

Honeywell International Inc.

4Q23 preview: in-line 2024 guidance should be good enough

Reiterate Rating: BUY | PO: 250.00 USD | Price: 200.78 USD

4Q23: an in-line guide should be good enough

Into 4Q23, investors have raised concerns that Honeywell's guidance will be too conservative and yield a negative reaction. We expect that the company could issue guidance with \$10.00 consensus at the midpoint (e.g., \$9.80-\$10.20; potentially \$9.75-\$10.15). We think this will be "good enough" for the buy-side. The company has already previewed its framework for 40-60bps of margin expansion and 4-7% organic growth. Historically, the company has issued a 300bp range for organic growth guide and 40bp for margin. Our estimates and consensus largely fall in line with this framework. New CEO Vimal Kapur is laser-focused on driving organic growth. We note the company will guide to new segments in 2024, which could add uncertainty for investors.

Focus from investors is on organic growth...

Investors have been pushing back on Honeywell's ability to grow organically. In our benchmarking work, we find that Honeywell has not undergrown peers in recent years. Our +4.2% y/y organic growth forecast for 2023E suggests Honeywell should come slightly ahead of the peers this year. Our +5.4% y/y forecast for 2024E comes in ~80bp, slightly below +6.2% y/y peers, driven largely by SPS weakness.

...but EPS revisions drove de-rating

From 1/2016-12/2023, the company has traded at a 120% premium to the peer set. We exclude 3M given the company's extensive litigation activity presents an overhang on the stock. Currently, it trades at a 123% premium, off from its ~140% highs in 2020-2022. Honeywell's de-rating has emerged from a lack of EPS upside in the past year. 2023 adj. EPS has been revised down 5% and 2024 adj. EPS has been revised down 6% since 10/2022. We use 10/2022 as our starting point as it started de-rating in 11/22.

Spotlight on Aero: pushback on margins

A key area of pushback we hear from investors is a muted outlook for 2024 margin expansion in Aerospace. We forecast 20bp of margin expansion, lagging peers. However, we note there is room for upside if aftermarket continues to surprise to the upside and OE continues facing production challenges. On a two-year stack, growth has outperformed the peer set (26% vs. 21% average).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.06	8.76	9.19	10.10	11.23
GAAP EPS	7.91	8.76	9.19	10.10	11.23
EPS Change (YoY)	13.5%	8.7%	4.9%	9.9%	11.2%
Consensus EPS (Bloomberg)			9.16	9.97	10.95
DPS	3.77	3.97	4.12	4.41	4.72
Valuation (Dec)					
P/E	24.9x	22.9x	21.8x	19.9x	17.9x
GAAP P/E	25.4x	22.9x	21.8x	19.9x	17.9x
Dividend Yield	1.9%	2.0%	2.1%	2.2%	2.4%
EV / EBITDA*	18.4x	18.2x	16.8x	15.7x	14.7x
Free Cash Flow Yield*	3.4%	3.0%	2.9%	4.1%	4.6%

* For full definitions of *IQmethod*SM measures, see page 16.

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12648426

Timestamp: 22 January 2024 05:00AM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	36,908.8	36,895.1
2024E Rev (m)	38,905.6	39,018.7
2025E Rev (m)	41,144.7	41,266.5
2024E EPS	10.08	10.10

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Stock Data

Price	200.78 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)	149,360 USD / 743.9
Free Float	99.7%
Average Daily Value (mn)	593.45 USD
BofA Ticker / Exchange	HON / NYS
Bloomberg / Reuters	HON US / HON.OQ
ROE (2023E)	32.8%
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".

iQprofileSM Honeywell International Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.7%	13.0%	14.2%	15.3%	17.2%
Return on Equity	30.5%	32.7%	32.8%	31.9%	34.0%
Operating Margin	22.4%	22.0%	23.2%	23.7%	24.3%
Free Cash Flow	5,143	4,508	4,265	6,121	6,883

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.9x	0.8x	1.1x	1.1x
Asset Replacement Ratio	0.7x	0.6x	0.7x	0.8x	0.8x
Tax Rate	22.6%	19.1%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	42.0%	54.6%	42.4%	34.0%	37.9%
Interest Cover	22.5x	18.9x	11.5x	12.0x	15.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	34,392	35,466	36,895	39,019	41,266
% Change	5.4%	3.1%	4.0%	5.8%	5.8%
Gross Profit	10,998	11,641	14,297	15,707	16,694
% Change	5.1%	5.8%	22.8%	9.9%	6.3%
EBITDA	8,942	9,017	9,753	10,434	11,185
% Change	14.0%	0.8%	8.2%	7.0%	7.2%
Net Interest & Other Income	(343)	(414)	(742)	(770)	(664)
Net Income (Adjusted)	5,643	5,986	6,142	6,674	7,358
% Change	11.7%	6.1%	2.6%	8.7%	10.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	5,643	5,986	6,142	6,674	7,358
Depreciation & Amortization	1,223	1,204	1,192	1,180	1,168
Change in Working Capital	288	(745)	(2,012)	(611)	(422)
Deferred Taxation Charge	178	(180)	0	0	0
Other Adjustments, Net	(1,294)	(991)	(166)	(182)	(230)
Capital Expenditure	(895)	(766)	(891)	(941)	(991)
Free Cash Flow	5,143	4,508	4,265	6,121	6,883
% Change	-3.0%	-12.3%	-5.4%	43.5%	12.5%
Share / Issue Repurchase	(3,151)	(3,880)	(817)	(2,087)	(4,537)
Cost of Dividends Paid	(2,626)	(2,719)	(2,754)	(2,914)	(3,093)
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	11,220	8,957	6,961
Trade Receivables	6,830	7,440	7,639	8,068	8,476
Other Current Assets	7,019	7,432	6,961	6,674	6,461
Property, Plant & Equipment	5,562	5,471	5,170	4,931	4,754
Other Non-Current Assets	33,536	31,822	32,640	33,234	33,864
Total Assets	64,470	62,275	63,629	61,864	60,516
Short-Term Debt	5,345	4,447	1,705	0	0
Other Current Liabilities	14,163	15,491	15,079	15,016	15,180
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
Total Liabilities	45,221	44,949	43,505	40,066	38,989
Total Equity	19,249	17,326	20,124	21,798	21,526
Total Equity & Liabilities	64,470	62,275	63,629	61,864	60,516

* For full definitions of iQmethodSM measures, see page 16.

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 2,955,743

Quarterly Earnings Estimates

	2022	2023
Q1	1.91A	2.07A
Q2	2.10A	2.23A
Q3	2.25A	2.27A
Q4	2.52A	2.62E

4Q23 preview: likely to guide in line

Into 4Q23, investors we spoke with have raised concerns that Honeywell's guidance will be too conservative and yield a negative reaction. We expect that the company could issue guidance with \$10.00 consensus at the midpoint (e.g., \$9.80-\$10.20; potentially \$9.75-\$10.15). We think this will be "good enough" for the buy-side.

