Ingersoll-Rand plc (IR)

Updated September 26th, 2018 by Bob Ciura

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	9.8%	**Volatility Percentile:**	43.0%
Fair Value Price:	$95	**5 Year Growth Estimate:**	10%	**Momentum Percentile:**	66.8%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Valuation Percentile:**	46.8%
Dividend Yield:	1.5%	**5 Year Price Target**	$152	**Total Return Percentile:**	68.2%

Overview & Current Events

Ingersoll-Rand Plc is a manufacturer of industrial goods. The company was founded in 1871. Today, it is headquartered in Ireland and has a market capitalization of $25 billion. It develops products, services, and solutions to enhance the quality, energy efficiency and comfort of air in homes and buildings. It also transports and protects food and perishable items. These businesses are housed in the company's two operating segments, Climate and Industrial. Ingersoll-Rand manufactures a number of popular brands, including Ingersoll-Rand, Trane, Thermo King, American Standard, ARO, and Club Car.

On 7/25/18 the company announced strong results for the 2018 second quarter. Quarterly revenue of $4.36 billion increased 11% from the same quarter a year ago, and beat analyst expectations by $150 million. Performance was evenly balanced, as Ingersoll-Rand generated 9% organic growth in both the Climate and Industrial segments. Earnings-per-share of $1.85 also beat analyst expectations, and increased 24% year-over-year. Earnings growth was primarily attributable to revenue growth, margin expansion, and share repurchases.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.69	$1.41	$2.23	$2.82	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	***$5.50***	***$8.86***
DPS	$0.72	$0.50	$0.28	$0.59	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	***$1.96***	***$3.16***
Shares	371	321	328	297	296	278	263	231	259	250	***250***	***250***

After reporting second-quarter results, Ingersoll-Rand raised its financial guidance for the remainder of 2018. For the full year, the company now expects 7% to 8% organic revenue growth, up significantly from prior expectations of 3% to 3.5% growth. Earnings-per-share are now expected to increase by approximately 22% in 2018. The company continues to see strong demand, evident by 15% organic bookings growth last quarter.

Fundamentally, Ingersoll-Rand's positive growth outlook is due to the continued expansion of the global economy, as well as a strong North American housing market. Another long-term growth catalyst is technology and innovation designed to solve climate-related issues. Ingersoll-Rand's climate segment represents nearly 80% of revenue. This will be a major growth story over the next several years. Assuming the global economy stays out of recession, we expect 10% annual earnings growth over the next five years. Dividends are also expected to increase at a 10% compound annual rate through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.7	17.5	16.7	14.3	12.9	28.1	18.1	16.7	15.6	19.0	***18.7***	***17.2***
Avg. Yld.	2.1%	2.0%	0.8%	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	***1.5%***	***1.5%***

Ingersoll-Rand stock trades for a price-to-earnings ratio of 18.7, based on expected earnings-per-share of $5.50 for 2018. In the past 10 years, the stock held an average price-to-earnings ratio of 17.2, which is our estimate of fair value for the stock. As a result, the shares are slightly overvalued. A declining price-to-earnings ratio could reduce annual returns by approximately 1.7% per year, over the next five years. This impact will be mostly offset by the company's 1.5% dividend yield, after including the 20% withholding tax. Ingersoll-Rand's dividend yield is slightly below the average dividend yield of the S&P 500 Index. However, Ingersoll-Rand makes up for this with a high rate of dividend growth. For example, the company raised its dividend by 12.5% in 2017.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	16.6%	17.8%	19.7%	18.5%	18.7%	20.5%	22.6%	24.1%	24.1%	24.1%	***24.0%***	***24.0%***
Debt/A	67.7%	64.1%	59.7%	62.8%	60.9%	59.6%	65.1%	64.8%	61.4%	60.3%	***60.5%***	***60.5%***
Int. Cov.	-16.8	3.0	4.8	1.8	4.7	4.2	6.8	6.9	9.2	7.9	***8.0***	***8.0***
Payout	26.8%	35.5%	12.6%	20.9%	19.5%	40.4%	30.0%	31.1%	32.9%	37.6%	***35.6%***	***35.6%***
Std. Dev.	53.1%	58.6%	27.1%	39.1%	22.5%	14.4%	19.7%	22.1%	22.9%	17.1%	***17.0%***	***17.0%***

