



The Gorman-Rupp Company (GRC)

Updated October 31st, 2018 by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	6.2%	Volatility Percentile:	83.3%
Fair Value Price:	\$35	5 Year Growth Estimate:	4.5%	Momentum Percentile:	75.3%
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Growth Percentile:	28.1%
Dividend Yield:	1.5%	5 Year Price Target	\$44	Valuation Percentile:	50.7%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	27.2%

Overview & Current Events

Gorman-Rupp began manufacturing pumps and pumping systems back in 1933. Since that time, it has grown into an industry leader with annual sales of \$400 million and a market capitalization just over \$900 million. Today, Gorman-Rupp is a focused, niche manufacturing of critical systems many industrial clients rely upon for their own success.

Gorman-Rupp reported Q3 earnings on 10/26/18 and results were strong. Revenue increased 9.5% as domestic sales rose 11% and international sales increased 7%. Fire protection, construction and petroleum were among those driving strength in revenue during the quarter. Gorman-Rupp's backlog grew 10% during the period, boding well for future revenue gains. Gross margins were slightly lower, but in line with our expectations for 2018, while SG&A costs were leveraged down by higher revenue. That led to operating margin gains and earnings-per-share that nearly doubled from the year-ago quarter. We've slightly raised our earnings-per-share estimates in sympathy after a strong report.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.04	\$0.70	\$0.93	\$1.10	\$1.07	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.60	\$2.00
DPS	\$0.26	\$0.26	\$0.27	\$0.27	\$0.31	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.54	\$0.70
Shares	26	26	26	26	26	26	26	26	26	26	26	26

Gorman-Rupp's earnings volatility has been very high and that has translated into lots of volatility for the stock in the past decade. As the company makes products for industrial and municipal clients, its revenue can swing wildly from one year to another. Margins have been fairly stable over the past decade, but it does experience boom/bust cycles in revenue generation, leading to lots of earnings volatility. We are forecasting 4.5% earnings-per-share growth going forward as its recent performance and near-term outlook have both improved, including another strong earnings report.

It will achieve this result through a combination of low single digit sales growth and higher margins. Sales were roughly flat in 2017 but this year should prove much better; management has said as much, providing extra confidence to the forecast and confirmed by Q3 results. Gross margins dipped in Q3, but are still on track for a better 2018 than 2017. Finally, SG&A costs have leveraged down as a result of higher volumes as well as prudent cost controls. This is all in addition to the company's lower tax rate afforded it by the Tax Cuts and Jobs Act.

We are forecasting mid-single digit growth in the dividend as Gorman-Rupp's increases have been lumpy in the past but have picked up in terms of significance lately. This is not a stock one buys for dividend growth or current yield, however.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.7	21.3	19.1	21.4	21.5	23.5	23.1	25.8	28.4	24.7	21.8	22.0
Avg. Yld.	1.2%	1.7%	1.5%	1.1%	1.4%	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%

Gorman-Rupp's price-to-earnings multiple stayed in a fairly narrow range from 2008 to 2014 but in more recent years, investors have been willing to pay more. The post-earnings rally has the price-to-earnings ratio at 21.8, putting the stock slightly below fair value, which we see as 22 times earnings.

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.



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The yield should also creep up from the current 1.5% to 1.6% as the company continues to raise the payout. But again, Gorman-Rupp is not appropriate for income investors because of its low current yield and in the mid-single digits, growth in the payout isn't particularly enticing for dividend growth investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	23.3%	23.2%	25.7%	24.4%	24.0%	23.9%	24.7%	22.8%	24.1%	26.0%	26.5%	27.0%
Debt/A	32%	29%	30%	28%	30%	26%	26%	21%	21%	18%	18%	18%
Int. Cov.	-	161.3	-	-	-	-	-	-	-	-	-	-
Payout	25%	37%	29%	26%	29%	29%	27%	38%	45%	39%	34%	35%
Std. Dev.	76.3%	65.9%	41.5%	56.6%	32.6%	31.3%	35.0%	32.8%	37.7%	30.0%	35.0%	38.0%

