



Parker-Hannifin Corporation (PH)

Updated November 8th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$171	5 Year CAGR Estimate:	10.7%	Volatility Percentile:	60.3%
Fair Value Price:	\$174	5 Year Growth Estimate:	8.6%	Momentum Percentile:	27.0%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Growth Percentile:	81.5%
Dividend Yield:	1.7%	5 Year Price Target	\$262	Valuation Percentile:	58.7%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	67.8%

Overview & Current Events

Parker-Hannifin is a diversified industrial manufacturer specializing 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.

In early November, Parker-Hannifin reported (11/1/18) its financial results for the first quarter of fiscal 2019. The company grew its revenue by 3% thanks to 6% organic growth, which was partly offset by a 3% currency headwind. It was just another impressive report, as the company achieved a record operating margin of 13.8%. In addition, the adjusted earnings-per-share jumped 27%, from \$2.24 to \$2.84, and reached a record level as well.

The robust performance was driven by strong momentum in the North American segment and 6% sales growth in aerospace systems. Moreover, management significantly raised its guidance for earnings-per-share of this fiscal year, from \$10.70-\$11.50 to \$11.10-\$11.70. It also reaffirmed its confidence in achieving at least 10% annual earnings-per-share growth 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	\$11.60	\$17.50
DPS	\$1.00	\$1.01	\$1.25	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.22	\$4.50
Shares	160.5	161.3	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4	133.0	125.0

Given the recent upward revision of management's guidance and the strong business momentum, we have raised our guidance for earnings-per-share of this year by 2%, from \$11.36 to \$11.60.

During the last decade, Parker-Hannifin has more than tripled its earnings-per-share. While the company cannot maintain this growth rate in the upcoming years, it still has exciting growth prospects. Management has provided guidance for at least 10% compounded annual earnings-per-share growth until 2023. We expect slightly lower (versus management expectations) earnings-per-share growth of 8.6% annually moving forward.

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	14.7	15.0
Avg. Yld.	1.2%	2.2%	1.8%	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.7%	1.7%

Parker Hannifin is currently trading at a P/E ratio of 14.7, which is slightly below our fair value estimate of 15.0. If the stock reaches our fair value estimate over the next five years, it will enjoy a mild 0.4% annualized gain.

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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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%	23.0%	23.0%
Debt/A	56.7%	55.9%	50.5%	56.2%	54.2%	49.8%	58.4%	62.0%	66.0%	61.7%	60.0%	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	13.0
Payout	31.9%	29.7%	19.6%	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	27.8%	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%

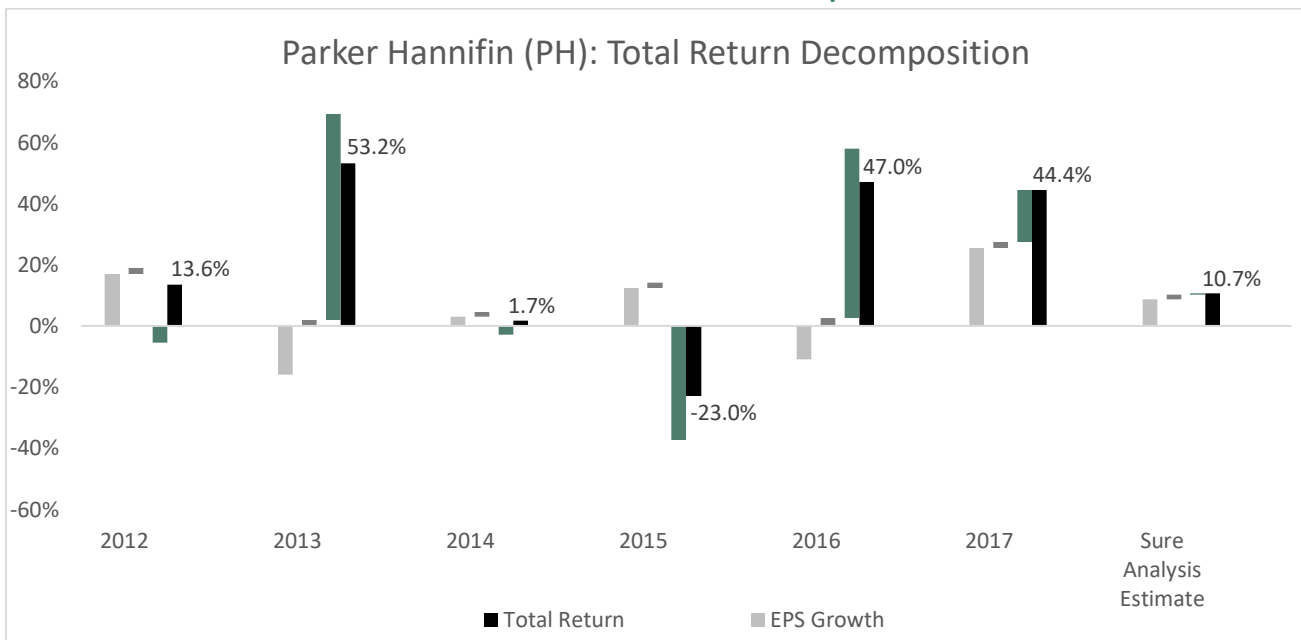
During the last decade, Parker-Hannifin's gross profits as a proportion of its total assets declined and its debt as a percent of total assets increased. However, thanks to the impressive performance of the company, these ratios have remarkably improved in recent quarters. Moreover, the company reduced its interest expense by 17% in the first quarter over last year. We expect further decrease in interest expense in the upcoming quarters, which will provide an additional boost to the bottom line.

