



Parker-Hannifin Corporation (PH)

Updated August 9th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$173	5 Year CAGR Estimate: 8.8%	Volatility Percentile: 49.5%
Fair Value Price: \$156	5 Year Growth Estimate: 9.0%	Momentum Percentile: 43.6%
% Fair Value: 111%	5 Year Valuation Multiple Estimate: -2.0%	Valuation Percentile: 44.2%
Dividend Yield: 1.8%	5 Year Price Target \$262	Total Return Percentile: 57.7%

Overview & Current Events

Parker-Hannifin is a diversified industrial manufacturer specialized in motion and control technologies. The company was founded in 1917 and has grown to a market capitalization of \$23 billion and annual revenues of \$14 billion. Parker-Hannifin has paid a dividend for 69 years and has increased that dividend for a remarkable 62 consecutive years.

Last week Parker-Hannifin reported (8/2/18) financial results for the fourth quarter of fiscal 2018. The company grew its sales by 9% to an all-time quarterly record of \$3.82 B and expanded its operating margin to a record 16.9% as reported and 17.5% as adjusted. The revenue growth rate was more than double the growth rate for global industrial production. All the segments enjoyed strong revenue growth and even stronger growth of their operating income.

Parker-Hannifin's robust financial performance was driven by the acquisition of CLARCOR (a filtration system and packing material manufacturer that was acquired by the company on February 28th, 2017) as well as general ongoing business growth. The full-year results of Parker-Hannifin were equally impressive, as the company achieved records in sales, operating margins, earnings per share and cash flow from operations.

Moreover, management provided rosy guidance, as it is expecting another record year for fiscal 2019, with the adjusted earnings per share rising to \$10.70-\$11.50. In addition, management reiterated its previous 5-year guidance for compounded annual EPS growth of at least 10% until 2023. Management also aims to grow sales by at least 150 points more than global industrial growth and boost the operating margin to 19% until 2023.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.13	\$3.40	\$6.37	\$7.45	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.36	\$17.48
DPS	\$1.00	\$1.01	\$1.25	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.00	\$4.50

Parker-Hannifin compounded its adjusted earnings-per-share at a rate of 4.3% per year over the last decade. We believe that the company's historical growth grossly understates its potential moving forward. As management has reiterated its guidance for at least 10% compounded annual EPS growth until 2023, we have assumed 9% annual EPS growth moving forward. Applying this growth rate to the earnings of this year gives a 2024 earnings estimate of \$17.48.

Parker-Hannifin's growth will come in part from acquisitions. The \$4.3 billion CLARCOR transaction is an example of this. The purchase is expected to generate \$160 million in annual run rate cost synergies three years after closing.

Importantly, the acquisition was immediately accretive to the pro-forma company's cash flow, earnings-per-share, and EBITDA margins after adjusting for one-time costs. We expect similar acquisitions moving forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2024
Avg. P/E	13.2	14.5	16.7	12.6	10.8	13.9	18.0	16.6	16.3	17.3	16.6	15.0
Avg. Yld.	1.2%	2.2%	1.8%	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.8%	1.7%

Thanks to its impressive earnings report, Parker Hannifin has rallied 8% since our previous research report, about two weeks ago. Consequently, the stock is currently trading at a price-to-earnings ratio of 16.6, which is above our fair value

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

estimate of 15.0. Due to the likelihood of valuation contraction, we are forecasting a 2.0% headwind to Parker-Hannifin's returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	21.6%	21.7%	27.2%	28.5%	23.4%	22.8%	24.9%	21.1%	18.3%	22.0%	22.0%	22.0%
Debt/A	56.7%	55.9%	50.5%	56.2%	54.2%	49.8%	58.4%	62.0%	66.0%	61.7%	61.0%	60.0%
Int. Cov.	7.1	8.3	15.2	18.0	15.3	19.9	13.1	9.2	9.2	10.5	11.0	12.0
Payout	31.9%	29.7%	19.6%	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	26.4%	25.7%
Std. Dev.	42.3%	31.0%	38.1%	27.6%	20.5%	22.7%	22.9%	23.1%	17.1%	22.0%	22.0%	22.0%

