

Student Investment Management: Summer 2016

Ryan Hagness and Nikola Popovich

## Agenda



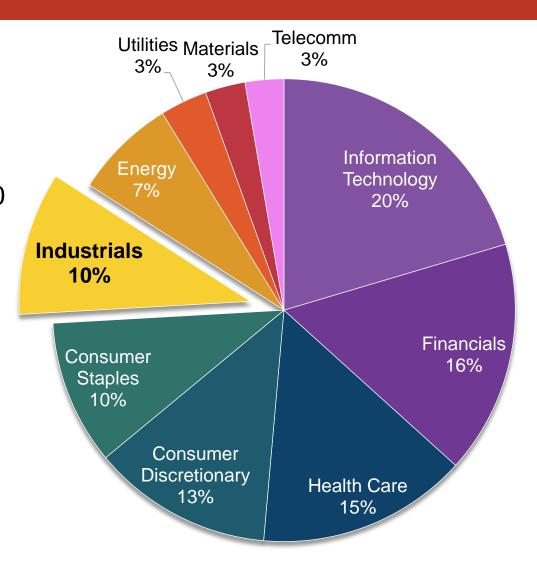
- Review and Overview
- Companies
- Recommendations

### Overview



#### **S&P 500 Sectors**

- Industrials 10.18% of S&P 500
- Industrials 10.85% of SIM
- Overweight 0.67 BPS
- Recommend reducing weight to 10.20%



## Overview



	CURRENT BASIS	PROPOSED BASIS	CURRENT PRICE	TARGET PRICE	UPSIDE (DOWNSIDE)	RECOMMENDATION
Eaton	4.61%	-150 BPS	\$63.87	\$66.04	7.1%	Sell
Hertz	2.27%	+50 BPS	\$50.13	\$62.55	16.9%	Buy
Honeywell	3.97%	+35 BPS	\$119.05	\$132.37	13.2%	Buy

Total	10.85%	10.20%
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## Eaton



- Global power management company with headquarters in Dublin, Ireland
  - Electrical products/service
  - Vehicle
  - Hydraulics
  - Aerospace

Current Price: \$63.87

Target Price: \$66.04

**Upside: 7.1%** 

Recommendation: SELL







Current Price: \$63.87

Target Price: \$66.04

Market Cap: \$28.3B

Shares Outstanding: 467.0M

Dividend and Yield: 3.7%

Beta: 1.45

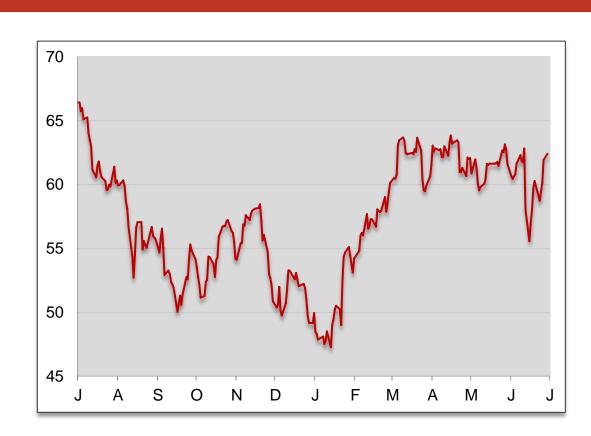
52 Week Range: \$46.19-66.61

Revenue: \$20.8B

EPS (TTM): 4.12

• P/E (TTM): 15.13

Analyst Target Price Range: \$54-77 (\$65)







#### **Key Drivers**

- Overall manufacturing and agricultural production levels in the U.S. and abroad
- Capital expenditures/investments
- Overall market performance

#### **Key Risks**

- Oil volatility
- Global scope (45% of sales)
- Governmental changes to tax structure



ETN	High	Low	Median	Current
P/E	29.0	5.5	13.9	15.1
P/B	3.2	0.9	2.0	1.9
P/S	1.6	0.4	1.1	1.4
P/EBITDA	14.5	3.2	8.7	11.3

Industrials Sector	High	Low	Median	Current
P/E	20.0	7.3	17.2	17.2
P/B	3.8	1.4	2.8	3.8
P/S	1.7	0.6	1.4	1.6
P/EBITDA	10.1	3.8	8.7	9.4

## Hertz



- Worlds largest car rental company headquartered in Estero, Florida
  - Automobiles
  - Transportation services
  - Equipment rentals

