



UNITED TECHNOLOGIES (UTX)

Business Model

United Technologies is a diversified industrial company operating out of four segments. These include Pratt & Whitney (commercial and military aerospace), Collins Aerospace Systems (aerospace systems), Otis (elevators and escalators), and Carrier (HVAC, refrigeration, and fire and security). UTC completed the acquisition of Rockwell Collins in November 2018, creating one of the aerospace industry's largest installed bases. In late 2018, the company announced its intent to split its aerospace and commercial platforms. UTC will remain an aerospace company and will retain both Pratt & Whitney, most known for its flagship geared turbofan engine, and Collins Aerospace Systems. UTC will also spin off both Otis and Carrier and later merge with Raytheon sometime during the front half of 2020.

The Company in a Nutshell

- This Dividend Achiever increased its dividend for over 16 years in a row.
- Each UTX division is known for its highly engineered equipment with a long history of innovation.
- Its aftermarket activities (46% of its business) are not only recurrent but offer higher margins as well.

Investment Thesis

As the aircraft industry is still in an uptrend cycle, UTX is well positioned to surf on this tailwind. Rockwell Collins manufactures parts for airplanes, primarily avionics, flight controls, aircraft interior, and data connectivity products. UTX is already known for its turbofan engines, this acquisition will help it to offer a wider range of products to the same clients. UTX is now expected to merge with Raytheon to create #2 aerospace firm behind Boeing (BA). The merger is expected to close in H1 2020, subject to the receipt of required regulatory approvals and completion by UTX of the separation of its Otis and Carrier businesses.

VALUATION

Dividend Growth Rate Years 1-10: 8.00%

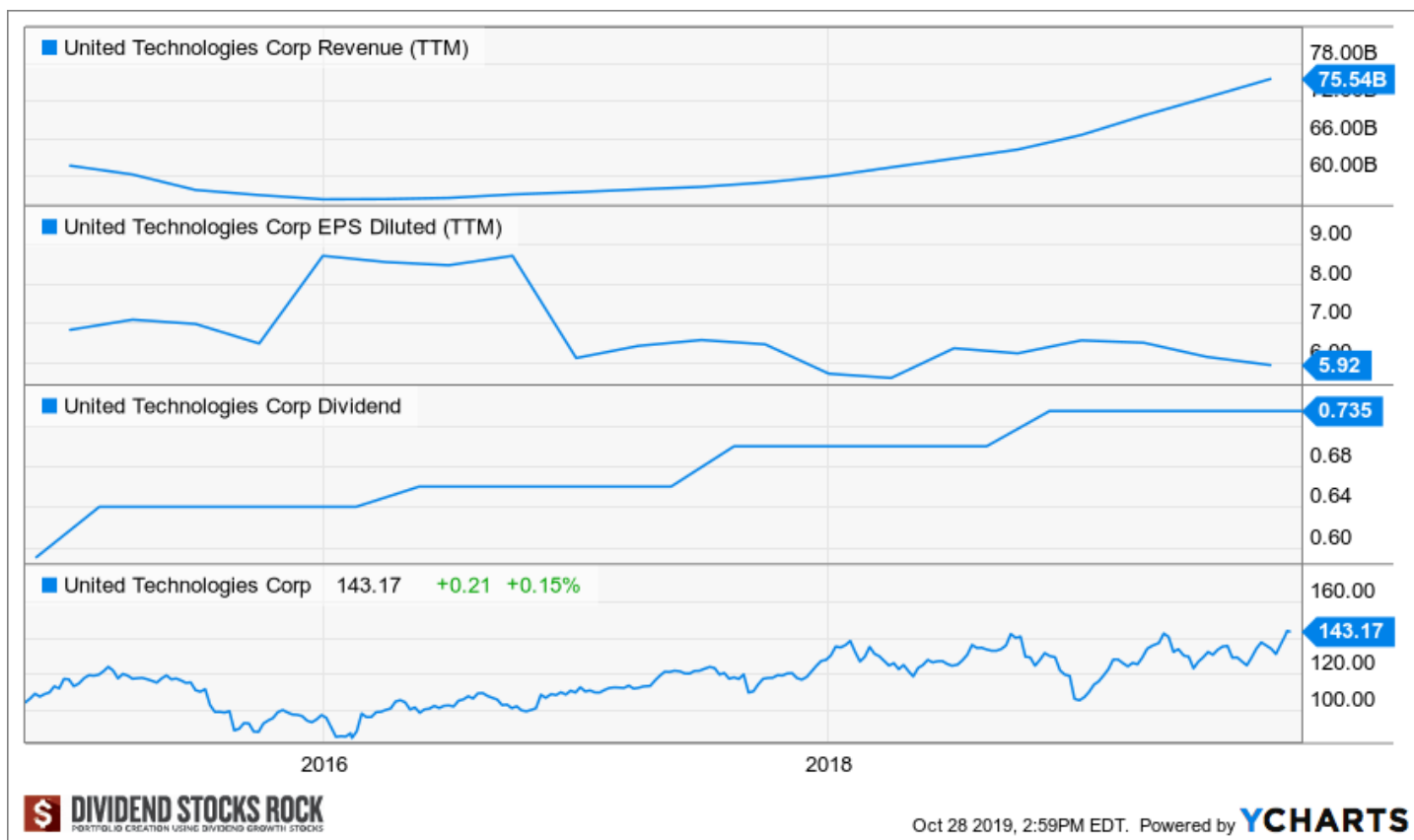
Terminal Dividend Growth Rate: 7.00%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$205.68	\$136.68	\$102.20
10% Premium	\$188.54	\$125.29	\$93.68
Intrinsic Value	\$171.40	\$113.90	\$85.16
10% Discount	\$154.26	\$102.51	\$76.65
20% Discount	\$137.12	\$91.12	\$68.13



DSR STOCK CARD

10/28/2019



Potential Risks

UTX is highly dependent on the commercial aerospace business. Pratt & Whitney and UTS Aerospace are linked toward the same industry and its upcoming merger with Raytheon will only add more weight to this segment. There will be lots of uncertainties around this second important transaction (after Rockwell in 2018). Many investors consider UTX should take the time to swallow its first bite before ordering another full plate.

Dividend Growth Perspective

The stock offers a stable dividend yield that has been between 2% and 2.5% for most of the time. While the yield is not incredible, management more than doubled its payouts over the past decade. Looking at both payout and cash payout ratios, everything is under control after a more difficult year. Going forward, and assuming the integration of Rockwell and the merger with RTN go without any problems, UTX will be poised for additional growth. Management has plenty of room to increase its payouts.