

Honeywell International Inc.

CEO meeting: Growth is the key priority

Reiterate Rating: BUY | PO: 250.00 USD | Price: 197.35 USD

Takeaways from CEO meeting with investors

We hosted Vimal Kapur, CEO of Honeywell and Sean Meakim, Vice President, Investor Relations, for an investor meeting in NYC yesterday (3/5). Kapur will assume the chairman role in addition to his CEO title in early June 2024. A key focus for investors is the visibility on the plan to accelerate organic growth. Kapur articulated key aspects of the growth strategy going forward and expressed confidence in Honeywell's operating philosophy. We feel incrementally more confident on the path to faster growth long-term & proactive portfolio management. Reiterate Buy, \$250 PO. Takeaways continued inside.

Three levers to accelerate organic volumes

Kapur outlined three levers to generate faster volume growth: 1) High growth regions (HGR) 2) Increasing customer wallet share in aftermarket and services 3) Increasing focus on new product introductions. We understand that HGR and services strategies are being implemented right now, while new products is more of a '25 and beyond focus. We estimate that some of the limited operating leverage in '24 already reflects some of the reinvestment. Kapur stressed an 80/20 approach to R&D prioritizing larger, more impactful projects, and stressed the company ability to digitally track the progress of its entire R&D effort. While historically, general managers had compensation tied to cash flow and margins, their bonus now incorporates organic growth targets. The company highlighted near-term defense growth opportunity (margin accretive to overall Aero) and Energy & Sustainability Solutions benefitting from stimulus and decarbonization longer-term. Near term, the company is seeing some sequential short cycle improvement, reiterating 2H24 recovery view.

M&A: like more active, focus on strategic bolt-ons

Honeywell reiterated its focus on strategic bolt-ons in the \$1-7bn EV range. The company noted its already much accelerated pace of M&A since last year. HON's main M&A criteria is a fit with key strategic verticals (aerospace, automation, and energy transition) and accretive gross margins long-term (>40%). The company is publicly targeting up to 10% of its revenue for potential divestitures near-term. Over the longer-term Industrial Automation segment presents the key area for both bolt-on acquisitions and divestitures, with a focus on hardware (v. software). We raise our 2025/2026E estimates to reflect the company's stated commitment to reduce share count 1%+ annually through share buybacks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.76	9.16	10.10	11.27	12.19
EPS Change (YoY)	8.7%	4.6%	10.3%	11.6%	8.2%
Consensus EPS (Bloomberg)			9.96	10.88	11.92
DPS	3.97	4.12	4.41	4.72	5.05
Valuation (Dec)					
P/E	22.5x	21.5x	19.5x	17.5x	16.2x
Dividend Yield	2.0%	2.1%	2.2%	2.4%	2.6%
EV / EBITDA*	18.3x	17.0x	16.0x	14.8x	14.1x
Free Cash Flow Yield*	3.1%	2.9%	4.0%	4.3%	4.8%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 06 March 2024 05:09AM EST

06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	38,690.5	38,646.2
2025E Rev (m)	40,908.6	41,054.3
2026E Rev (m)	42,750.0	42,939.6
2025E EPS	11.21	11.27
2026E EPS	12.11	12.19

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Stock Data

Price	197.35 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)	146,809 USD / 743.9
Free Float	99.7%
Average Daily Value (mn)	630.69 USD
BofA Ticker / Exchange	HON / NYS
Bloomberg / Reuters	HON US / HON.OQ
ROE (2024E)	37.5%
Net Dbt to Eqty (Dec-2023A)	75.1%
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)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.0%	14.4%	15.6%	16.8%	17.3%
Return on Equity	32.7%	36.3%	37.5%	36.2%	33.7%
Operating Margin	22.0%	23.2%	23.8%	24.3%	24.7%
Free Cash Flow	4,508	4,301	5,849	6,365	7,061

