16%	5%	25%	25%	20%	25%	15%
Commercial Aviation Aftermarket	-34%	53%	38%	16%	28%	19%	24%	22%	22%	16%	22%	19%	18%	16%	13%	12%
Defense and Space	-2%	-10%	-17%	-18%	-14%	-12%	-10%	-3%	5%	3%	18%	5%	5%	6%	5%	2%
<b>Aerospace</b>	<b>-22%</b>	<b>8%</b>	<b>2%</b>	<b>-3%</b>	<b>5%</b>	<b>5%</b>	<b>10%</b>	<b>11%</b>	<b>14%</b>	<b>11%</b>	<b>17%</b>	<b>14.5%</b>	<b>14.4%</b>	<b>13.1%</b>	<b>12.0%</b>	<b>8.9%</b>
Products	4%	20%	6%	-2%	14%	15%	23%	21%	7%	-1%	-3%	-6%	-7%	-1%	3%	3%
Building Solutions	-1%	5%	-1%	-1%	-1%	0%	13%	8%	5%	2%	4%	6%	6%	3%	5%	5%
<b>Honeywell Building Technologies</b>	<b>2%</b>	<b>13%</b>	<b>3%</b>	<b>-1%</b>	<b>8%</b>	<b>9%</b>	<b>19%</b>	<b>16%</b>	<b>6%</b>	<b>0%</b>	<b>0%</b>	<b>-1%</b>	<b>-2%</b>	<b>1%</b>	<b>4%</b>	<b>4%</b>
Honeywell Process Solutions	-9%	-1%	-2%	-3%	7%	1%	6%	12%	16%	11%	11%	4%	4%	7%	9%	8%
Sensing & Safety Solutions								2%	-4%	-2%	-5%	-6%	-6%	-8%	8%	15%
Productivity Solutions & Services	16%	38%	25%	23%	16%	14%	2%	-15%	-11%	-30%	-31%	-24%	-30%	-15%	9%	10%
Warehouse & Workflow Solutions	84%	57%	60%	0%	-28%	-26%	-15%	-6%	-21%	-37%	-43%	-51%	-35%	-30%	-25%	0%
<b>Industrial Automation</b>	<b>12.7%</b>	<b>15.5%</b>	<b>12.1%</b>	<b>1.8%</b>	<b>-3.1%</b>	<b>-5.0%</b>	<b>-1.0%</b>	<b>1.9%</b>	<b>-0.5%</b>	<b>-8.5%</b>	<b>-10.1%</b>	<b>-12.0%</b>	<b>-9.2%</b>	<b>-4.9%</b>	<b>4.5%</b>	<b>9.2%</b>
UOP	-14%	8%	29%	7%	-9%	-1%	6%	13%	19%	11%	6%	1%	-12%	8%	7%	10%
Advanced Materials	8%	30%	14%	5%	16%	17%	33%	20%	12%	0%	-8%	6%	0%	2%	4%	4%
<b>Energy &amp; Sustainable Solutions</b>	<b>-2.5%</b>	<b>19.9%</b>	<b>20.2%</b>	<b>5.9%</b>	<b>5.5%</b>	<b>9.6%</b>	<b>21.0%</b>	<b>16.8%</b>	<b>14.6%</b>	<b>4.1%</b>	<b>-2.4%</b>	<b>3.7%</b>	<b>-4.6%</b>	<b>4.4%</b>	<b>5.3%</b>	<b>6.7%</b>

Source: BofA Global Research, company filings

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## Aerospace Technologies: upside in commercial

Honeywell renamed its Aerospace segment as Aerospace Technologies. The business remains the same. In 4Q, commercial aftermarket core growth was up +19% y/y, decelerating sequentially from +22% last quarter but remaining strong. Higher AM mix

Higher AM mix (46% of total Aero revenue versus 43% last year, partly driven by slower growth in Defense and Space revenue) contributed to 20bp of operating margin expansion y/y, to 28%. The company expects mix to be a headwind in 2024 as OE outgrows AM.

