

United Technologies Corporation (NYSE:UTX)

Sector: Industrials

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$112.56	100.06	120.66	100.69	1.16	16.3	\$91.6B	2.30%

Industry Trends

Urbanization has been occurring in most of the developing world and has recently been fueled by growth in India and China. This increase in urbanization has led to increased demand for building supplies and infrastructure in order to house the millions of people moving to cities. Another important trend is the increase in air travel as a growing middle-class in developing countries and increased globalization will result in an increase in revenue passenger miles. As people fly more, the airline manufacturing industry will receive more revenue for the repair, maintenance and overhaul of engines and other parts.

Investment Thesis

UTC is one of the largest and most respected aerospace and industrial companies in the U.S. They offer competitive products of high quality and also offer repair, maintenance, and overhaul services for these products. As the Green movement has grown larger the past few years, UTC has increased their focus on energy efficient products and has some of the greenest products on the market, allowing for lower energy costs and decreased emissions.

Business Summary

UTC is broken up into 2 different divisions, Building & Industrial Systems which consist of Otis and Climate, Controls, and Security and UTC Aerospace which consists of Pratt & Whitney and Sikorsky. The company receives 57% of its sales from original equipment manufacturing (OEM) and 43% from repairs and overhauls, giving UTC a consistent revenue stream in the future from maintenance and repair services of products bought today. Service margins are higher than OEM margins. UTC is also focusing on making its products more efficient and economical in order to obtain business in developing countries such as India. With the acquisition of Goodrich, a producer of airplane parts such as landing gear and controls, UTC now has a stronger Aerospace product offering which they will use to bundle with their engines in order to increase sales.

UTX 5-year stock performance vs. S&P 500:



(Yahoo Finance)

Competition:

UTC faces stiff competition in the engine industry from large rivals such as General Electric and Rolls Royce and numerous smaller rivals such as Parker Hannifin.

Pros:

- High quality products which are unique to the company that provide energy savings and efficiencies for customers
- Products are made in growing industries allowing UTC opportunity for growth
- Strong cash flow that will be returned to shareholders in the form of buybacks

Cons:

- Reliant on price of inputs in order to make a profit
- Risk of lower future revenues due to potential bubble in China bursting as China accounts for 20% of UTC's sales
- Decrease in military spending in the future

Value Estimate:

\$154.86-167.04 (2017-2019)

Estimated Real Annual Return:

7%-9%

Overall Rating:

Expected inflation	2%
Current EPS	\$6.28
Forecasted EPS Growth	8.3%
Credit Quality	A
ROE	19.3%
ROA	6.6%
Price/Book	2.78
Debt/Equity	56.8
Debt/Capital	.37
Current Ratio	1.22
Price/Cash Flow	14.91
10 yr. Risk Free Rate	2.3%
WACC	9.25%

Three Stars

Report Prepared By:

Mitesh Mistry

10/09/2014

Corporate Social Responsibility:

ESG Disclosure Rating	24.79 (Ind. Avg. 21.14)
Environmental Disclosure Score	16.28 (Ind. Avg. 18.35)
Carbon Disclosure Score	87.00 (Ind. Avg. 78.50)
Social Disclosure Score	14.04 (Ind. Avg. 27.59)
Governance Disclosure Score	55.36 (Ind. Avg. 53.44)

Sources: Bloomberg, CNBC Value Line Investment Survey, Yahoo Finance,