The company has already previewed its framework for 40-60bps of margin expansion and 4-7% organic growth. Historically, the company has issued a 300bp range for organic growth guide and 40bp for margin. Our estimates and consensus largely fall in line with this framework. New CEO Vimal Kapur is laser-focused on driving organic growth. We note the company will guide to new segments in 2024, which could add confusion for investors.

Exhibit 1: BofA 2024 estimate vs. consensus

We raise our adj. EPS estimate by \$0.02 to \$10.10, above \$10.00 consensus

	BofA Estimate		Consensus
	Old	New	
Adj. EPS	\$10.08	\$10.10	\$10.00
Revenue Growth:			
Aerospace	9.5%	9.5%	9.2%
HBT	0.6%	1.0%	2.1%
SPS	-2.7%	-2.8%	0.1%
PMT	6.7%	6.7%	5.3%
Honeywell	5.3%	5.4%	5.5%
Sales	\$38.9bn	\$39.0bn	\$39.0bn
Operating Margin:			
Aerospace	27.2%	27.2%	27.3%
HBT	25.7%	25.6%	25.7%
SPS	15.9%	15.9%	16.3%
PMT	23.2%	23.2%	22.6%
Operating Margin	23.1%	23.1%	23.0%
Operating Margin y/y:			
Aerospace	0bps	0bps	13bps
HBT	10bps	5bps	11bps
SPS	-21bps	-21bps	16bps
PMT	112bps	112bps	59bps
Operating Margin y/y	51bps	51bps	41bps
Other items:			
Share Count	661mn	661mn	
Tax Rate	21.0%	21.0%	
Pension Income	\$523mn	\$566mn	\$503mn
Repositioning expense	\$384mn	\$384mn	

Source: BofA Global Research, Bloomberg, Visible Alpha Consensus

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Raising our pension estimate

We slightly raise our 2024 adj. EPS estimate to \$10.10 (from \$10.08 prior), above consensus at \$10.00. Our new estimate reflects tweaks to interest expense, pension, and foreign exchange rates.

We forecast pension to be a y/y net benefit rather than drag, based on corporate AA-bond yields at YE23. We note Visible Alpha consensus for pension ongoing income, pension mark-to-market, and other postretirement expense is \$503mn in 2024E versus our \$566mn estimate. This reflects ~\$0.07 of the delta between our estimate and consensus. Moody's Bond Indices Corporate AA closed the year with 4.91% yield, which compares to 5.04% at YE22. In Honeywell's 2022 10-K, it states that it used 5.17% based on AA corporate bonds as its discount rate.

Framework for 2024

Our estimates reflect the following assumptions about Honeywell expectations into 2024.

Exhibit 2: 4Q23 guidance vs. BofA estimate vs. consensus

We forecast \$2.62 in adj. EPS in 4Q23, towards the high end of guide

	4Q23 guidance	BofA Estimate	Consensus
Adj. EPS	\$2.53-\$2.63	\$2.62	\$2.59
Organic Growth:			
Aerospace		14.9%	14.9%
HBT		0.6%	1.9%
SPS		-20.0%	-18.6%
PMT		7.1%	7.8%
Total Honeywell	3-7%	4.0%	4.6%
Sales	\$9.6-9.9bn	\$9.67 bn	\$9.69 bn
Operating Margin	22.9-23.2%	23.2%	

Source: BofA Global Research, Bloomberg, Visible Alpha Consensus

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Aero: Faster original equipment (OE) growth driving flattish y/y margins, but continues to be a high-single digit grower. We estimate that Defense & Space is not dilutive to margins, but not accretive either. We tweak our Aerospace estimates to reflect slightly more growth in Commercial Aftermarket and slightly slower growth in Commercial OE. Our overall 4Q23 organic growth estimate is 10bp higher. We note that continued faster growth in Commercial Aftermarket could be a slightly tailwind to margins, which we do not model.

HBT: Potential for growth to reaccelerate in 2H24. We adjust our estimate to be slightly weaker in 1H24 but better growth and incrementals in 2H24.

SPS: 2H recovery dependent on short cycle improvement, but weak y/y in 1H24.

PMT: Order acceleration in '22/'23 to drive growth in 2024, recovery in electronic materials downturn, and margin expansion on both pricing and volume leverage.

Below-the-line: We think the company had been telegraphing the below-the-line headwind drag from pension following 3Q23 earnings.

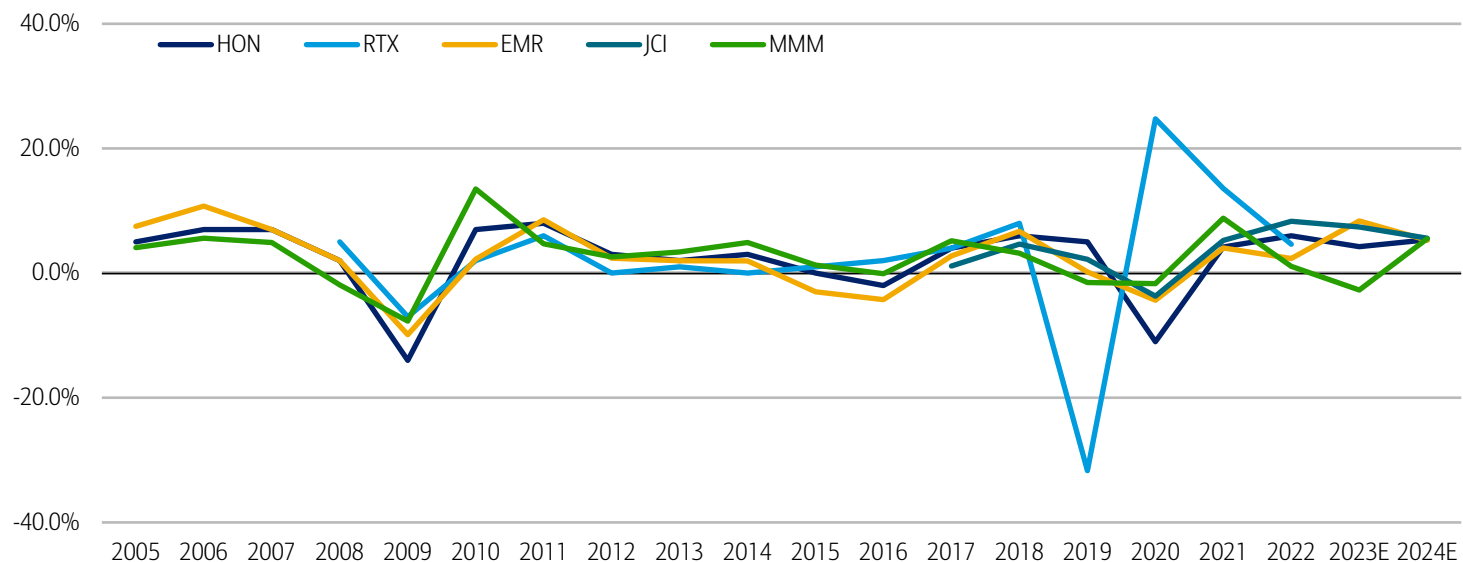
Growth in focus, but broadly in line with peers

Investors have been pushing back on Honeywell's ability to grow organically. In our benchmarking work, we find that Honeywell has not undergrown peers in recent years. Our +4.2% y/y organic growth forecast for 2023E comes above the peer set average of +4.0% y/y. Our +5.4% y/y forecast for 2024E comes in ~80bp below +6.2% y/y peer forecasts.