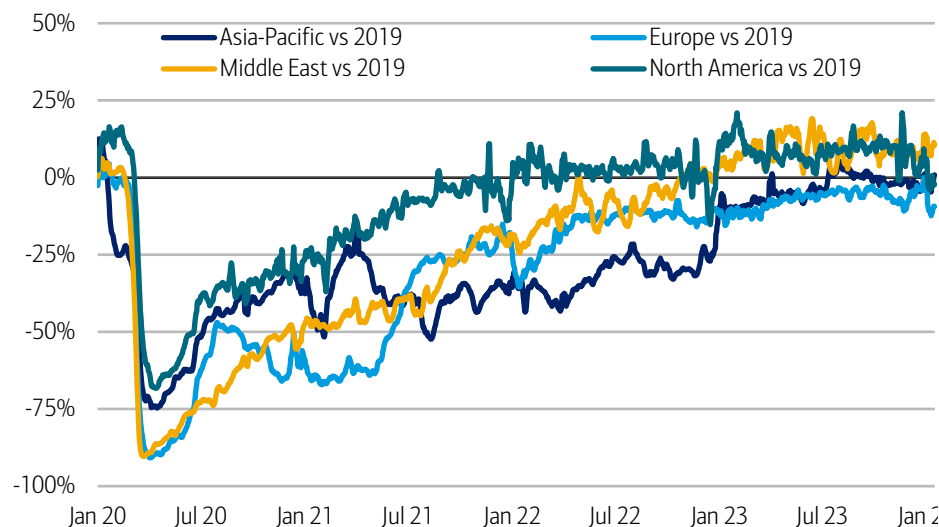
### Commercial AM: flight activity better in NA

Commercial aftermarket sales rose +19% y/y organically. This was a deceleration from +22% y/y growth last quarter.

This week, global commercial 7-day average cycles vs 2019 improved by +2.3ppts to -7.3% this week, vs -9.6% last week. APAC 7-day average cycles vs 2019 improved the most by +4.7ppts to +0.9% this week, vs -3.8% last week driven by +18.5ppts strong improvement in China 7-day average cycles vs 2019 to +18.6% this week, vs +0.1% last week. India 7-day average cycles vs 2019 also improved by +2.8ppts to -2.8% this week, vs -5.5% last week. Similarly, Middle East, Europe and North America 7-day average cycles vs 2019 also improved by +2ppts, +1.4ppts and +0.2ppts to +10.4%, -9.4% and -2.4% this week, vs +8.4%, -10.8% and -2.6% last week resp. Africa and Latam 7-day average cycles vs 2019 on the flip side declined by -2.3ppts and -1.3ppts to +8.1% and +5.4% this week, vs +10.4% and +6.7% last week respectively.

#### Exhibit 8: Global commercial flights daily tracked 7 day avg. vs 2019

North America have been the most resilient region throughout 2022-23, but all regions have continued to recover



Source: BofA Global Research, Flightradar24

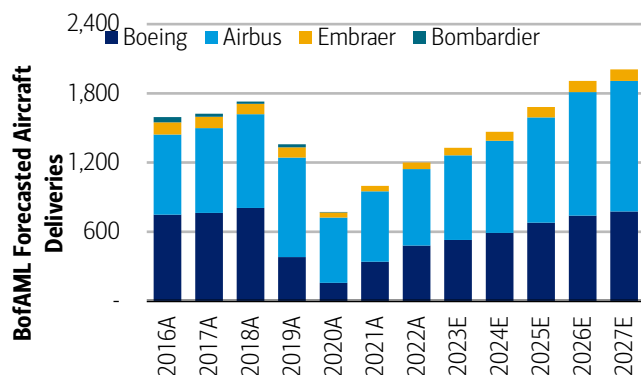
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### Commercial OE deliveries and BofA forecasts

Commercial Original Equipment revenue grew 25% y/y organically, in line with 25% y/y last quarter. Both business jets and commercial aviation grew. Management expects Commercial OE to be the growth leader in 2024. The previously highlighted impact of Boeing production credit impact to margins is no longer expected to have an impact in 2024.

