



# The Gorman-Rupp Company (GRC)

Updated February 11<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	6.1%	<b>Volatility Percentile:</b>	78.0%
<b>Fair Value Price:</b>	\$33	<b>5 Year Growth Estimate:</b>	4.5%	<b>Momentum Percentile:</b>	90.6%
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.0%	<b>Growth Percentile:</b>	31.8%
<b>Dividend Yield:</b>	1.6%	<b>5 Year Price Target</b>	\$41	<b>Valuation Percentile:</b>	47.2%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	24.6%

## 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 ~\$430 million and a market capitalization just under \$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 Q4 earnings on 2/8/19 and results were strong. Sales rose 8.5% year-over-year as the company's domestic segment saw its top line soar 17.1% against a 6.4% decline in the international business. Sales in the company's water markets increased 8% in Q4 driven primarily by domestic infrastructure needs as well as increased sales of repair parts and in construction markets. The agriculture and fire protection markets saw small declines, partially offsetting the strength seen elsewhere.

Revenue was up 9.6% in non-water markets as lower sales in the OEM markets were more than offset by strength in petroleum and industrial markets. Specifically, oil and gas drilling activity drove the increase.

Finally, the decline in international sales drove that segment's share of total revenue down to 31.5% from 36.5% in the year-ago period. The weakness was due to declines in fire protection and construction markets. However, management was quick to point out that the sales weakness was due at least in part to the timing of shipments. If that is the case, we should see a meaningful rebound in international sales in Q1.

Gross margins fell 90bps as a percentage of revenue to 25.7% in Q4. The decline was due primarily to unfavorable accounting costs of what inventory was selected as Gorman-Rupp uses the last-in-first-out, or LIFO method of inventory accounting. However, tariffs and material cost inflation also offset gains from lower labor and overhead costs from sales leverage and lower healthcare expenses. Like the international segment's sales, if gross margins suffered during Q4 because of an accounting charge, we should see an offsetting improvement in Q1 results.

Earnings-per-share came in at 36 cents in Q4 against 31 cents last year, a strong improvement of 16%. Gorman-Rupp paid a special \$1,000 cash bonus to all employees in Q4, which reduced earnings by four cents per share. Given still-strong fundamentals, we're out with an initial estimate of \$1.65 in earnings-per-share for this year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.70	\$0.93	\$1.10	\$1.07	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	<b>\$1.65</b>	<b>\$2.06</b>
<b>DPS</b>	\$0.26	\$0.27	\$0.27	\$0.31	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	<b>\$0.54</b>	<b>\$0.66</b>
<b>Shares</b>	26	26	26	26	26	26	26	26	26	26	<b>26</b>	<b>26</b>

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. Management correctly forecast higher sales in 2018 and given its robust backlog of uncompleted work, we see that continuing for the

*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.*



# The Gorman-Rupp Company (GRC)

Updated February 11<sup>th</sup>, 2019 by Josh Arnold

near term. Gorman-Rupp's primary earnings growth driver is certainly revenue as its margins fluctuate over time, even when sales rise.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.3	19.1	21.4	21.5	23.5	23.1	25.8	28.4	24.7	21.6	<b>20.0</b>	<b>20.0</b>
Avg. Yld.	1.7%	1.5%	1.1%	1.4%	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	<b>1.6%</b>	<b>1.6%</b>

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. Given the lateness of the cycle we're in, we've moved Gorman-Rupp's fair value down from 22 to 20 times earnings. Shares trade there today, so we see no impact from the valuation moving forward.

The yield should also remain about where it is today 1.6%. Gorman-Rupp did pay a \$2 special dividend in Q4 of 2018.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	37%	29%	26%	29%	29%	27%	38%	45%	39%	33%	<b>33%</b>	<b>32%</b>

