



# Parker-Hannifin Corporation (PH)

Updated February 4<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$164	<b>5 Year CAGR Estimate:</b>	11.7%	<b>Volatility Percentile:</b>	58.1%
<b>Fair Value Price:</b>	\$176	<b>5 Year Growth Estimate:</b>	8.3%	<b>Momentum Percentile:</b>	28.5%
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.4%	<b>Growth Percentile:</b>	82.1%
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$262	<b>Valuation Percentile:</b>	61.4%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	65.0%

## 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 \$22 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 late January, Parker-Hannifin reported (1/31/19) its financial results for the second 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 another impressive report, as the company achieved a second quarter of record operating margin at 16.4%. In addition, adjusted earnings-per-share jumped 17%, from \$2.15 to \$2.51. All in all, the company achieved second quarter records for sales, operating margin and earnings per share.

This earnings report was very similar to the company's previous report, showing sustained success in the business performance of Parker-Hannifin. Robust performance was driven by strong momentum in the North American segment, which posted 4% revenue growth, and in aerospace systems, which posted 12% revenue growth. Moreover, management again raised its guidance for earnings-per-share of this fiscal year, from \$11.10-\$11.70 to \$11.35-\$11.85. It also reaffirmed its confidence in achieving at least 10% annual earnings-per-share growth until 2023. Parker-Hannifin has exceeded analysts' earnings-per-share estimates for 14 consecutive quarters.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$3.13	\$3.40	\$6.37	\$7.45	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	<b>\$11.75</b>	<b>\$17.50</b>
<b>DPS</b>	\$1.00	\$1.01	\$1.25	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	<b>\$3.22</b>	<b>\$4.50</b>
<b>Shares</b>	160.5	161.3	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4	<b>129.0</b>	<b>120.0</b>

As we were expecting management to raise its guidance, the mid-point of the new guidance is now equal to our previous earnings-per-share forecast for this fiscal year. Nevertheless, thanks to sustained business momentum, we expect management to raise its guidance again later this year so we have marginally revised upwards (by ~1%) our earnings-per-share forecast for this fiscal year, from \$11.60 to \$11.75.

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 ahead. 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 8.3% 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 pro-forma cash flow, earnings-per-share, and EBITDA margins after adjusting for one-time costs. We expect similar acquisitions moving forward.

*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	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	14.0	15.0
Avg. Yld.	1.2%	2.2%	1.8%	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	2.0%	1.7%

Parker Hannifin is currently trading at a price-to-earnings ratio of 14.0, 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 modest 1.4% annualized gain.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	31.9%	29.7%	19.6%	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	27.4%	25.7%