**Exhibit 9: BofA production forecast by top OEMs**

BofAe revised down its 2023E forecast to +10.7% y/y from 12.1% y/y in 3Q23

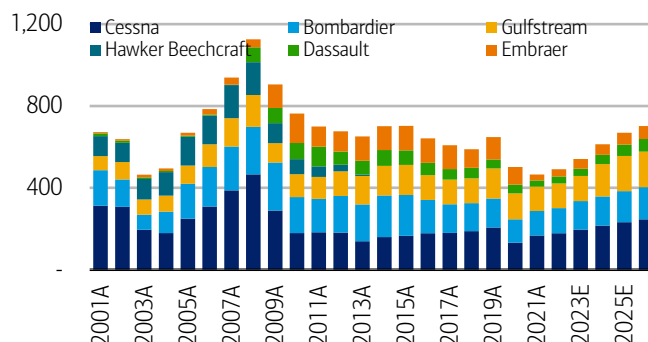


Source: BofA Global Research, company filings, BofA Aerospace Team

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**Exhibit 10: BofA bizjet delivery forecast**

BofA Aerospace forecasts an acceleration in growth to +13% y/y in 2024E after 9.5% in 2023E



Source: BofA Global Research, company filings, BofA Aerospace Team

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**Defense & Space: low to mid-single digit 2024 growth**

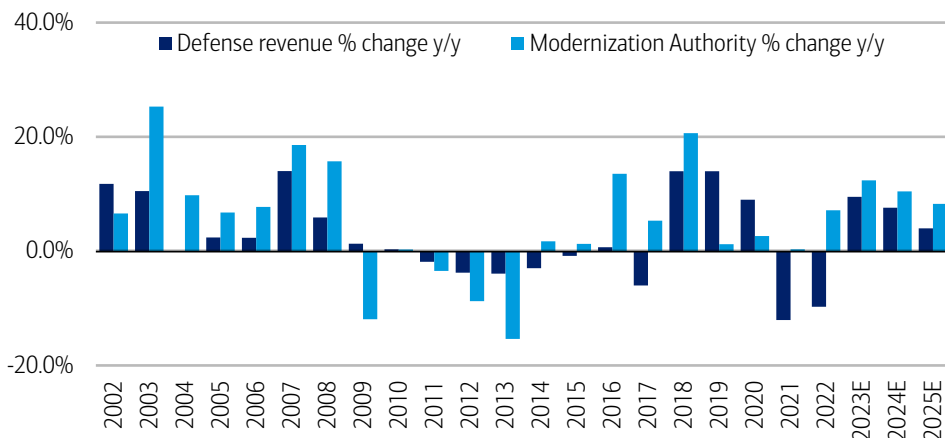
In 4Q, Defense & Space (34% of 2024E segment revenue) revenue grew +5% y/y on an organic basis. The company is highlighting supply chain as the biggest constraint to growth in 2024. The demand environment in both the US and internationally remains robust.

Honeywell's US Department of Defense (DoD) sales totaled \$2.9bn in 2022. This represents a (10)% decline y/y and (17)% below 2019 levels. DoD sales were 62% of Defense & Space revenue.

In 2019, the DoD spent \$242bn on modernization activities (procurement, research, development, test & evaluation). The BofA Aerospace & Defense team projects this to grow to \$297bn in 2023 and \$329bn in 2024E. Our 2024 forecast for Honeywell's Defense & Space revenue of \$5.2bn is below 2019's \$5.3bn despite the stronger DoD outlook.