We benchmark Honeywell with peers disclosed in its 10-K filings. We select one peer from each of its sub-segment comparisons (prior to resegmenting). This includes Raytheon (RTX; covered by our colleague Ronald Epstein) for Honeywell Aero; Emerson (EMR; Buy-rated) for Performance Materials & Technologies; Johnson Controls (JCI; Neutral-rated) for Honeywell Building Technologies; and 3M (MMM; Neutral) for Safety & Productivity Solutions.

Exhibit 3: Organic growth, 2005-2024E

HON was more cyclically impacted during COVID, with less of a recovery



Source: BofA Global Research, company files

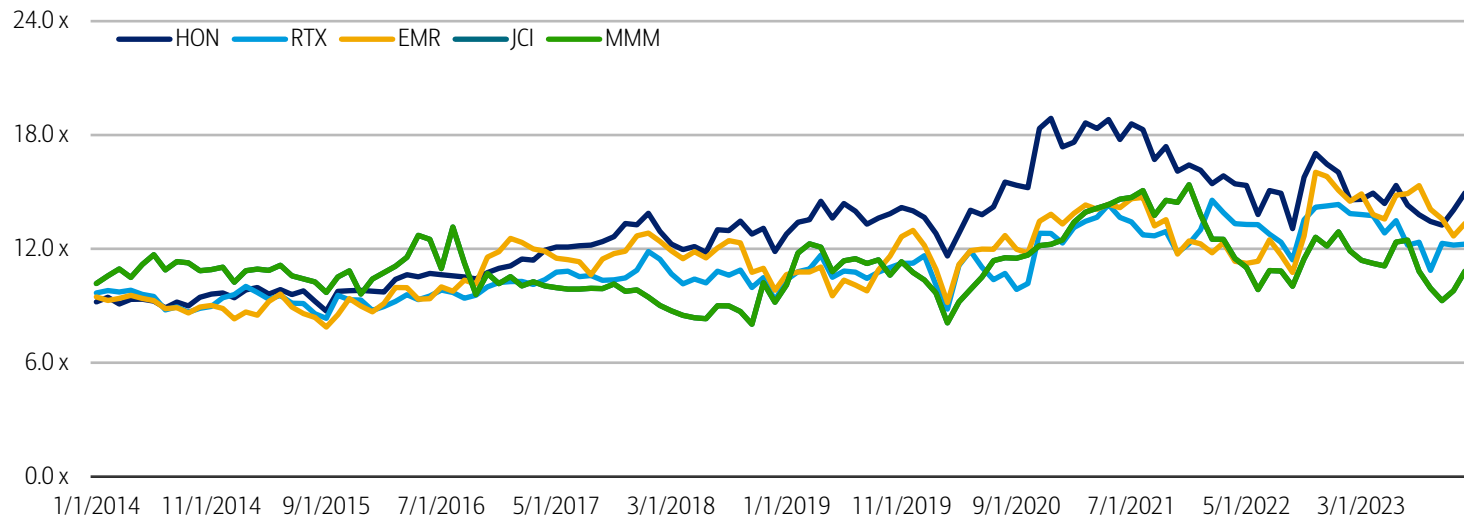
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2023 de-rating largely driven on earnings revisions

From 1/2016-12/2023, the company has traded at a 120% premium to the peer set. We exclude 3M given the company's extensive litigation activity presents an overhang on the stock. Currently, it trades at a 123% premium, off from its ~140% highs in 2020-2022.

Exhibit 4: 1BF EV/EBITDA, HON vs. peer set

HON currently trades at a 123% premium versus its long-term average of 120%



Source: BofA Global Research, company files

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Honeywell's de-rating has emerged from a lack of EPS upside in the past year. 2023 adj. EPS has been revised down 5% and 2024 adj. EPS has been revised down 6% since October 2022. We use October 2022 as our starting point because the company began to de-rate in November.

Exhibit 5: Honeywell 2023 adj. EPS revisions, 10/22-1/24

2023 adj. EPS has been revised down 5% since 10/22



Source: Bloomberg

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Exhibit 6: Honeywell 2023 adj. EPS revisions, 10/22-1/24

2024 adj. EPS has been revised down 6% since 10/22



Source: Bloomberg

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Aero: key area of discussion

Honeywell's Aerospace business (30% of revenue; 43% of segment EBIT ex-corporate) is a key focus for investors into 2024. Investor focus has largely been around margins. We acknowledge that its expansion is more muted into 2024 than peers, but we think this reflects the fact that its margins are best-in-class. Our sense from management commentary is that the company is more focused on driving Aero growth rather than continued margin expansion given where the margins are.

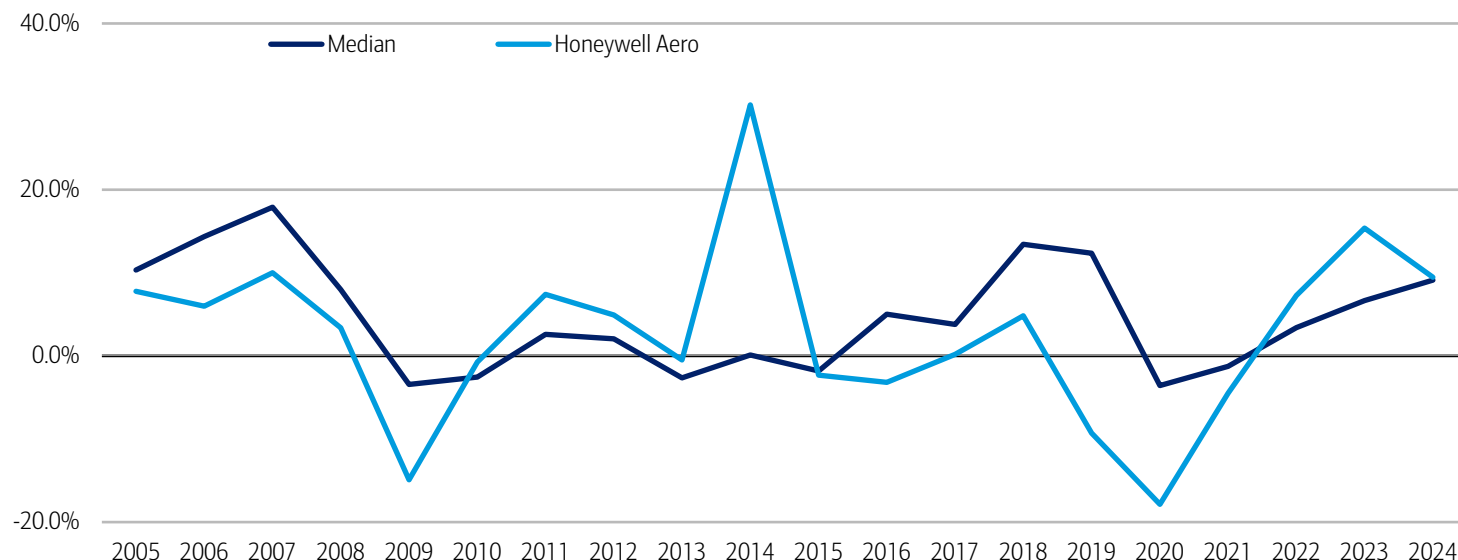
We benchmark Honeywell with peers disclosed in its 10-K filings. This includes Garmin (GRMW; covered by our colleague Ronald Epstein), RTX, L3harris (LHX; covered by Epstein); Northrup Grumman (NOC; covered by Epstein); Safran (SA FP; covered by our colleague Ben Heelan), and Thales (HO FP; covered by Heelan).