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	0.9x	1.1x	1.0x	1.1x
Asset Replacement Ratio	0.6x	0.9x	1.0x	1.0x	1.1x
Tax Rate	19.1%	20.9%	21.0%	21.0%	20.9%
Net Debt-to-Equity Ratio	54.6%	75.1%	53.6%	38.8%	23.2%
Interest Cover	18.9x	11.1x	11.5x	14.4x	15.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	35,466	36,662	38,646	41,054	42,940
% Change	3.1%	3.4%	5.4%	6.2%	4.6%
Gross Profit	11,641	13,667	14,968	15,983	16,802
% Change	5.8%	17.4%	9.5%	6.8%	5.1%
EBITDA	9,017	9,695	10,349	11,132	11,756
% Change	0.8%	7.5%	6.7%	7.6%	5.6%
Net Interest & Other Income	(414)	(765)	(800)	(694)	(672)
Net Income (Adjusted)	5,986	6,119	6,623	7,335	7,860
% Change	6.1%	2.2%	8.2%	10.7%	7.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,986	6,119	6,623	7,335	7,860
Depreciation & Amortization	1,204	1,176	1,164	1,153	1,141
Change in Working Capital	(745)	361	19	(570)	(242)
Deferred Taxation Charge	(180)	153	0	0	0
Other Adjustments, Net	(991)	(2,469)	(819)	(364)	(459)
Capital Expenditure	(766)	(1,039)	(1,139)	(1,189)	(1,239)
Free Cash Flow	4,508	4,301	5,849	6,365	7,061
% Change	-12.3%	-4.6%	36.0%	8.8%	10.9%
Share / Issue Repurchase	(3,880)	(3,519)	(753)	(1,539)	(1,211)
Cost of Dividends Paid	(2,719)	(2,855)	(2,893)	(3,073)	(3,258)
Change in Debt	317	583	(3,782)	(1,250)	(1,500)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	10,110	8,095	6,516	7,018	8,110
Trade Receivables	7,440	7,530	7,927	8,365	8,690
Other Current Assets	7,432	7,877	7,931	8,091	8,148
Property, Plant & Equipment	5,471	5,660	5,635	5,671	5,769
Other Non-Current Assets	31,822	32,363	32,882	33,511	34,004
Total Assets	62,275	61,525	60,889	62,656	64,721
Short-Term Debt	4,447	3,881	0	0	0
Other Current Liabilities	15,491	14,658	14,802	15,058	15,191
Long-Term Debt	15,123	16,562	16,661	15,411	13,911
Other Non-Current Liabilities	9,888	9,983	10,508	10,546	10,587
Total Liabilities	44,949	45,084	41,971	41,015	39,689
Total Equity	17,326	16,441	18,918	21,641	25,032
Total Equity & Liabilities	62,275	61,525	60,889	62,656	64,721

* For full definitions of iQmethodSM measures, see page 6.

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 Technologies, Industrial Automation, Building Automation, and Energy & Sustainability Solutions. 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 3,195,792

Quarterly Earnings Estimates

	2023	2024
Q1	2.07A	2.20E
Q2	2.23A	2.34E
Q3	2.27A	2.66E
Q4	2.60A	2.89E

Structurally better pricing provides cushion to LT targets

Structurally, Honeywell sees pricing (+2% annually vs. +1% historically) as a stronger lever for growth going forward. On the +4-7% organic growth target given at the company's 2023 investor day, this implies 2-5% volume growth. The company noted industry labor costs running at a structurally higher level, supporting the broader inflationary environment.

Update on software & AI efforts

Honeywell seems to be emphasizing organic growth over M&A for its software franchise. Its \$1.5bn software business (~4% of sales) comprises Sparta, the key recent acquisition (~\$125mn in sales in 2021 growing to ~\$200mn today), and the remainder from organic development. Management saw success in HGRs for Sparta, where competitors were less entrenched. Honeywell is utilizing AI to reduce headcount and streamline efficiency for the frontline employees. Management views the company as better suited to realize benefits from AI given prior digitization investments.

Valuation

We base our \$250 price objective on 16x 2025E EV/EBITDA (vs 15x previously). Our target multiple is in line with peers trading at 16x on 2024E. We argue an in-line valuation is warranted as top-quartile execution is offset by near-term end market headwinds.