**Exhibit 11: Honeywell's Defense & Space revenue versus US DoD Modernization outlays**

2024 US DoD modernization outlays are forecast to be 36% above 2019 levels



Source: BofA Global Research, US Department of Defense

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**Defense growth versus peers**

Honeywell's Defense & Space organic revenue growth had lagged peers for ten straight quarters. In 4Q, they are now running slightly ahead of peers, aided by an improving supply chain. Our peer set includes Lockheed Martin, Northrop Grumman, Boeing (BDS segment), General Dynamics (excluding Aerospace segment), and L3Harris.



The peer group has reported revenue growth in 4Q23 of +3.9% y/y on average, a step down from the high-single digit pace it grew at from 1Q-3Q. We forecast mid-single digit growth in Honeywell's defense business, relatively in line with the peer group.

### Exhibit 12: Honeywell's Defense & Space segment has underperformed Defense peers

Revenue growth of Aerospace & Defense peers vs. Honeywell Defense & Space

Defense Revenue Growth		2021				2022				2023				2024			
		1QA	2QA	3QA	4QA	1QA	2QA	3QA	4QA	1QA	2QA	3QA	4QA	1QA	2QA	3QA	4QE
LMT	Lockheed Martin	3.9%	5.0%	-2.8%	4.1%	-8.0%	-9.3%	3.5%	7.1%	1.1%	8.1%	1.8%	-0.6%	4.9%	1.9%	2.9%	2.2%
NOC	Northrop Grumman	6.2%	3.0%	-4.0%	-15.4%	-3.9%	-3.8%	0.8%	16.1%	5.7%	8.8%	11.2%	6.0%	4.7%	4.9%	5.0%	4.2%
BA	Boeing*	18.9%	4.4%	-3.4%	-13.5%	-23.7%	-10.0%	-19.8%	5.4%	19.3%	-0.4%	3.3%	8.3%	-2.3%	3.3%	11.1%	2.3%
GD	General Dynamics**	6.3%	4.2%	0.6%	-3.9%	-0.2%	-3.6%	1.7%	8.7%	-1.5%	12.0%	11.9%	6.2%	10.5%	1.7%	2.3%	3.0%
LHX	L3harris	-1.3%	5.0%	-5.2%	4.8%	-10.2%	-11.4%	0.4%	-6.3%	9.0%	13.5%	15.8%	-0.4%	13.9%	12.9%	7.5%	3.7%
<b>Average</b>		<b>6.8%</b>	<b>4.3%</b>	<b>-3.0%</b>	<b>-4.8%</b>	<b>-9.2%</b>	<b>-7.6%</b>	<b>-2.7%</b>	<b>6.2%</b>	<b>6.7%</b>	<b>8.4%</b>	<b>8.8%</b>	<b>3.9%</b>	<b>6.3%</b>	<b>4.9%</b>	<b>5.8%</b>	<b>3.1%</b>
<b>Honeywell defense</b>		<b>-2.0%</b>	<b>-10.0%</b>	<b>-17.0%</b>	<b>-17.5%</b>	<b>-14.0%</b>	<b>-12.0%</b>	<b>-10.0%</b>	<b>-3.0%</b>	<b>5.0%</b>	<b>3.0%</b>	<b>18.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>2.0%</b>

Source: BofA Global Research, company filings

\*Numbers refer to Boeing's BDS segment

\*\*Numbers refer to General Dynamics excl. its Aerospace segment

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## BofA forecasts

- 1Q24: +14.4% y/y organic revenue growth. We raise our Commercial OE estimate materially and our commercial AM estimate slightly. We model overall mid-teens growth in Commercial Aero y/y.
- 2024: +12.0% y/y revenue growth. Honeywell no longer views Boeing production credits as a y/y headwind and was more focused on general mix in 2024 vs. last Q. The company has stated that supply chain improvement still needs work for Defense & Space into 2024.
- 2025: +7.1% organic growth. We see continued HSD growth in Commercial OE and Commercial AM.