Revenue growth: outgrowing peers in 2023; in line in 2024

We forecast Honeywell outgrowing peers in 2023 and moderating to grow in line with peers in 2024. We note the peers have a 2024 acceleration vs. Honeywell deceleration. Production issues at Raytheon this year have led to muted topline and a re-acceleration next year. Thales also forecasts an acceleration next year. LHX, NOC, and SA FP both show a stepdown in 2024.

Exhibit 7: Honeywell revenue growth vs. peer group

Honeywell outgrew peers in 2023, with deceleration in 2024



Source: BofA Global Research estimates

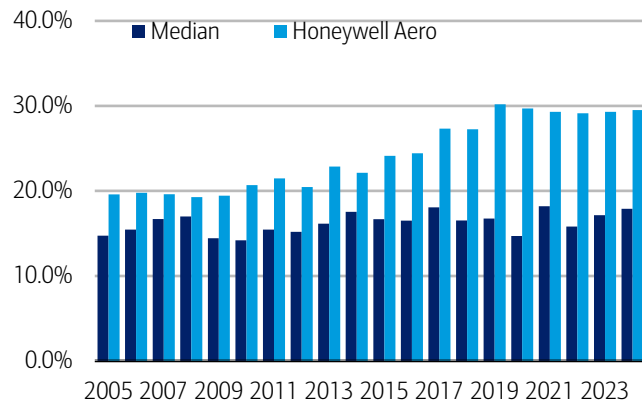
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Key area of pushback: margin expansion, but already best in class

The key area of pushback we hear from investors is a muted outlook for 2024 margin expansion in Aerospace. We forecast 20bp of margin expansion with room for upside depending on aftermarket mix. This compares to 80bp of expansion at Garmin, 50bp of expansion at Safran, 400bp at Raytheon, 30bp at Thales, 80bp at NOC, and 50bp at LHX. We note that we slightly raised our Commercial Aftermarket organic growth rate for 2024 and slightly lowered our Commercial OE growth rate, without adjusting our margin estimate. This leaves some room for margin upside on mix.

Exhibit 8: Honeywell EBITDA margins vs. median

Honeywell maintains its premium margins

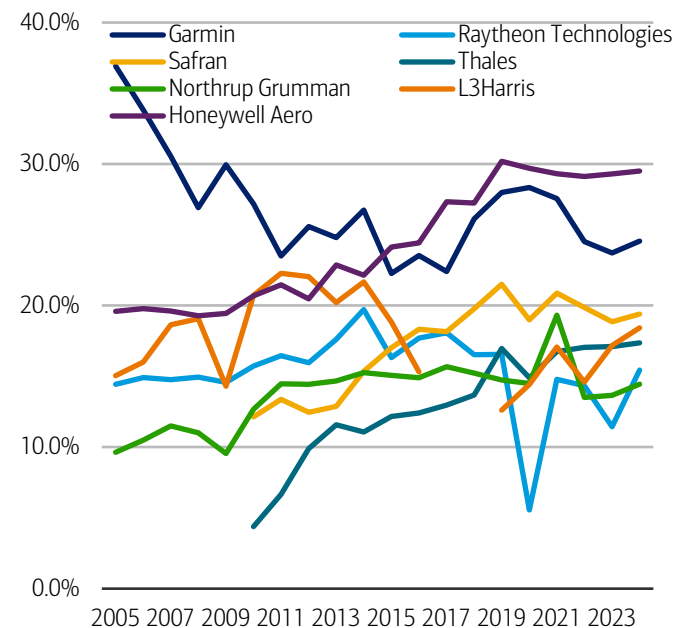


Source: BofA Global Research, company files

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Exhibit 9: EBITDA margin lags peers in 2024

We forecast smaller EBITDA margin expansion in 2024 vs. peers



Source: BofA Global Research, company files

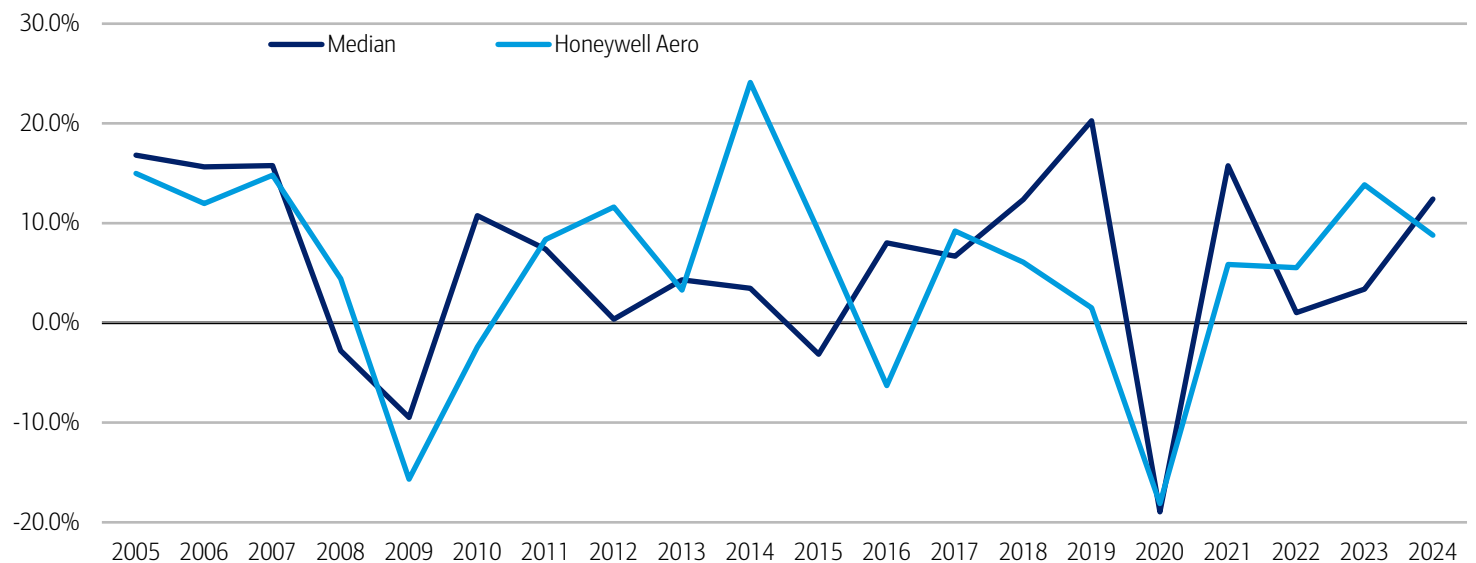
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In line with peers on EBITDA CAGR

Honeywell has grown its Aero EBITDA at a 2.5% CAGR from 2019-2024E. This compares to LHX at 11.5%, NOC at 3.5%, Thales at 2.0%, Safran (0.5)%, RTX (1.9)%, and Garmin at 5.7%. The peer median is for 2.7% EBITDA CAGR.