Exhibit 1: HON valuation versus comparables

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

Company	Ticker	Stock Price 3/5/2024	P/E		EV/EBITDA		EBITDA margins		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
3M	MMM	\$92.42	9.6 x	9.1 x	7.2 x	6.9 x	27.8%	28.1%	3.9%	6.1%
Dover	DOV	\$166.69	18.4 x	16.6 x	13.3 x	12.3 x	21.8%	22.5%	3.2%	10.6%
Eaton	ETN	\$290.62	28.6 x	26.8 x	22.9 x	21.0 x	21.9%	22.1%	11.3%	6.8%
Emerson	EMR	\$109.14	20.4 x	18.7 x	15.2 x	14.1 x	26.0%	26.5%	15.5%	8.8%
Fortive	FTV	\$83.86	22.4 x	20.7 x	17.5 x	16.5 x	28.3%	28.7%	9.3%	8.3%
General Electric*	GE	\$156.87	36.0 x	29.3 x	16.6 x	15.4 x	15.2%	14.9%	55.2%	22.7%
Illinois Tool Works	ITW	\$257.82	26.1 x	23.9 x	18.5 x	17.1 x	27.2%	27.8%	1.3%	9.3%
Trane Technologies	TT	\$283.25	27.7 x	25.6 x	19.3 x	17.8 x	18.5%	18.9%	12.9%	8.4%
Rockwell	ROK	\$287.41	21.0 x	19.1 x	16.3 x	14.9 x	21.6%	22.3%	10.0%	9.6%
Raytheon Technologies	RTX	\$89.79	<u>16.6 x</u>	<u>14.6 x</u>	<u>12.8 x</u>	<u>11.7 x</u>	<u>15.4%</u>	<u>15.6%</u>	<u>7.1%</u>	<u>13.9%</u>
AVERAGE			22.7 x	20.4 x	15.8 x	14.6 x	21.7%	22.1%	13.4%	10.7%
Honeywell	HON	\$196.78	19.5 x	17.5 x	12.8 x	12.2 x	26.8%	27.1%	10.2%	11.6%
Honeywell at PO		\$250.00	24.8 x	22.2 x	16.0 x	15.4 x				

Source: BofA Global Research, company files

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Price objective basis & risk

Honeywell International Inc. (HON)

We base our \$250 price objective on 16x 2025E EV/EBITDA. Our target multiple is in line with peers trading at 16x on 2024E. We argue an in-line multiple is warranted given top-quartile execution is offset by near-term end market headwinds.

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) Lack of re-acceleration in short cycle end markets pressures organic growth.

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

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BUY				
	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				
	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



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

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

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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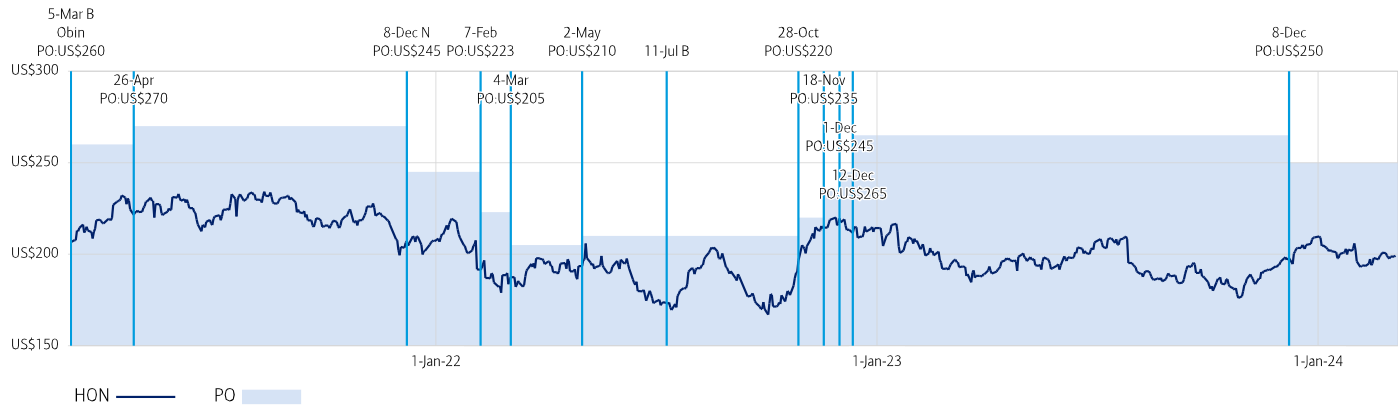
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Honeywell (HON) Price Chart



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 ^{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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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