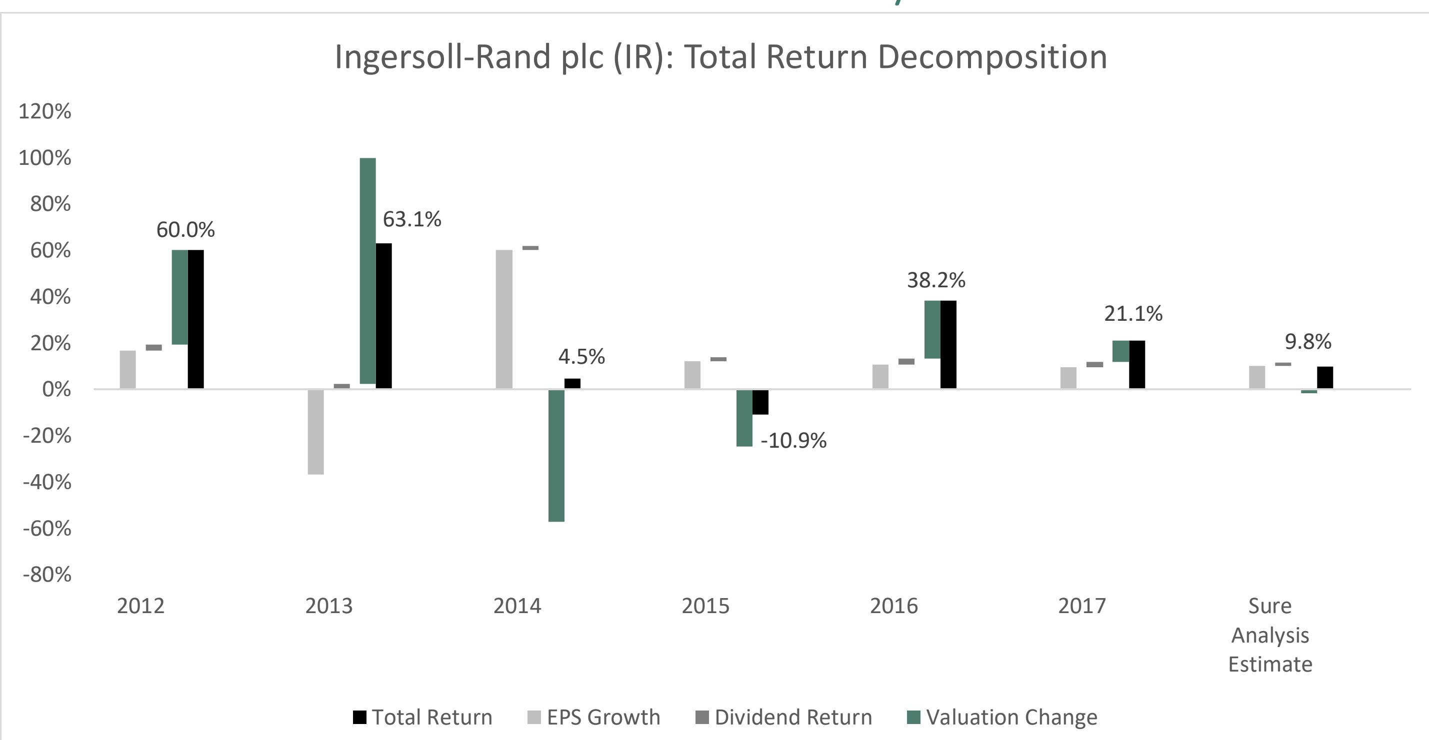
Ingersoll-Rand has a strong business model, with brand power and competitive advantages. These qualities are reflected across its safety and quality metrics. Ingersoll-Rand has a manageable level of debt, a high level of interest coverage, and a low payout ratio, which indicates the dividend is secure. Ingersoll-Rand's competitive advantages are its strong brands and investments in product innovation. The company delivered more than 80 new products and services in 2017, across a number of product categories.

At the same time, Ingersoll-Rand is not resistant to recessions. As a large industrial manufacturer, Ingersoll-Rand is highly sensitive to economic downturns. Rising inflation and tariffs are the key risk factors for Ingersoll-Rand in the near-term, while a global recession would significantly impact earnings over the next several years.

Final Thoughts & Recommendation

Ingersoll-Rand is a high-quality business. It has benefited greatly from steady global economic growth in the years since the Great Recession ended. It has a positive future growth outlook, thanks to product innovation and competitive advantages. We rate Ingersoll-Rand stock as a buy, due to nearly 10% annual expected returns.

Total Return Breakdown by Year



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.