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 that helps discourage large would-be competitors.

Final Thoughts & Recommendation

Parker-Hannifin is firing on all cylinders and has exciting growth potential in the years ahead. As a result, it is likely to offer a 10.7% average annual return over the next five years and thus earns a buy rating. While its dividend yield is equal to that of the S&P, its low payout ratio, solid balance sheet and strong cash flows can reassure investors that the high dividend growth rate will remain in place for years. Therefore, the stock is suitable, not only for growth-oriented investors, but also for income-oriented investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	10309	9993	12346	13146	13016	13216	12712	11361	12029	14302
Gross Profit	2128	2146	2958	3188	2929	3028	3056	2537	2840	3540
Gross Margin	20.6%	21.5%	24.0%	24.2%	22.5%	22.9%	24.0%	22.3%	23.6%	24.7%
SG&A Exp.	1290	1277	1468	1519	1555	1634	1545	1359	1454	1657
D&A Exp.	358	363	340	322	336	337	317	307	355	466
Operating Profit	837	869	1491	1668	1374	1394	1512	1178	1386	1882
Op. Margin	8.1%	8.7%	12.1%	12.7%	10.6%	10.5%	11.9%	10.4%	11.5%	13.2%
Net Profit	509	554	1049	1152	948	1041	1012	807	983	1061
Net Margin	4.9%	5.5%	8.5%	8.8%	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%
Free Cash Flow	858	1090	960	1312	925	1172	1148	1061	1099	1353
Income Tax	173	198	357	421	362	515	420	308	345	641

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9856	9910	10887	11170	12541	13274	12279	12034	15490	15320
Cash & Equivalents	188	576	657	838	1781	1614	1181	1222	885	822
Accounts Receivable	1417	1443	1770	1782	1841	1858	1620	1594	1931	2146
Inventories	1255	1172	1412	1401	1377	1372	1300	1173	1549	1621
Goodwill & Int. Ass.	4177	3936	4187	4021	4514	4360	3956	3826	7894	7520
Total Liabilities	5505	5451	5398	6265	6799	6612	7172	7455	10223	9455
Accounts Payable	650	889	1174	1195	1156	1252	1092	1035	1300	1430
Long-Term Debt	2321	1777	1766	1730	2830	2325	2947	3014	5870	4957
Shareholder's Equity	4268	4368	5384	4897	5738	6659	5104	4575	5262	5860
D/E Ratio	0.54	0.41	0.33	0.35	0.49	0.35	0.58	0.66	1.12	0.85

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.0%	5.6%	10.1%	10.4%	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%
Return on Equity	10.7%	12.8%	21.5%	22.4%	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%
ROIC	7.3%	8.6%	15.6%	16.6%	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%
Shares Out.	160.5	161.3	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4
Revenue/Share	63.35	61.34	74.92	85.00	85.86	87.27	87.60	82.98	88.74	105.61
FCF/Share	5.28	6.69	5.82	8.48	6.10	7.74	7.91	7.75	8.11	9.99

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

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