

# United Technologies (NYSE: UTX)

Sector: Industrials



<b>Target Price</b>	<b>Current Price</b>	<b>52 Week High</b>	<b>52 Week Low</b>	<b>P/E</b>	<b>Market Cap.</b>	<b>Dividend Yield</b>	<b>Beta</b>
\$131.57	\$112.46	\$112.88	\$92.07	18.38	\$90.63B	2.35%	1.04

## Business Description

UTC is an American industrial conglomerate split into four distinct business units with a variety of different commercial and military products. UTC's four business units, OTIS Elevator Company, Pratt and Whitney, UTC Aerospace Systems, and UTC Climate Controls & Security compete in diverse industries and offer products such as aircraft engines, aerospace systems, HVAC, and fire and security systems to both government and private customers.

## Industry Trends

UTC's business units compete in several different industries. The airline industry is predicted to grow 5.0% annually over the next 20 years due to an expanding global economy and market liberalization in Asia. Developing countries are also witnessing growth in their middle class economic segments, which has led to an increase in air travel. This demographic change has created additional demand for aircraft components and aftermarket services. Urbanization trends in emerging markets also provides for strong growth opportunities in the elevator and HVAC industries, which anticipate 5.0% and 3.0% growth over the next several years. Increased military spending in the United States and around the world has also resulted in impressive growth projections for all four UTC business units over the next several years.

## Investment Thesis

UTC will provide long run value due to its diversified business units and product offerings. Additionally, UTC's pursuit of growth opportunities in emerging markets such as Asia and Europe will allow the company to continue to innovate new technologies and increase profits. UTC has a long history of success in its industry and with an increase of government contacts and US military spending, it is primed to be a strong investment for years to come.

## Valuation Assumptions

WACC: 8.26%  
Terminal FCF Growth Rate: 2.5%  
Industry Top Line Growth: 5.0%  
DCF: \$134.88; Multiples: \$121.62

## Key Financials

Dividend Yield: 2.35%  
ROE: 19.90%  
ROA: 5.71%  
Interest Coverage Ratio 5.05

## Corporate Social Responsibility

ESG Disclosure Score: 28.93 (Industry: 11.98)  
Sustainalytics ESG Score: 37.93 (Industry: 31.03)  
Percent Women on Board: 18.18% (Industry: 17.42%)  
Percent Independent Directors: 90.91% (Industry: 90.91%)  
Average Comp Awarded Per Executive: \$10.77M (Industry: \$7.18M)

## Business Model



## 5-Year Stock Performance



## Competitive Analysis

UTC's four business units each compete in different industries with different competitors. In the elevator/escalator industry, OTIS competes with Kone, ThyssenKrupp, and Schindler. OTIS' profit margins are roughly double those of their competitors. Pratt and Whitney competes with CFM International, GE, and Rolls-Royce, commanding 25% of the world's passenger fleet and is the fastest growing jet engine manufacturer in the industry. The Climate, Controls, and Security unit competes with Daikin and Johnson Controls, and is the largest HVAC manufacturer and distributor for businesses and homeowners. This fragmented industry provides consolidation opportunities for UTC. UTAS competes with Honeywell and Parker Hannifin, with a controlling interest in aftermarket sales.

## Competitive Advantages

Three of UTC's business units, United Technologies Aerospace Systems, Otis Elevator Company, and Climate Controls & Security have the highest market share in their respective industries while Pratt & Whitney is among the fastest growing aero engine manufacturers. This provides competitive advantages considering the high entry barriers and switching costs in their industries. UTC separates itself from competitors through its commitment to high-quality technological innovation, benefiting both customers and the business. Their diverse business units and product offerings allow the company to access growth opportunities unavailable to their competition both in the United States and around the world. UTC also has a variety of governmental, military and commercial contracts that provide them exclusive rights innovate and implement a vast number of industrial projects over the next several years, including the F-35 Fighter Jet for the US Department of Defense.

## Risks

UTC faces several risks to investors including its reliance on governmental military spending and as well as economic growth in China and other Asian countries. Additionally, UTC's expansive international business opportunities create risks when the strength of the American dollar changes against the Euro or other Asian currencies. UTC also has a high level of debt for an industrial company of its size and has faced criticism over some of its products via tweets from US President Donald Trump. Finally, UTC recently rejected a \$90 billion offer from Honeywell to purchase the company, however Honeywell is still interested in acquiring UTC and may make a more substantial offer in the future.

## Report Prepared By:

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Sources: Bloomberg, Yahoo! Finance

