



Pentair (PNR)

Updated January 29th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	10.6%	Volatility Percentile:	95.6%
Fair Value Price:	\$46	5 Year Growth Estimate:	6.5%	Momentum Percentile:	2.7%
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Growth Percentile:	61.0%
Dividend Yield:	1.8%	5 Year Price Target	\$63	Valuation Percentile:	66.1%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	53.5%

Overview & Current Events

Until recently, Pentair was a diversified industrial conglomerate. The company recently spun off its Technical Solutions segment and now operates as a pure-play water solutions company that operates in 3 segments: Aquatic Systems, Filtration Solutions, and Flow Technologies. Pentair was founded in 1966 and trades with a market capitalization of \$7.0 billion. Pentair has increased its dividend for 42 consecutive years, when adjusted for spin offs, which makes Pentair a member of the Dividend Aristocrats Index.

Pentair reported its fourth quarter and full year earnings results on January 29. The company was able to generate revenues of \$740 million during the fourth quarter, which was 2.7% more than the company's revenues during Q4 of 2017. Core sales, which excludes the impact of currency rate movements, acquisitions, and dispossessions, were up 6% year over year, which shows the company's solid underlying sales performance. Pentair was able to grow its margins slightly. Its return on sales rose to 18.1%, which was 40 basis points more than the company's return on sales during the previous year's fourth quarter. Pentair has recorded earnings-per-share of \$0.60 during the fourth quarter, which was 15% more than during the previous year's period. This was the result of a combination of higher revenues, higher margins, and the impact of share repurchases, which lowered the company's share count.

Pentair grew its core sales by 5% during fiscal 2018. The company's earnings-per-share totaled \$2.35 during this four-quarter period. This represents an increase of 21% over 2017's earnings-per-share when we adjust for the impact of the nVent spin-off that took place during the second quarter of 2018.

Pentair has issued guidance numbers for fiscal 2019 during the fourth quarter earnings report. The company forecasts revenue growth of 5% to 6%, which will be positively impacted by acquisitions. Core sales are seen growing 4% to 5% during fiscal 2019, and earnings-per-share are forecasted to fall into a range of \$2.50 to \$2.60.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.47	\$2.00	\$2.41	\$2.39	\$3.21	\$3.14	\$3.94	\$2.47	\$3.53	\$2.35	\$2.55	\$3.49
DPS	\$0.72	\$0.76	\$0.80	\$0.88	\$0.96	\$1.10	\$1.28	\$1.34	\$1.38	\$0.70	\$0.72	\$1.04
Shares	99	98	99	206	197	183	181	182	180	177	172	160

At first look the results in the above table do not look overly promising, as 2019's earnings-per-share will be relatively on par with the company's earnings-per-share during 2011. The earnings-per-share results during 2018 and the following years are impacted by the spin-off of nVent, though, as the results of Pentair's former technical solutions segment are not included in the company's reported results any longer. Between 2008 and 2017 Pentair has grown its earnings-per-share by 5.5% annually. Adjusted for the impact of the last financial crisis, an unusually harsh recession which made Pentair's earnings-per-share decline by slightly more than 30% between 2008 and 2009, Pentair's long-term earnings-per-share growth rate would have been higher in the past.

Pentair's management believes that a long-term earnings-per-share growth rate of 10% is possible, but we are a bit more conservative. It is, we believe, realistic to expect a 6%-7% earnings-per-share growth rate from Pentair going forward, which will consist of some sales growth, some margin increases, and the impact of stock buybacks.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.2	16.8	15.2	17.6	18.7	22.9	15.2	22.9	18.3	16.2	16.1	18.0
Avg. Yld.	2.7%	2.3%	2.2%	2.1%	1.6%	1.5%	2.1%	2.4%	2.1%	1.8%	1.8%	1.7%

Pentair's valuation has moved in a relatively tight range throughout most of the last decade, and shares did not really get significantly more expensive during the recovery from the last financial crisis (relative to the profits that Pentair generated). Shares are trading towards the cheap side of the historic range right now, which is why we see some valuation expansion potential that should positively impact Pentair's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	49.0%	38.0%	33.2%	36.8%	29.9%	35.0%	32.5%	54.3%	39.1%	29.8%	28.2%	29.8%