Exhibit 10: Median EBITDA growth y/y vs. Honeywell EBITDA growth y/y

Honeywell has grown its Aerospace EBITDA at a 2.5% CAGR since 2019 vs. peers at 2.7%



Source: BofA Global Research, company files

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Benchmarking analysis versus peers

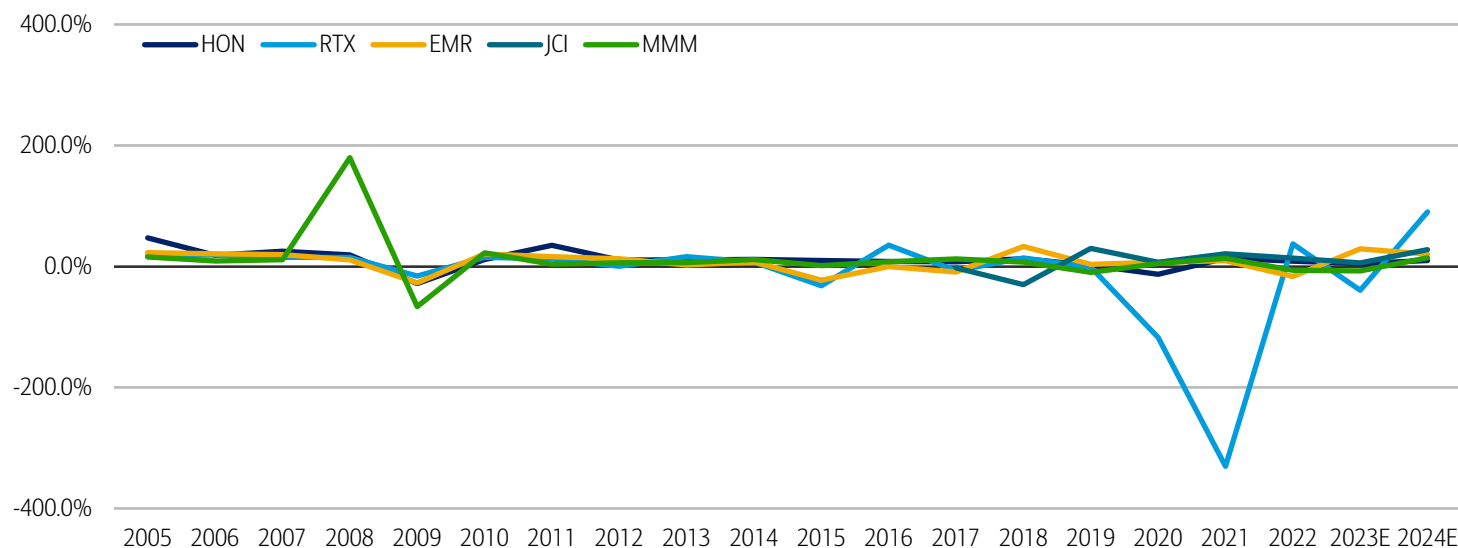
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EPS: HON in the middle of the pack versus peers...

Our analysis indicates EPS CAGR is the metric most closely tied with stock performance over the past five years. Honeywell has delivered a 4.4% EPS CAGR since then. This compares to Emerson (5.5%), Johnson Controls (13.6%), 3M (3.4%) and Raytheon (down 8.6%). We view Honeywell's EPS CAGR as relatively "middle of the pack," given its buildings, safety, and process peers grew faster but its aerospace and safety peers did not.

Exhibit 11: EPS growth y/y, 2005-2024E

We view HON EPS delivery as "middle of the pack"



Source: BofA Global Research, company files

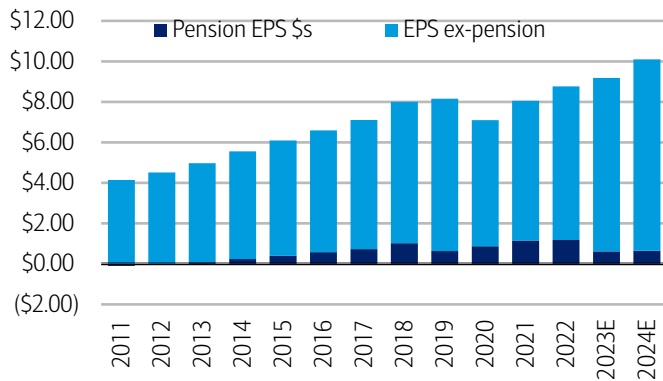
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...but outsized pension impact on recent years

Excluding the impact of pension to adj. EPS, Honeywell had a 4.8% CAGR from 2019-2024E. This suggests pension was a 40bp drag to the EPS CAGR over the same timeframe.

Exhibit 12: Pension contribution to EPS vs. EPS ex-pension

We forecast (1)% pension drag in 2024

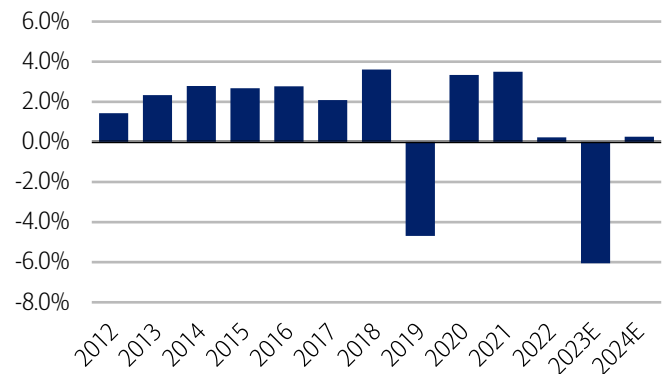


Source: BofA Global Research, company files

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Exhibit 13: Pension impact to adj. EPS, 2012-2024E

Pension was a (6)% drag to EPS growth in 2023; we forecast a 30bp benefit in 2024E



