

This will be our fifth recommendation for the “Baby Boomer SSI Portfolio”.

### **Honeywell International (HON)**

HON is known as an aerospace company, but it also has important businesses in climate control, industrial materials and automotive products

About 49% of HON’s revenue comes from outside the U.S. in 2007. Its international business includes Europe, Canada and Latin America.

The company has four different business segments:

<u>Segment</u>	<u>Revenue %</u>	<u>Operating Profits %</u>
Aerospace	35%	45%
Automation & Control	36%	29%
Specialty Materials	14%	14%
Transport. Systems	15%	12%

### **Valuations**

The average one year target for HON is approximately \$64.67.

Yahoo, consensus (12 analysts) - \$63.58

S & P, independent and conservative- \$60

Argus, independent moderate - \$71

Lehman - \$70

The First Call consensus forecast for 2008 earnings is \$4.28, about a 20% increase over 2007. The next few years' earnings are expected to grow better than double digits.

If the stock can achieve a small P/E increase to a modest 14 on this year's earnings, the price could gravitate to around \$60 (\$4.28 2009 Est. times 14 P/E).

That would be about appreciation of about 25%. The dividend is around 2.3%, plus option writing could give us close to a potential 30% return over the next 12 to 24 months.

Below are more fundamental metrics for HON:

Dividend – 2.3%

Market Capitalization - \$35.52 Billion

Revenue - \$36.58 Billion

Operating Margin – 12.50%

Because dividends are important for the Boomer Portfolio and retirees, here is an historical look at HON's dividends:

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	AVG.
<b>HON Div.</b>	1	0.91	1.03	0.75	0.75	0.75	0.75	0.75	0.68	0.6	
<b>Payout Ratio</b>	32%	36%	55%	50%	48%	NM	NM	37%	36%	26%	
<b>Dividend Growth</b>		10%	-12%	37%	0%	0%	0%	0%	10%	13%	7%

For the last ten years' dividends have increased and have averaged a 7% growth rate.

## Catalysts

- HON has been doing better the last few years and as you can see they have been increasing their dividends the last few years. They have also started to buy back shares; over the last few years shares outstanding have fallen by about 12%.

- The company has recently raised earnings guidance based on expected earnings growth and margin expansion in their aerospace business.
- The company has been restructuring itself and this should help the companies cost structure beyond 2009.
- HON has been and will probably continue to benefit from the global growth story.

### **Risks**

- Rising dollar – HON has benefited from the falling dollar, now that tail wind may become a headwind.
- Credit squeeze – The global credit crisis will probably have an impact on HON because most of the products they sell are big ticket items that needs to be financed.
- HON transportation business is the weakest of its businesses and will probably remain under pressure.
- Rising material costs could continue to hurt margins.

### **Technicals**

Below is a long-term chart of HON:



HON was up about 3 fold in the bull market of the 2000s.

The stock remains above its long-term trend line. Prices could pull back to that trend line.

Below is a short-term chart of HON:



Let's study the chart:

- Prices are down about 25% from its peak in May, bear market territory.

Most stocks and the major markets peaked in October. Honeywell and other large multinationals have done better because of the stronger dollar and the belief that the global economy would fair better than the U.S. economy.

Both of those trends are starting to unravel: the dollar is strengthening and our multinationals will lose their price competitiveness; there are signs that many of our trading partners' economies are slowing.

- Prices are below both the 50 and 200-day moving average and both are trending down indicating both the intermediate and long-term trends are bearish.

-When stocks, markets enter bear market territory they need to find a bottom and then base.

Basing normally takes at least 3 months, the longer the basing period the better. We may be early in recommending the stock, but we can add to the position if we have not seen the bottom.

- The MACD is not confirming the last new low, a positive sign.

Overall the chart is bearish, but it may be basing/ bottoming. Even though we may be a little early, we do recommend HON.

### **Recommendation**

We recommend 100 shares of HON at the market.

The stock is around \$43.00.

We also recommend selling short one contract of the Oct. 40 put, symbol HONVH.

The option is selling for about \$1.20 cents. If the option is put to us, our cost basis will be approximately \$38.80. If stock does not trade below \$40 at the time of expiration we will keep the \$120 premium.

We will probably add to the position as it finds a bottom or as it bases.