Current Price: \$50.13

**Target Price: \$62.55** 

**Upside: 16.9%** 

**Recommendation: BUY** 







Current Price: \$50.13

Target Price: \$62.55

Market Cap: \$21.27B

Shares Outstanding: 424.38M

Beta: 2.25

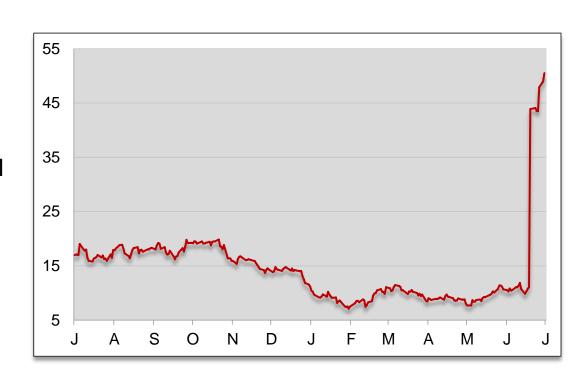
52 Week Range: \$6.95-51.58

Revenue: \$10.5B

EPS (TTM): 9.78

P/E (TTM): 5.13

Analyst Target Price Range: \$13-76 (\$56)







#### **Key Drivers**

- Split of the company into two different sectors
- Improved managerial staff
- Strong name brand

#### **Key Risks**

- Past accounting errors
- Rising competitors like Uber and Lyft
- Trailing total returns have been mostly negative



HTZ	High	Low	Low Median	
P/E	454.2	4.1	21.4	9.8
P/B	29.5	3.16	15.0	8.4
P/S	1.07	0.2	0.7	0.7
P/EBITDA	3.1	0.3	1.9	1.0

Industrials Sector	High	Low	Median	Current
P/E	20.0	7.3	17.2	17.2
P/B	3.8	1.4	2.8	3.8
P/S	1.7	0.6	1.4	1.6
P/EBITDA	10.1	3.8	8.7	9.4



- U.S. conglomerate that produces commercial and consumer products
  - Aerospace
  - Automation and Control Systems
  - Performance Materials and Technologies

Current Price: \$119.05

**Target Price: \$132.37** 

**Upside: 13.2%** 

**Recommendation: Buy** 





Current Price: \$119.05

Target Price: \$132.37

Market Cap: \$90.73B

Shares Outstanding: 762.12M

Dividend and Yield: 2.01%

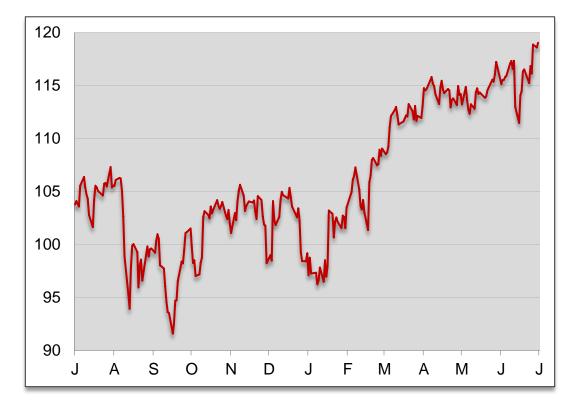
Beta: 0.92

52 Week Range: \$87.00-119.80

Revenue: \$38.89B

EPS (TTM): 6.16

P/E (TTM): 19.32



Analyst Target Price Range: \$114-135 (\$125.35)



### **Key Drivers**

- Government appropriations for defense and space programs
- Residential and commercial construction

### **Key Risks**

- International operations (over 50% of sales)
- Oil price volatility



HON	High	Low	Median	Current
P/E	26.9	6.0	17.2	18.0
P/B	6.2	1.1	3.8	5.0
P/S	2.4	0.3	1.2	2.4
P/EBITDA	34.5	3.0	9.7	11.1

Industrials Sector	High	Low	Median	Current
P/E	20.0	7.3	17.2	17.2
P/B	3.8	1.4	2.8	3.8
P/S	1.7	0.6	1.4	1.6
P/EBITDA	10.1	3.8	8.7	9.4

## Recommendations



	CURRENT BASIS	PROPOSED BASIS	CURRENT PRICE	TARGET PRICE	UPSIDE (DOWNSIDE)	RECOMMENDATION
Eaton	4.61%	-150 BPS	\$63.87	\$66.04	7.1%	Sell
Hertz	2.27%	+50 BPS	\$50.13	\$62.55	16.9%	Buy
Honeywell	3.97%	+35 BPS	\$119.05	\$132.37	13.2%	Buy