Source: BofA Global Research, company files

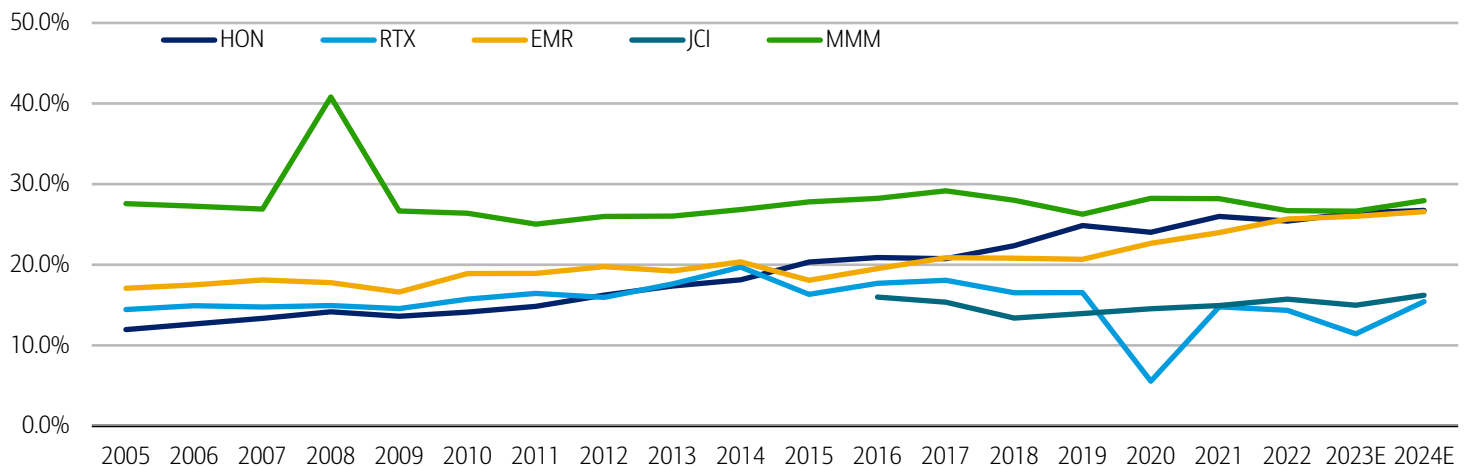
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EBITDA margins & returns: HON has expanded the most

Since 2006, Honeywell and Emerson have both materially expanded margins. Honeywell leads in margin expansion, driving 15pts of margin improvement since 2005 (with 2024E as the endpoint). Emerson comes in second, with 10pts of improvement over the same period of time. MMM still carries the highest EBITDA margins of the peer set with 28%, but margins have not improved.

Exhibit 14: EBITDA margins, 2005-2024E

HON has led the group in EBITDA margin expansion



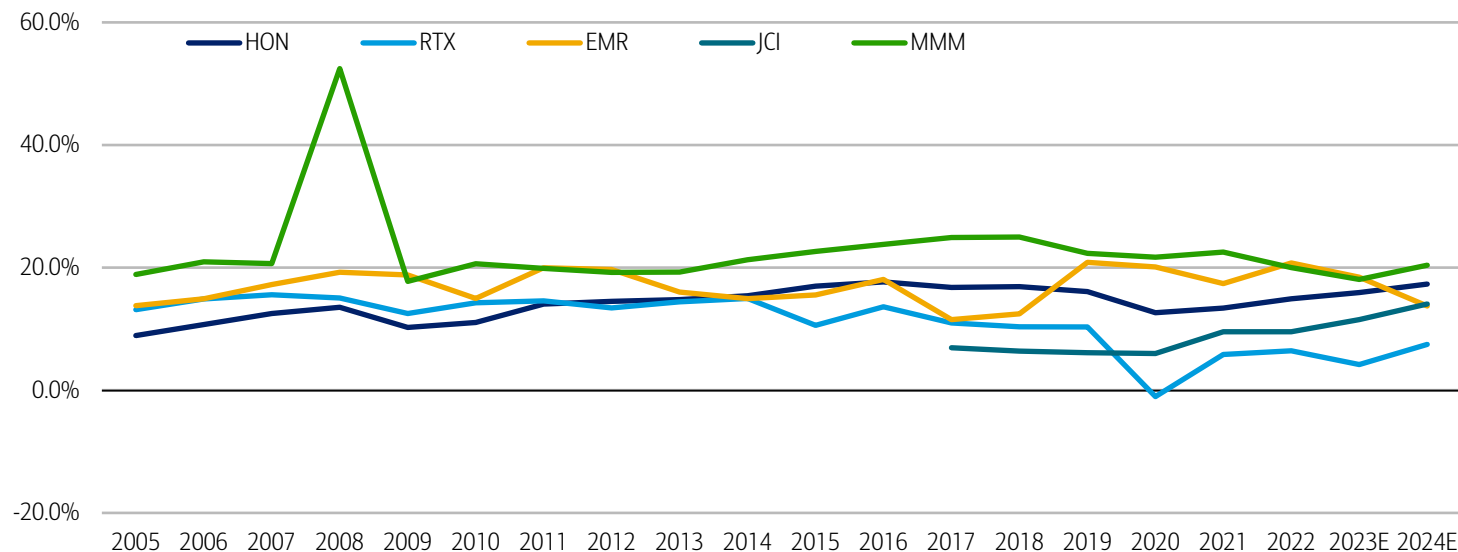
Source: BofA Global Research, company files

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Honeywell has done the most improvement in terms of return on tangible assets. ROTA peaked in 2016 at 17.7%. We forecast a similar 2024E return of 17.3% as the company recovers from the COVID downturn.

Exhibit 15: Return on tangible assets, 2005-2024E

MMM leads the group in returns, but HON showing the most improvement



Source: BofA Global Research, company filings

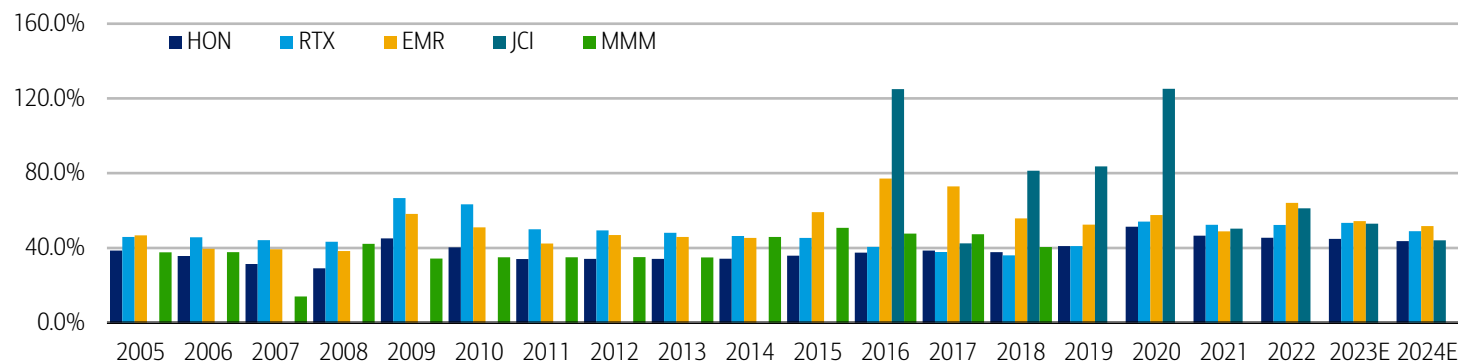
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Capital allocation: EMR is the most active on M&A

MMM has led dividend as a % of net income in the past decade. We note risk to the dividend following the Health Care spin. Honeywell lags the peer group in terms of dividends as a % of net income.