### Exhibit 13: Aerospace quarterly forecasts

We forecast +12% organic growth in 2024

(\$mn)	2022A	1Q23	2Q23	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Commercial OE	2,089	541	607	563	684	2,397	676	728	704	787	2,896	3,127
organic y/y%	22%	14%	16%	5%	25%	15%	25%	20%	25%	15%	21%	8%
Commercial A/M	5,108	1,423	1,533	1,634	1,663	6,241	1,679	1,778	1,846	1,862	7,166	7,811
organic y/y%	23%	22%	16%	22%	19%	20%	18%	16%	13%	12%	15%	9%
Defense & Space	4,630	1,147	1,201	1,302	1,333	4,986	1,204	1,273	1,368	1,359	5,204	5,413
organic y/y%	-10%	5%	3%	18%	5%	8%	5%	6%	5%	2%	4%	4%
<b>Aerospace</b>												
Organic growth y/y%	7%	14%	16%	18%	15%	15%	14%	13%	12%	9%	12%	7%
M&A	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FX	-6%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total revenue growth</b>	<b>6%</b>	<b>13%</b>	<b>15%</b>	<b>18%</b>	<b>15%</b>	<b>15%</b>	<b>14%</b>	<b>13%</b>	<b>12%</b>	<b>9%</b>	<b>12%</b>	<b>7%</b>
Operating Profit	3,228	827	924	963	1,027	3,741	961	1,019	1,078	1,083	4,140	4,484
Operating margin	27.3%	26.6%	27.7%	27.5%	28.0%	27.5%	27.0%	27.0%	27.5%	27.1%	27.1%	27.4%

Source: BofA Global Research, company files

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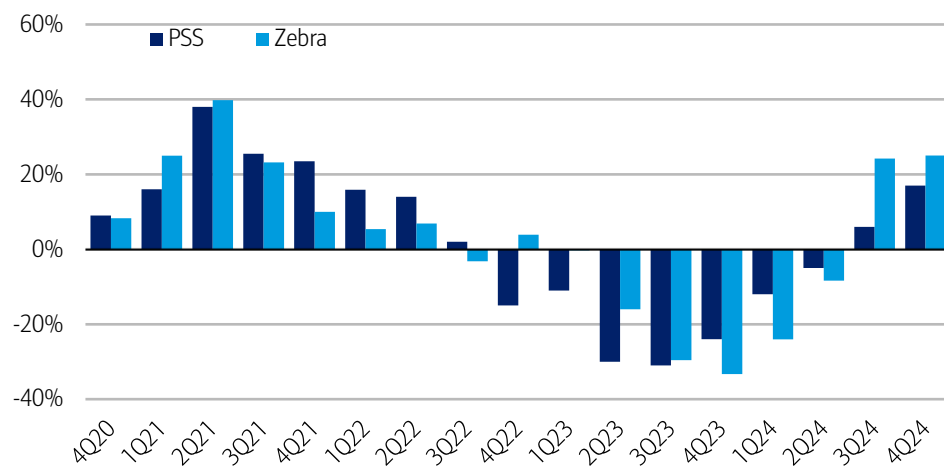
## Industrial Automation: weak 1H, better 2H

We look at the newly segmented Industrial Automation, which includes the former PMT business Process Solutions and the former Safety & Productivity Solutions businesses. On a restated basis, margins expanded 30bp y/y to 19.1%.

- Process Solutions organic revenue grew 9% y/y.
- Productivity Solutions and Services sales declined (24)% organically y/y. This is a short cycle business that was lapping tough comps. Consensus forecasts for Zebra, a competitor, are for sales down (33)% y/y. We note the company is facing the headwinds from Zebra payments (\$45mn/quarter) starting in 2Q24 and as a result we forecast the company undergrowing Zebra next year.