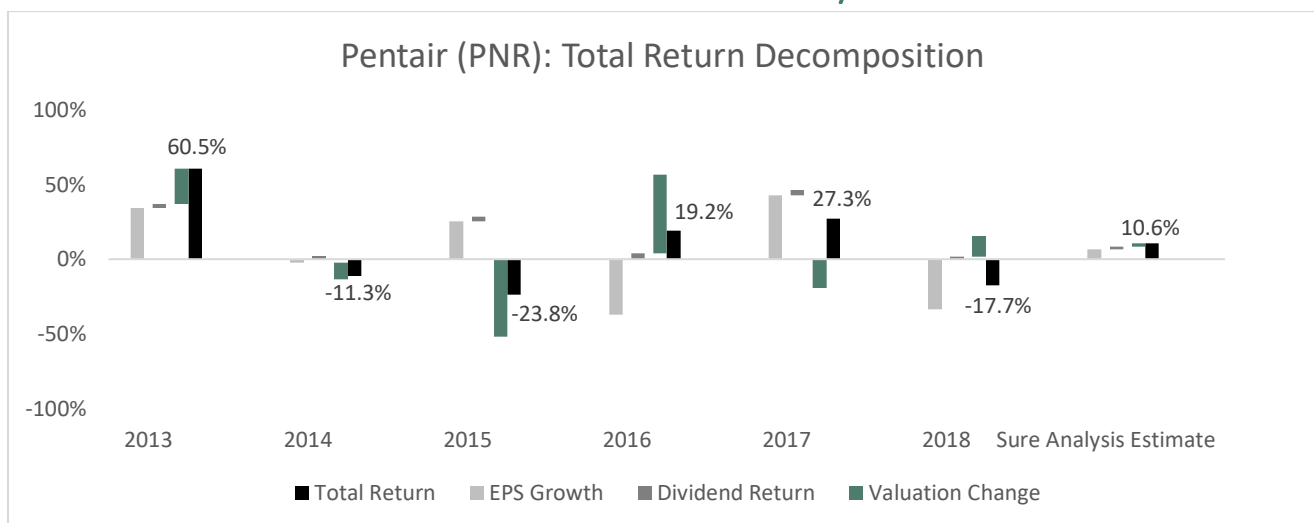
Pentair's dividend has grown consistently for decades, and during the last decade Pentair has grown its shareholder payouts at an attractive pace as well. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not high at all, which makes us believe that the dividend looks quite safe. Even an earnings decline such as the one we have seen during the last financial crisis would likely not result in a dividend cut.

Qualitatively, Pentair's strongest competitive advantages lie within its managerial practices. The company employs a strategy called the Pentair Integrated Management System – or PIMS – which allows its organizational structure to remain lean and encourages efficiency through the company's supply chain and distribution operations. Pentair is a leader in the niche markets it targets, and through tuck-in acquisitions Pentair can grow its size and scale further.

Final Thoughts & Recommendation

Pentair has become a pure-play water company that is a leader in its industry. Pentair plans to consolidate the space further by making tuck-in acquisitions whenever it sees a compelling target. We believe that Pentair should be able to grow its earnings-per-share at a solid pace going forward. When we factor in the dividend and some tailwinds from multiple expansion, Pentair could deliver compelling total returns. Shares earn a buy 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	3352	2692	3031	3457	4307	7000	4667	4616	4890	4937
Gross Profit	1015	785	931	1074	1266	2370	1621	1599	1794	1829
Gross Margin	30.3%	29.2%	30.7%	31.1%	29.4%	33.9%	34.7%	34.6%	36.7%	37.1%
SG&A Exp.	627	507	551	695	1118	1494	986	884	979	1033
D&A Exp.	87	105	84	108	160	275	140	149	181	183
Operating Profit	325	220	313	301	56	754	539	616	701	681
Operating Margin	9.7%	8.2%	10.3%	8.7%	1.3%	10.8%	11.5%	13.3%	14.3%	13.8%
Net Profit	229	115	185	-8	-107	537	215	-76	522	667
Net Margin	6.8%	4.3%	6.1%	-0.2%	-2.5%	7.7%	4.6%	-1.7%	10.7%	13.5%
Free Cash Flow	151	204	211	247	-51	758	925	648	744	549
Income Tax	108	56	89	46	-67	177	114	115	109	9

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4053	3911	3974	4586	11883	11743	10655	11834	11535	8634
Cash & Equivalents	39	33	46	50	261	256	110	126	239	113
Acc. Receivable	461	482	553	569	1275	1285	1206	773	764	832
Goodwill & Int.	417	361	405	450	1334	1195	1130	565	524	581
Total Liabilities	2617	2575	2520	2866	7038	6611	6350	6006	5849	5910
Accounts Payable	2033	1785	1769	2539	5395	5526	5991	7825	7280	3596
Long-Term Debt	218	208	262	295	567	577	583	404	437	496
Total Equity	954	806	707	1309	2457	2550	3004	4686	4279	1441
D/E Ratio	1899	2012	2093	1933	6371	6095	4664	4009	4254	5038

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.7%	2.9%	4.7%	-0.2%	-1.3%	4.5%	1.9%	-0.7%	4.5%	6.6%
Return on Equity	12.0%	5.9%	9.0%	-0.4%	-2.6%	8.6%	4.0%	-1.8%	12.6%	14.3%
ROIC	7.7%	3.9%	6.3%	-0.2%	-1.7%	6.1%	2.6%	-0.9%	6.1%	8.9%
Shares Out.	98.3	98.7	98.4	98.6	206.1	197.4	182.5	180.5	181.8	180.3
Revenue/Share	33.84	27.33	30.52	35.20	33.81	34.21	24.09	25.28	26.71	26.87
FCF/Share	1.53	2.07	2.12	2.51	-0.40	3.70	4.77	3.55	4.06	2.99

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

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