Total	10.85%	10.20%
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Eaton	(FTN)
Laton	

#### Analyst: Ryan Hagness 7/5/16

Terminal Discount Rate = Terminal FCF Growth = 11.0% 3.7%

(000,000)											
Year	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	20,063	20,705	21,533	22,286	23,111	24,035	24,997	25,997	27,011	28,037	29,074
% Growth	-4.0%	3.2%	4.0%	3.5%	3.7%	4.0%	4.0%	4.0%	3.9%	3.8%	3.7%
Operating Income	2,217	2,340	2,562	2,652	2,750	2,860	2,975	3,094	3,214	3,336	3,460
Operating Margin	11.1%	11.3%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Interest Income	20	21	22	22	23	24	25	26	27	28	29
Interest % of Sales	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Taxes	199	211	231	237	245	255	265	276	287	298	309
Tax Rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Net Income	2,012	2,123	2,326	2,393	2,482	2,581	2,684	2,792	2,900	3,011	3,122
% Growth	•	5.5%	9.5%	2.9%	3.7%	4.0%	4.0%	4.0%	3.9%	3.8%	3.7%
Add Depreciation/Amort	1,003	1,035	1,077	1,114	1,156	1,202	1,000	1,040	945	981	872
% of Sales	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	3.5%	3.5%	3.0%
Plus/(minus) Changes WC	(691)	(152)	(195)	(202)	(210)	(218)	(227)	(236)	(245)	(254)	(264)
% of Sales	-3.4%	-0.7%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
Subtract Cap Ex	602	559	581	602	624	649	675	702	729	757	785
Capex % of sales	3.0%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Free Cash Flow	1,722	2,448	2,626	2,703	2,803	2,916	2,782	2,894	2,871	2,980	2,945
% Growth		42.1%	7.3%	3.0%	3.7%	4.0%	-4.6%	4.0%	-0.8%	3.8%	-1.2%
NPV of Cash Flows	16,219	52%									
NPV of terminal value	14,735	48%							Termin	al Value	41,840
Projected Equity Value	30,955	100%									
Free Cash Flow Yield	5.87%								Free Ca	sh Yield	7.04%
Current P/E	14.6	13.8	12.6						Term	ninal P/E	13.4
Projected P/E	15.4	14.6	13.3								
Current EV/EBITDA	10.4	9.9	9.2					Te	rminal EV	EBITDA	10.6
Projected EV/EBITDA	10.9	10.4	9.7								
Shares Outstanding	467										
Current Price	\$ 62.77										
Implied equity value/share	\$ 66.27										
Upside/(Downside) to DCF	5.6%										
Debt	4,625										
Cash	445										
Cash/share	0.95										



Hortz	Global	Holdings	(HTZ)

Analyst: Niko Popovich 6/8/16				Terminal Disc		10.5% 4.0%					
(000s)						,					
Year	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026
Revenue	10,798	11,090	11,423	11,822	12,236	12,726	13,235	13,764	14,315	14,887	15,483
% Growth	,	2.7%	3.0%	3.5%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.09
Operating Income	972	1,054	1,142	1,182	1,224	1,273	1,350	1,404	1,460	1,533	1,595
Operating Margin	9.0%	9.5%	10.0%	10.0%	10.0%	10.0%	10.2%	10.2%	10.2%	10.3%	10.35
Interest Income	630	635	640	662	686	713	715	743	773	774	805
Interest % of Sales	5.8%	5.7%	5.6%	5.6%	5.6%	5.6%	5.4%	5.4%	5.4%	5.2%	5.29
Taxes	77	90	105	104	108	112	127	132	137	152	158
Tax Rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.05
Net Income	308	361	420	416	430	448	508	529	550	607	632
% Growth	306	17.3%	16.2%	-1.0%	3.5%	4.0%	13.5%	4.0%	4.0%	10.5%	4.0%
Add Depreciation/Amort	2,916	2,994	3,084	3,192	3,304	3,436	3,573	3,716	3,865	4,020	4,180
% of Sales	2,916	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	4,100 27.05
Plus/(minus) Changes WC	41	(33)	(37)	(39)	(40)	(42)	(26)	(28)	(29)	(30)	(31)
% of Sales	0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.29
Subtract Cap Ex	3,024	3,116	3,233	3,310	3,426	3,500	3,573	3,716	3,865	4,020	4,180
Capex % of sales	28.0%	28.1%	28.3%	28.0%	28.0%	27.5%	27.0%	27.0%	27.0%	27.0%	27.05
Free Cash Flow	241	207	234	259	268	343	482	501	521	578	601
% Growth		-14.1%	13.3%	10.6%	3.5%	27.7%	40.7%	4.0%	4.0%	10.9%	4.0%
NPV of Cash Flows	2,163	38%									
NPV of terminal value	3,541	62%							Terminal Value		9,612
Projected Equity Value	5,705	100%									,
Free Cash Flow Yield	4.93%								Free	6.25%	
Current P/E	15.8	13.5	11.6						Te	erminal P/E	15.2
Projected P/E	18.5	15.8	13.6								
Current EV/EBITDA	5.2	5.0	4.8						Terminal	EV/EBITDA	4.3
Projected EV/EBITDA	5.4	5.2	5.0								
Shares Outstanding	456										
Current Price	\$ 10.70 pr	emarket after	preannounce	ement							
Implied equity value/share	\$ 12.51 \$										
Upside/(Downside) to DCF	16.9%										
Debt	15,900										
Cash	486										
Cash/share	1.07										