Exhibit 16: Dividends as a % of net income, 2005-2024E

MMM has historically paid the most dividends



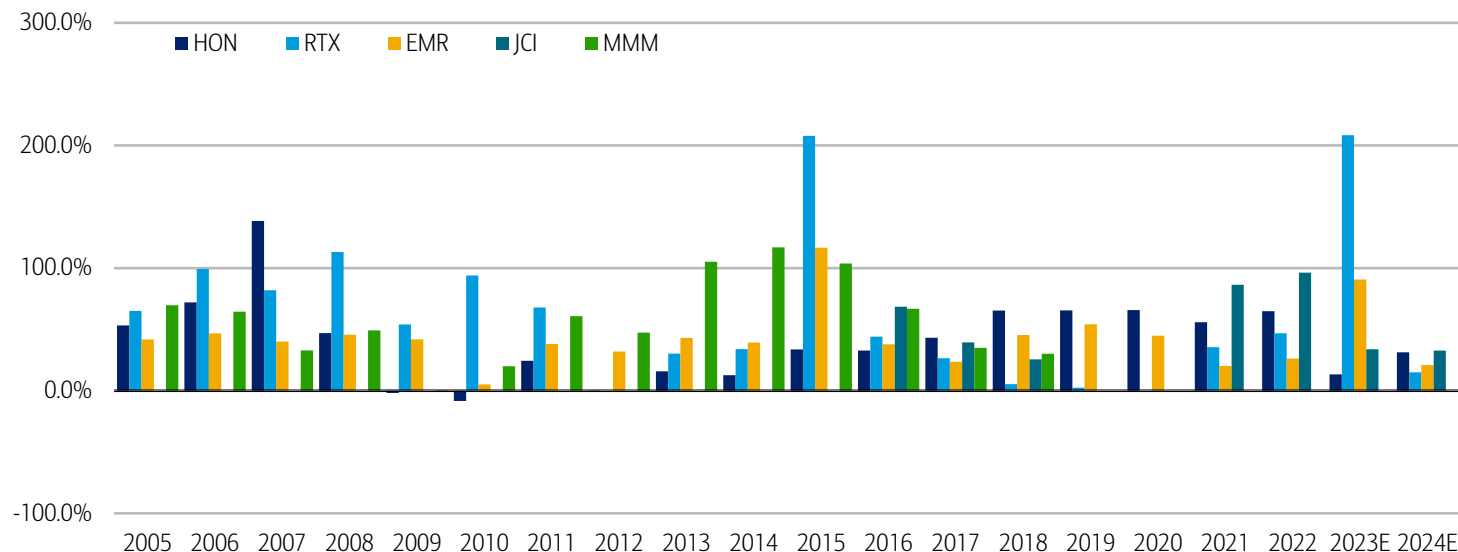
Source: BofA Global Research, company files

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We exclude JCI share repurchases as a % of net income in 2019/2020 due to the “Dutch Auction” yielding unusually large share repurchases. Over time, Honeywell and Emerson have done a similar proportion of share buybacks. 3M used to lead the group, but ceased doing repurchases in 2018. Raytheon has broadly delivered the highest share repurchases over time.

Exhibit 17: Share repurchases as a % of net income, 2005-2024E

Raytheon has delivered the highest share repurchases over time



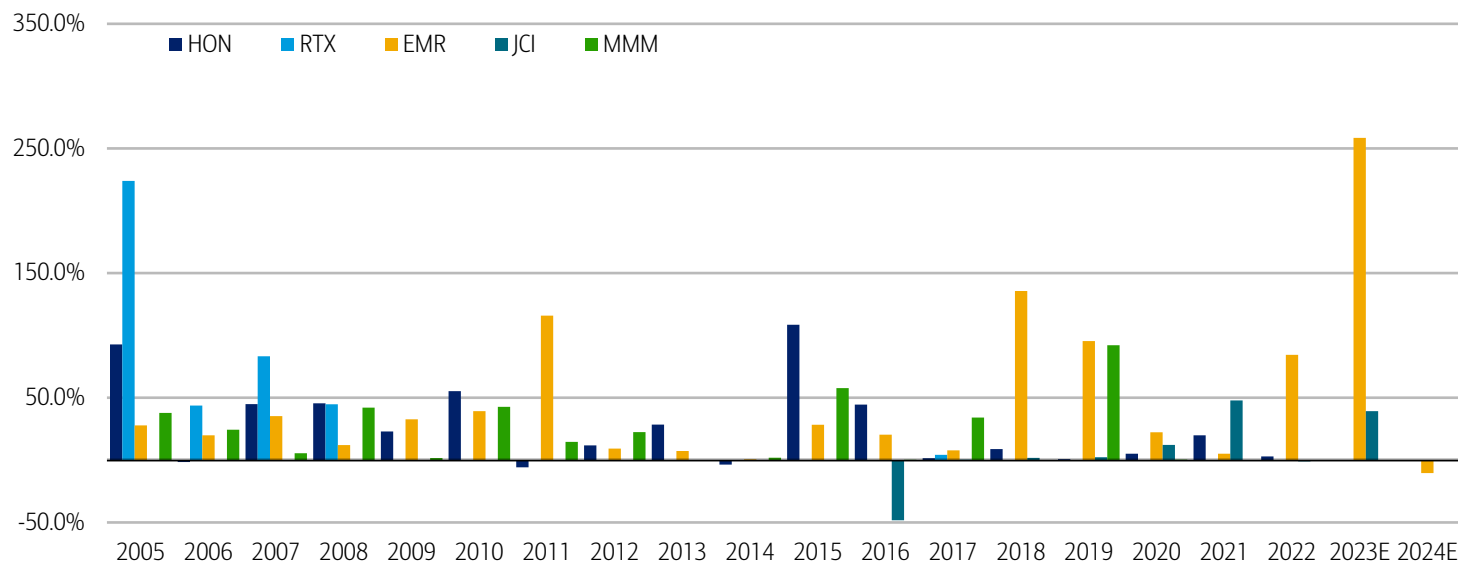
Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

Honeywell's M&A activity has been a point of contention for investors. Investors have signaled a desire for the company to do a large deal. The company recently announced plans to acquire Global Access Solutions from Carrier for \$4.95bn, within its stated priority range of \$1-7bn. We do not include it in the below chart as the acquisition has not closed, but we view it as a step in the right direction.