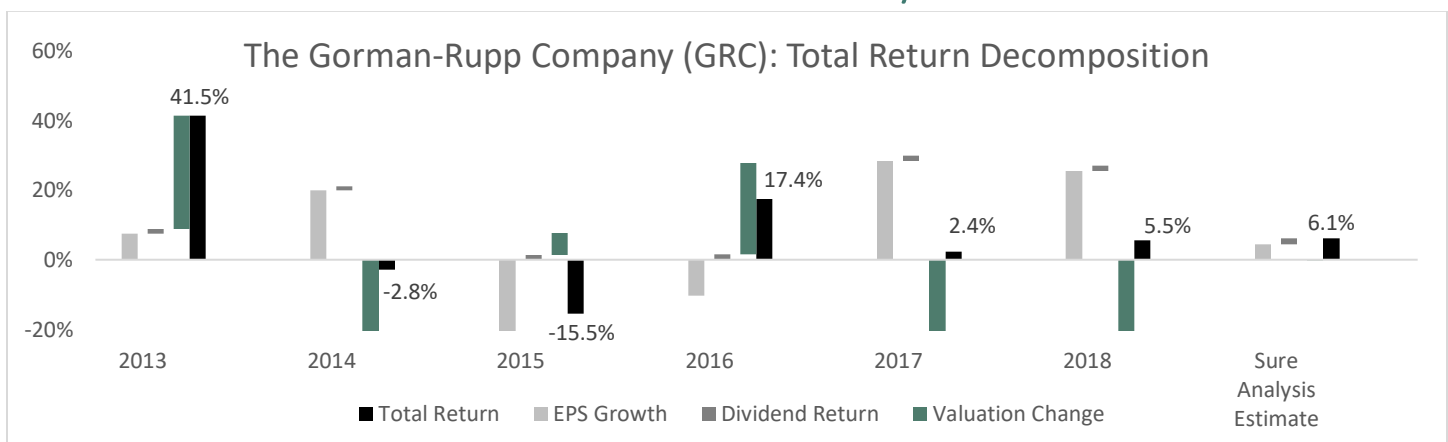
Gorman-Rupp's payout ratio is around one-third of earnings and should remain there for the foreseeable future as dividend growth should be just slightly ahead of earnings-per-share growth.

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 is back at fair value following some recent weakness. The company's moderate level of earnings growth should afford investors 6.1% total annual returns, consisting of the current 1.6% yield, no impact 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 more undervalued. There are currently other enticing total return investments elsewhere. Accordingly, Gorman-Rupp earns a hold recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# The Gorman-Rupp Company (GRC)

Updated February 11<sup>th</sup>, 2019 by Josh Arnold

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	266	297	359	376	392	435	406	382	379	414
<b>Gross Profit</b>	62	76	88	90	94	108	93	92	99	110
<b>Gross Margin</b>	23.2%	25.7%	24.4%	24.0%	23.9%	24.7%	22.8%	24.1%	26.0%	26.5%
<b>SG&amp;A Exp.</b>	35	37	45	48	52	54	56	55	57	59
<b>D&amp;A Exp.</b>	9	11	11	12	14	15	15	16	15	N/A
<b>Operating Profit</b>	26	39	43	42	42	53	36	37	42	51
<b>Operating Margin</b>	9.9%	13.1%	12.0%	11.2%	10.7%	12.3%	9.0%	9.8%	11.1%	12.2%
<b>Net Profit</b>	18	26	29	28	30	36	25	25	27	40
<b>Net Margin</b>	6.9%	8.7%	8.0%	7.5%	7.7%	8.3%	6.2%	6.5%	7.0%	9.6%
<b>Free Cash Flow</b>	50	20	10	16	29	16	32	47	36	N/A
<b>Income Tax</b>	9	12	14	14	14	18	12	12	13	10

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	249	287	299	335	356	381	364	383	395	368
<b>Cash &amp; Equivalents</b>	44	32	20	20	31	24	24	58	80	46
<b>Accounts Receivable</b>	37	52	56	59	59	71	77	71	67	68
<b>Inventories</b>	41	51	73	91	90	95	83	69	75	87
<b>Goodwill &amp; Int. Ass.</b>	7	26	25	32	32	40	41	43	38	36
<b>Total Liabilities</b>	72	87	84	100	91	99	77	80	70	75
<b>Accounts Payable</b>	9	12	16	15	18	18	15	16	16	17
<b>Long-Term Debt</b>	15	25	10	22	9	12	0	0	0	0
<b>Shareholder's Equity</b>	177	200	215	235	264	282	287	303	325	293
<b>D/E Ratio</b>	0.08	0.13	0.05	0.09	0.03	0.04	0.00	0.00	0.00	0.00

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	7.6%	9.7%	9.8%	8.9%	8.7%	9.8%	6.7%	6.7%	6.8%	10.5%
<b>Return on Equity</b>	10.9%	13.8%	13.9%	12.5%	12.1%	13.2%	8.8%	8.4%	8.5%	12.9%
<b>ROIC</b>	10.4%	12.4%	12.8%	11.7%	11.4%	12.7%	8.6%	8.4%	8.5%	12.9%
<b>Shares Out.</b>	26	26	26	26	26	26	26	26	26	26
<b>Revenue/Share</b>	10.20	11.36	13.70	14.32	14.92	16.56	15.51	14.65	14.54	15.86
<b>FCF/Share</b>	1.90	0.78	0.38	0.62	1.12	0.60	1.24	1.78	1.36	N/A

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.