Analyst: Niko Popovich				Terminal Disco	ount Rate =	9.7%					
7/14/16				Terminal FC		3.8%					
(000s)											
Year	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	40,510	42,576	44,790	47,164	49,758	52,495	55,382	58,317	61,233	64,111	66,996
% Growth	,	5.1%	5.2%	5.3%	5.5%	5.5%	5.5%	5.3%	5.0%	4.7%	4.5%
Operating Income	7,170	7,536	8,376	8,867	9,354	9,974	10,523	11,080	11,634	12,245	12,796
Operating Margin	17.7%	17.7%	18.7%	18.8%	18.8%	19.0%	19.0%	19.0%	19.0%	19.1%	19.15
Interest Income	315	310	310	326	344	363	277	292	306	256	268
Interest % of Sales	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.5%	0.5%	0.5%	0.4%	0.4%
Taxes	1,806	1,904	2,126	2,263	2,388	2,547	2,715	2,859	3,002	3,177	3,320
Tax Rate	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Net Income	5,009	5,280	5,895	6,277	6,622	7,064	7.531	7,930	8,326	8,812	9,208
% Growth	-,	5.4%	11.7%	6.5%	5.5%	6.7%	6.6%	5.3%	5.0%	5.8%	4.5%
Add Depreciation/Amort	932	979	1,075	1,132	1,194	1,260	1,385	1,458	1,531	1,603	1,675
% of Sales Plus/(minus) Changes WC	2.3% <b>57</b>	2.3%	2.4%	(378)	(398)	2.4%	2.5% (111)	2.5% (117)	2.5% (122)	(128)	2.5%
% of Sales	0.1%	-0.5%	(359) -0.8%	-0.8%	-0.8%	(420) -0.8%	-0.2%	-0.2%	-0.2%	-0.2%	(134)
Subtract Cap Ex	1,094	1,150	1,209	1,273	1,294	1,365	1,440	1,516	1,531	1,603	1,675
Capex % of sales	2.7%	2.7%	2.7%	2.7%	2.6%	2.6%	2.6%	2.6%	2.5%	2.5%	2.5%
Free Cash Flow	4.004	4 000	5,402	5,758	6,124	6,538	7,364	7,755	8.204	8.683	9,074
% Growth	4,904	4,896 -0.1%	10.3%	6.6%	6.4%	6.8%	12.6%	5.3%	5.8%	5.8%	4.5%
,, 6101101		-0.175	10.075	3.070	0.410	3.070	12.075	5.570	5.570	5.070	4.07
NPV of Cash Flows	41,222	39%									
NPV of terminal value	63,254	61%							Terminal Value		159,645
Projected Equity Value	104,476	100%									
Free Cash Flow Yield	5.22%								Free	Cash Yield	5.68%
Current P/E	18.8	17.8	15.9						Te	rminal P/E	17.3
Projected P/E	20.9	19.8	17.7								
Current EV/EBITDA	12.7	12.0	10.9						Terminal I	EV/EBITDA	11.6
Projected EV/EBITDA	14.0	13.3	12.0								
Shares Outstanding	789										
Current Price	\$ 119.07 pr	emarket after	nreannouncer	ment							
Implied equity value/share	\$ 132.37	amat untal	p. 330011001								
Upside/(Downside) to DCF	11.2%										
Debt	14,068										
Cash	5,455										
Cash/share	6.91										