Exhibit 18: M&A as a % of net income, 2005-2024E

EMR has been the most active on M&A



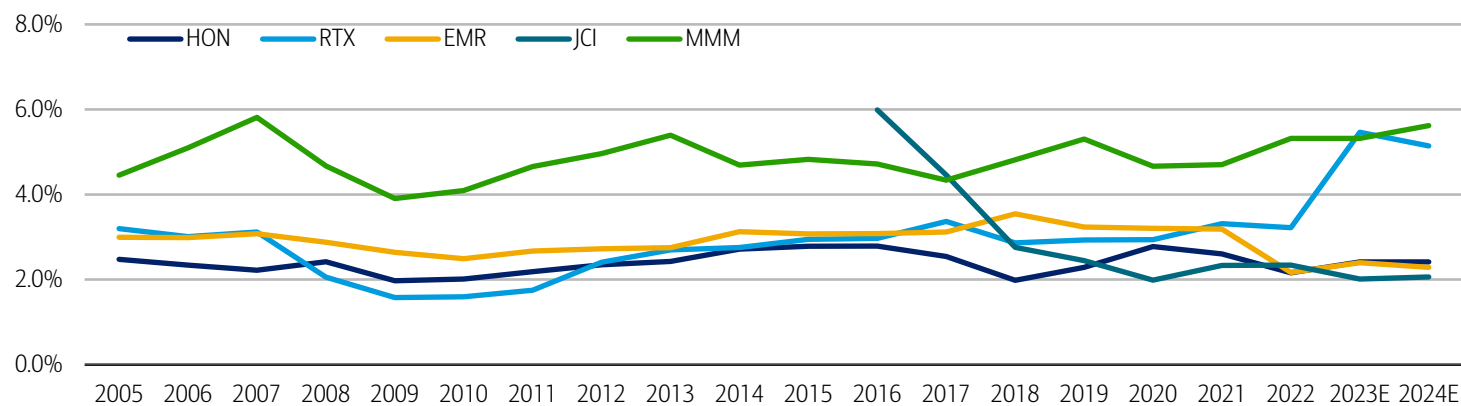
Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

MMM is the most capex-intensive business of the peer set.

Exhibit 19: Capex as a % of sales, 2005-2024E

MMM is the most capital intensive business



Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

Valuation

We base our \$250 price objective on 15x 2025E EV/EBITDA. Our target multiple is in 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 Aero and oil & gas.

Exhibit 22: HON valuation versus comparables

Our \$250 price objective is based on 15x our CY25 estimate

Company	Ticker	Stock Price 1/19/2024	P/E		EV/EBITDA		EBITDA margins		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
3M	MMM	\$106.98	10.2 x	9.6 x	7.7 x	7.3 x	27.7%	28.1%	14.4%	6.0%
Dover	DOV	\$147.49	16.2 x	14.7 x	11.9 x	10.9 x	21.5%	22.0%	3.8%	9.5%
Eaton	ETN	\$243.13	24.7 x	23.2 x	19.1 x	18.1 x	21.4%	21.5%	9.2%	6.2%
Emerson	EMR	\$94.43	17.6 x	16.2 x	13.4 x	12.4 x	26.0%	26.5%	15.5%	8.8%
Fortive	FTV	\$71.80	20.4 x	18.9 x	15.4 x	14.5 x	27.2%	27.6%	4.1%	7.7%
General Electric*	GE	\$129.31	30.6 x	24.7 x	13.5 x	12.7 x	15.2%	14.9%	59.2%	24.2%
Illinois Tool Works	ITW	\$254.29	25.4 x	23.2 x	18.0 x	16.7 x	27.6%	28.1%	2.9%	9.3%
Trane Technologies	TT	\$247.94	25.4 x	23.5 x	17.8 x	16.7 x	18.0%	18.2%	8.3%	8.0%
Rockwell	ROK	\$302.76	22.1 x	20.2 x	17.8 x	16.4 x	22.1%	22.8%	10.2%	9.5%
Raytheon Technologies	RTX	\$85.65	<u>16.5 x</u>	<u>15.3 x</u>	<u>12.7 x</u>	<u>12.0 x</u>	<u>15.4%</u>	<u>15.5%</u>	<u>3.6%</u>	<u>7.7%</u>
AVERAGE			21.0 x	19.0 x	14.6 x	13.7 x	21.7%	22.0%	14.1%	9.9%
Honeywell	HON	\$199.82	19.8 x	17.8 x	12.8 x	12.5 x	28.1%	27.1%	9.9%	11.2%
Honeywell at PO		\$250.00	24.8 x	22.3 x	15.9 x	15.4 x				

Source: Company reports, Bloomberg, BofA Global Research estimates

Note: estimates calendarized for December 31* year end

* GE's EV calculated by assigning -\$10bn GE Capital value; GE EBITDA margin reflects industrial business only

BofA GLOBAL RESEARCH

Exhibit 21: HON Acronyms

See details below

Aero	Aerospace
BGA	Business & General Aviation
ATR	Air Transport & Regional
D&S	Defense & Space
TS	Transportation Systems
HBT	Home and Building Technologies
E&ES	Environmental & Energy Solutions (incl. Elster)
HSF	Honeywell Security & Fire
BSD	Building Solutions & Distribution
HBS	Honeywell Building Solutions
ADI	Americas Distribution
PMT	Performance Materials and Technologies
UOP	UOP (formerly Universal Oil Products)
HPS	Honeywell Process Systems
Adv. Mats	Advanced Materials
R&C	Resins & Chemicals
FP	Fluorine Products
SP	Specialty Products
EM	Electronic Materials
SPS	Safety & Productivity Solutions
S&PS	Sensing & Productivity Solutions
HIS	Honeywell Industrial Safety

Source: Company report

BofA GLOBAL RESEARCH

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.

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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
BUY				
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	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
NEUTRAL				
	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
UNDERPERFORM				
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	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



iQmethodSM 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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

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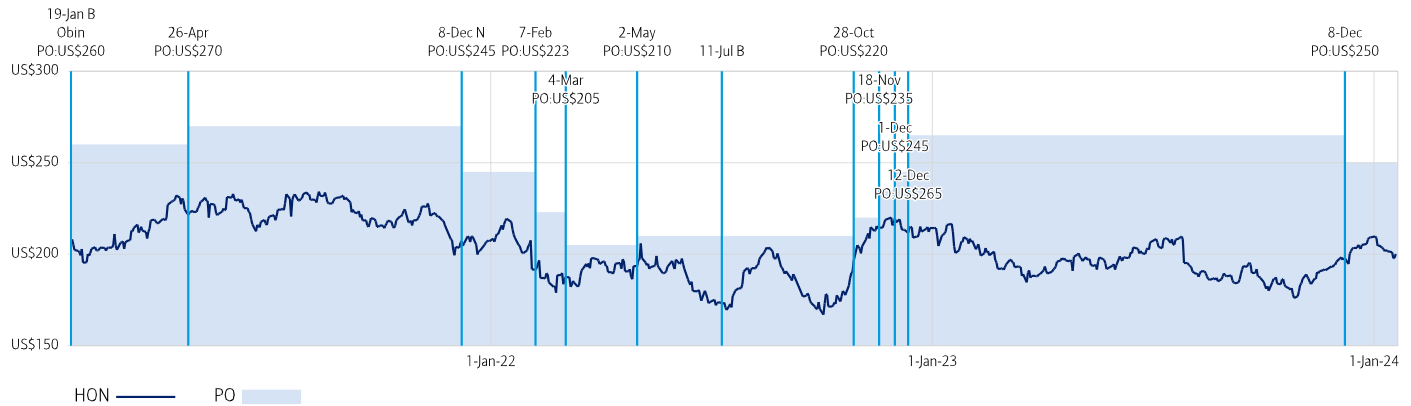
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Important Disclosures

Honeywell (HON) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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