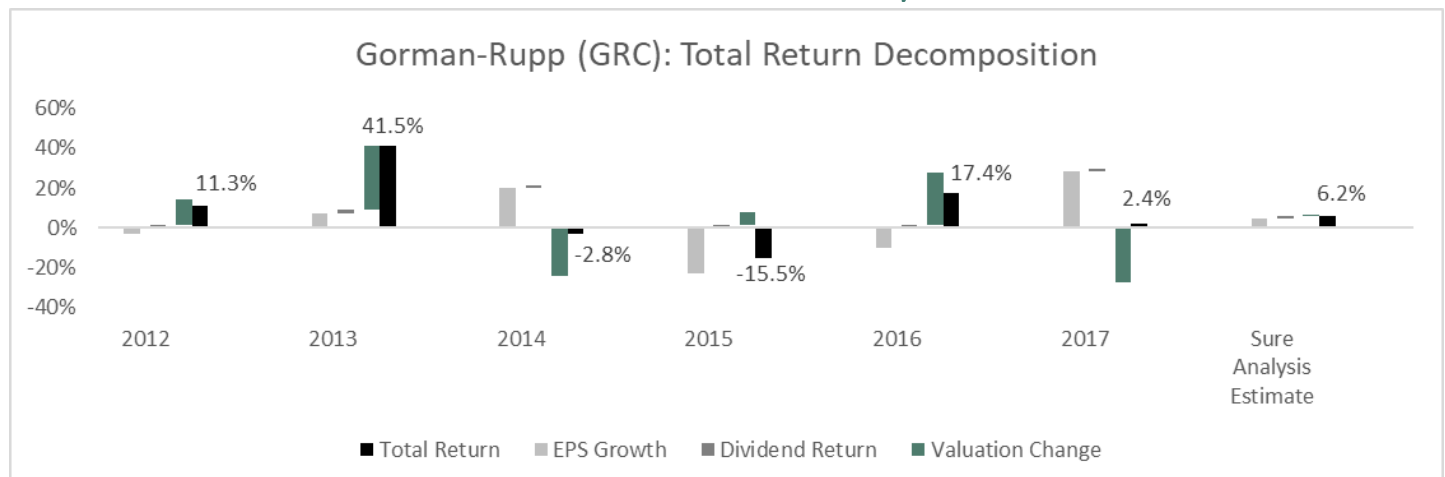
Gorman-Rupp's quality metrics have improved somewhat over the past decade. Its gross margins continue to head higher due to lower manufacturing costs and product mix, and it has no debt to speak of other than trade payables. Thus, its balance sheet is very clean and it is clear this company is very conservatively-financed. That affords Gorman-Rupp the ability to continuously invest in innovation the way it always has, but more importantly, its balance sheet is strong enough to weather any economic weakness. Its payout ratio is well under 40% and should remain there for the foreseeable future as dividend growth should be just slightly ahead of earnings-per-share growth. Its earnings performance has also led to a high level of volatility in the stock and we are forecasting that volatility to continue.

Its competitive advantage is in its many decades of experience in providing innovative solutions for niche, but critical, engineering problems facing its customers. However, it is far from immune to recession as revenue and earnings both fell very sharply during the Great Recession. The next time a recession strikes, earnings performance will be at risk.

Final Thoughts & Recommendation

Overall, Gorman-Rupp looks to be back at fair value following some recent weakness. The company's moderate level of earnings growth should afford investors 6.2% total annual returns, consisting of the current 1.5% yield, a 0.2% tailwind from the valuation, and 4.5% earnings-per-share growth. The current yield likely is not high enough to entice income investors and its dividend growth is fairly unattractive as well. Due to mediocre total return prospects, investors should wait to buy into Gorman-Rupp until it is significantly undervalued. There are currently more enticing total return investments elsewhere. Accordingly, Gorman-Rupp earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	331	266	297	359	376	392	435	406	382	379
Gross Profit	77	62	76	88	90	94	108	93	92	99
Gross Margin	23.3%	23.2%	25.7%	24.4%	24.0%	23.9%	24.7%	22.8%	24.1%	26.0%
SG&A Exp.	38	35	37	45	48	52	54	56	55	57
D&A Exp.	8	9	11	11	12	14	15	15	16	15
Operating Profit	39	26	39	43	42	42	53	36	37	42
Operating Margin	11.8%	9.9%	13.1%	12.0%	11.2%	10.7%	12.3%	9.0%	9.8%	11.1%
Net Profit	27	18	26	29	28	30	36	25	25	27
Net Margin	8.2%	6.9%	8.7%	8.0%	7.5%	7.7%	8.3%	6.2%	6.5%	7.0%
Free Cash Flow	1	50	20	10	16	29	16	32	47	36
Income Tax	13	9	12	14	14	14	18	12	12	13

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	232	249	287	299	335	356	381	364	383	395
Cash & Equivalents	24	44	32	20	20	31	24	24	58	80
Accounts Receivable	48	37	52	56	59	59	71	77	71	67
Inventories	57	41	51	73	91	90	95	83	69	75
Goodwill & Int. Ass.	8	7	26	25	32	32	40	41	43	38
Total Liabilities	72	72	87	84	100	91	99	77	80	70
Accounts Payable	16	9	12	16	15	18	18	15	16	16
Long-Term Debt	0	15	25	10	22	9	12	0	0	0
Shareholder's Equity	159	177	200	215	235	264	282	287	303	325
D/E Ratio	0.00	0.08	0.13	0.05	0.09	0.03	0.04	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	12.3%	7.6%	9.7%	9.8%	8.9%	8.7%	9.8%	6.7%	6.7%	6.8%
Return on Equity	17.7%	10.9%	13.8%	13.9%	12.5%	12.1%	13.2%	8.8%	8.4%	8.5%
ROIC	17.6%	10.4%	12.4%	12.8%	11.7%	11.4%	12.7%	8.6%	8.4%	8.5%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	12.67	10.20	11.36	13.70	14.32	14.92	16.56	15.51	14.65	14.54
FCF/Share	0.06	1.90	0.78	0.38	0.62	1.12	0.60	1.24	1.78	1.36

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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