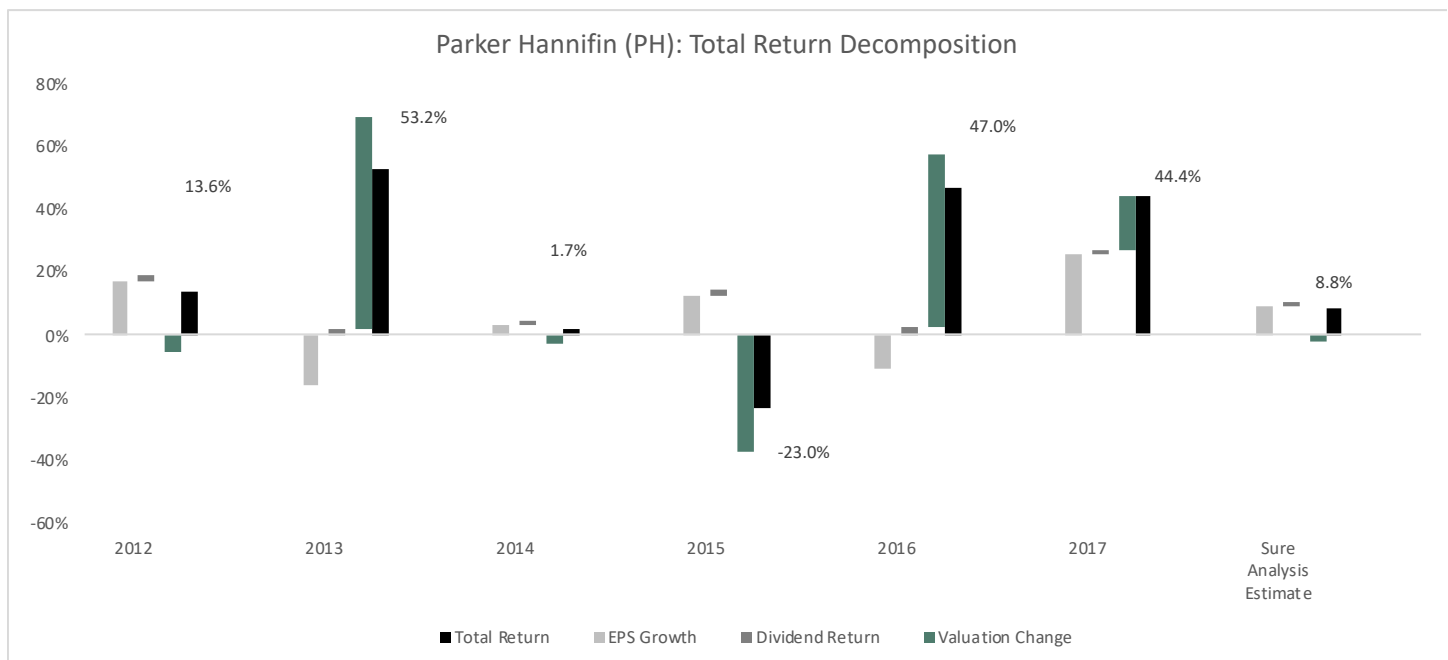
During the last decade, Parker-Hannifin's gross profits as a proportion of its total assets declined and its debt as a percent of total assets increased. However, thanks to the impressive performance of the company, these ratios have remarkably improved this year. Moreover, the company's interest expense is well-covered by its operating earnings.

Qualitatively, Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet absolutely critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial devices. This is appealing because the company operates in a profitable niche which helps to discourage large would-be competitors.

Final Thoughts & Recommendation

Parker-Hannifin has rallied 8% since our recent research report, in which we mentioned its promising growth potential and total return profile. Nevertheless, its total return profile has remained strong. Parker-Hannifin's high single-digit expected total returns earn it a potential buy recommendation for dividend growth investors looking to bolster their exposure to the industrial manufacturing sector.

Total Return Breakdown by Year



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