### Exhibit 14: Honeywell PSS vs. Zebra y/y organic growth

HON is lapping \$45mn revenue payments in 2Q24-4Q24



Source: BofA Global Research, visible alpha consensus

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- Warehouse & Workflow Solutions decreased (51)% y/y. It seems management expects low-double digit declines in the segment for 2024.
- Sensing and Safety Technologies were down (6)% organically y/y.
- Outlook: The company is guiding for Industrial Automation to be flattish revenue in 2024. This compares to commentary in October that all four of Honeywell's new segments would grow in 2024. The guide embeds growth acceleration in 3Q/4Q as short cycle demand returns and destock ends.

## Building Automation: key '24 margin driver

Building Automation is the renamed segment for Honeywell Building Technologies (HBT). The business remains the same. Sales fell (1)% on an organic basis, driven by a (6)% decline in Building Products offset by a +6% increase in Building Solutions. Management seems to expect HBT to grow low single digits given short cycle slowdown. Margins surprised to the downside in 4Q on cost pressure and mix headwinds. The company expects Building Solutions to outgrow Products next year at least until destock ends, which will continue to be a negative mix headwind.

- Products sales were down 6% y/y. This sub-segment continues to face destocking headwinds.
- Building Solutions grew 6% y/y. The company expects this business to outgrow Products in 2024.



- Outlook: Management is guiding for low single digit growth in 2024. It expects for Products to return to growth after the end of destock, likely in 2H24. Despite modest volume leverage in 2024, the company expects BA to be the margin leader given a tight fixed cost base. The business also will benefit in the 2H24 from increasing product sales.

## ESS: flat to LSD organic growth in 2024

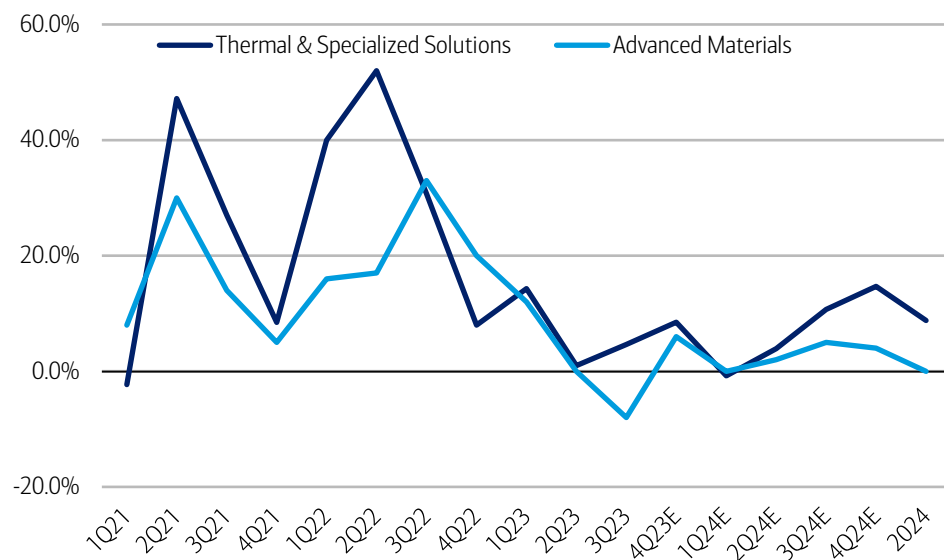
We look at the newly segmented Energy & Sustainability Solutions (ESS), which includes the former PMT businesses UOP and Advanced Materials. On a restated basis, margins expanded 80bps y/y to 26.7%. The company is less constructive on 2024 growth than we would have expected, highlighting difficult UOP volume comps (a large LNG project delivered in 2023), partially offsetting strength in catalysts and services. STS continues to be a source of growth (up 30% y/y in 4Q). Advanced Materials is seeing strength in the broader fluorine business, particularly in the services portfolio. A decrease in legacy stationary products demand will not be offset by an increase in price or in the new refrigerants. The semis business is bouncing along the bottom but it expects an inflation in 2024.

- UOP sales grew 1% y/y organically. Growth was led by refining catalyst shipments. The company also reported a 30% y/y sales increase in Sustainable Technology Solutions.
- Advanced Materials grew 6% y/y organically. While the company sees growth in some fluorine, the stationary product quotas are expected to be a headwind.
- Outlook: We sense management expects low to mid-single digit growth in 2024. We note consensus estimates for Chemours TSS are more robust in 2024 than what is implied in HON's outlook. We think expectations are for modest margin expansion in 2024.

Below we compare Advanced Materials to its competitor, Thermal & Specialized Solutions (TSS), part of Chemours (ticker: CC; not covered). Both companies experienced more robust growth in 2022 only to slow in 2023. We use consensus estimates for Chemours TSS in 4Q23E-4Q24E. Notably, the below indicates AM undergrowing TSS and continuing to undergrow it in 2024, likely reflecting slightly different mix.

### Exhibit 15: Chemours and AM have similar growth dynamics

We compare Chemours and Advanced Materials growth, 1Q21-4Q24E



Source: BofA Global Research

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# Valuation

We base our \$250 price objective on 15x 2025E EV/EBITDA. Our target multiple is at a premium to peers trading at 14x EV/EBITDA on 2024E. We argue a premium multiple is warranted given top-quartile execution and end market exposure to Aerospace and oil & gas.

## Exhibit 16: HON valuation versus comparables

Our \$250 price objective is based on 16x EV/EBITDA our 2025E estimates

Company	Ticker	Stock Price 2/4/2024	P/E		EV/EBITDA		EBITDA margins		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
3M	MMM	\$94.87	9.1 x	8.6 x	7.0 x	6.6 x	27.9%	28.3%	14.2%	5.9%
Dover	DOV	\$158.75	17.5 x	15.8 x	12.7 x	11.7 x	21.6%	22.1%	2.8%	10.7%
Eaton	ETN	\$270.10	27.1 x	25.5 x	20.6 x	19.3 x	22.4%	22.5%	10.3%	6.4%
Emerson	EMR	\$93.98	17.5 x	16.1 x	13.3 x	12.4 x	26.0%	26.5%	15.5%	8.8%
Fortive	FTV	\$83.02	23.3 x	21.5 x	17.8 x	16.7 x	27.8%	28.2%	5.6%	8.1%
General Electric*	GE	\$136.54	32.4 x	26.1 x	14.3 x	13.4 x	15.2%	14.9%	59.2%	24.2%
Illinois Tool Works	ITW	\$256.06	25.9 x	23.9 x	18.6 x	17.3 x	27.4%	28.0%	1.4%	8.6%
Trane Technologies	TT	\$276.78	28.7 x	27.0 x	19.8 x	18.6 x	18.0%	18.2%	7.0%	6.6%
Rockwell	ROK	\$268.01	19.6 x	17.9 x	16.1 x	14.8 x	22.1%	22.8%	10.2%	9.5%
Raytheon Technologies	RTX	\$91.98	17.7 x	16.4 x	13.4 x	12.7 x	15.4%	15.5%	3.6%	7.7%
<b>AVERAGE</b>			<b>21.7 x</b>	<b>19.7 x</b>	<b>15.1 x</b>	<b>14.1 x</b>	<b>21.8%</b>	<b>22.1%</b>	<b>13.8%</b>	<b>9.8%</b>
<b>Honeywell</b>	<b>HON</b>	<b>\$196.11</b>	<b>19.4 x</b>	<b>17.5 x</b>	<b>12.7 x</b>	<b>12.3 x</b>	<b>26.8%</b>	<b>27.2%</b>	<b>10.0%</b>	<b>11.2%</b>
<b>Honeywell at PO</b>		<b>\$250.00</b>	<b>24.7 x</b>	<b>22.3 x</b>	<b>15.9 x</b>	<b>15.5 x</b>				

Source: BofA Global Research, company files

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## Exhibit 21: HON Acronyms

See details below

<b>Aero</b>	<b>Aerospace</b>
Comm'l OE	Commercial Original Equipment
Comm'l AM	Commercial Aftermarket
ATR	Air Transport & Regional
BGA	Business & General Aviation
D&S	Defense & Space
APU	Auxiliary Power Unit
RMU	Retrofit, Modifications, & Upgrades
<b>BA</b>	<b>Building Automation</b>
BMS	Building Management Solutions
ESS	Energy, Safety & Security
E&ES	Environmental & Energy Solutions
HBP	Honeywell Building Products
HSF	Honeywell Security & Fire
HBS	Honeywell Building Solutions
<b>ESS</b>	<b>Energy Sustainability &amp; Solutions</b>
UOP	UOP (formerly Universal Oil Products)
HPS	Honeywell Process Systems
Adv. Mats	Advanced Materials
R&C	Resins & Chemicals
FP	Fluorine Products
SP	Specialty Products
<b>IA</b>	<b>Industrial Automation</b>
HPS	Honeywell Process Solutions
PSS	Productivity Solutions and Services
SloT	Sensing & Internet-of-Things (IoT)
HIS	Honeywell Industrial Safety

Source: Company filings

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## Price objective basis & risk

### Honeywell International Inc. (HON)

We base our \$250 price objective on 15x 2025E EV/EBITDA. Our target multiple is a premium to peers trading at 14x EV/EBITDA on 2024E. We argue a premium multiple is warranted given top quartile execution and end market exposure to aerospace and oil & gas.

Downside risks to our price objective are: 1) Acquisitions, specifically that Honeywell overpays for deals in the pursuit of diversifying and expanding into new, faster-growing adjacent markets, 2) Unforeseen future sales deceleration due to economic pressures (e.g., slowing global flying hours, oil price volatility and muted O&G capex outlook), and 3) execution around ongoing simplification efforts.

## Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
<b>NEUTRAL</b>				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
<b>UNDERPERFORM</b>				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

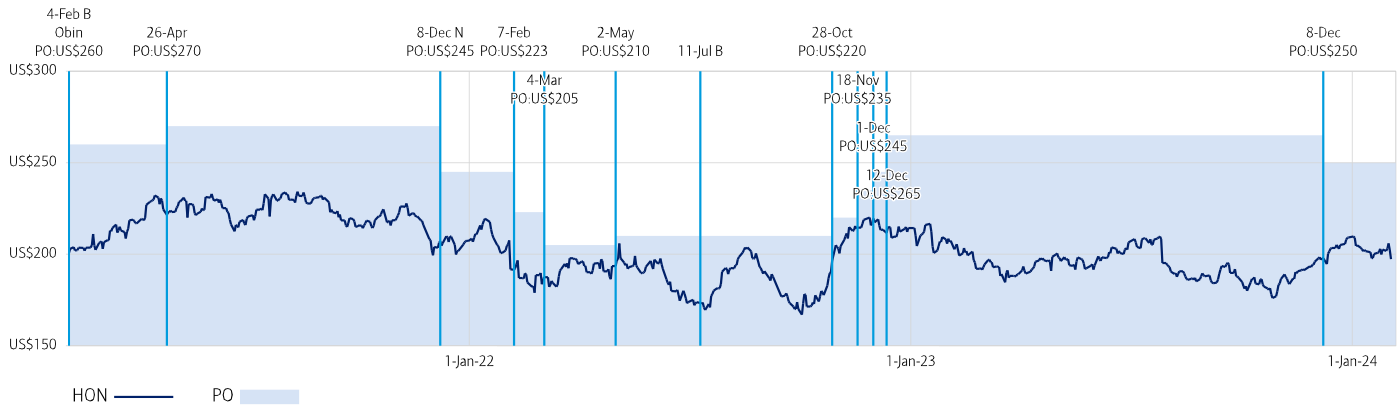
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# Disclosures

## Important Disclosures

### Honeywell (HON) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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