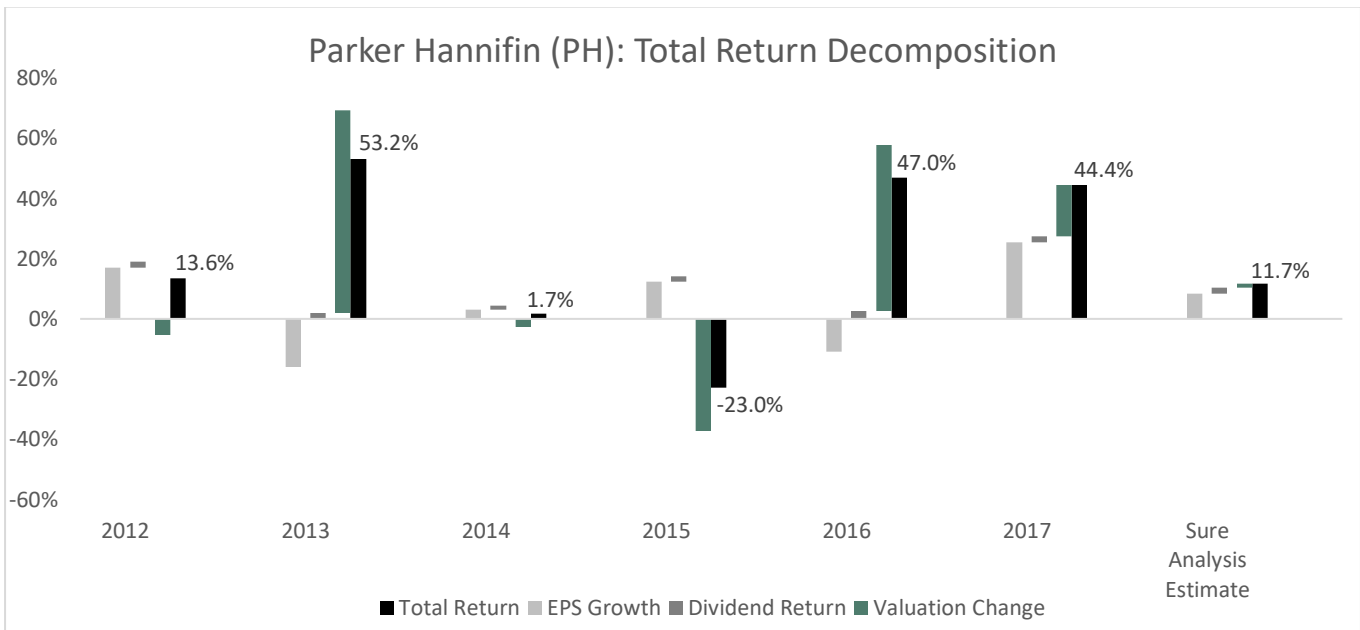
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet absolutely critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial devices. This is appealing because the company operates in a profitable niche that helps discourage large would-be competitors.

Thanks to its impressive performance, Parker-Hannifin has reduced its interest expense by 14% in the first six months of this fiscal year versus the same period last year. We expect further decrease in interest expense in the upcoming quarters, which will provide an additional (though modest) boost to the bottom line.

## 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 an 11.7% 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 reassure investors that the high dividend growth rate will likely 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
<b>Revenue</b>	10309	9993	12346	13146	13016	13216	12712	11361	12029	14302
<b>Gross Profit</b>	2128	2146	2958	3188	2929	3028	3056	2537	2840	3540
<b>Gross Margin</b>	20.6%	21.5%	24.0%	24.2%	22.5%	22.9%	24.0%	22.3%	23.6%	24.7%
<b>SG&amp;A Exp.</b>	1290	1277	1468	1519	1555	1634	1545	1359	1454	1657
<b>D&amp;A Exp.</b>	358	363	340	322	336	337	317	307	355	466
<b>Operating Profit</b>	837	869	1491	1668	1374	1394	1512	1178	1386	1882
<b>Op. Margin</b>	8.1%	8.7%	12.1%	12.7%	10.6%	10.5%	11.9%	10.4%	11.5%	13.2%
<b>Net Profit</b>	509	554	1049	1152	948	1041	1012	807	983	1061
<b>Net Margin</b>	4.9%	5.5%	8.5%	8.8%	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%
<b>Free Cash Flow</b>	858	1090	960	1312	925	1172	1148	1061	1099	1353
<b>Income Tax</b>	173	198	357	421	362	515	420	308	345	641

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	9856	9910	10887	11170	12541	13274	12279	12034	15490	15320
<b>Cash &amp; Equivalents</b>	188	576	657	838	1781	1614	1181	1222	885	822
<b>Accounts Receivable</b>	1417	1443	1770	1782	1841	1858	1620	1594	1931	2146
<b>Inventories</b>	1255	1172	1412	1401	1377	1372	1300	1173	1549	1621
<b>Goodwill &amp; Int. Ass.</b>	4177	3936	4187	4021	4514	4360	3956	3826	7894	7520
<b>Total Liabilities</b>	5505	5451	5398	6265	6799	6612	7172	7455	10223	9455
<b>Accounts Payable</b>	650	889	1174	1195	1156	1252	1092	1035	1300	1430
<b>Long-Term Debt</b>	2321	1777	1766	1730	2830	2325	2947	3014	5870	4957
<b>Shareholder's Equity</b>	4268	4368	5384	4897	5738	6659	5104	4575	5262	5860
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	5.0%	5.6%	10.1%	10.4%	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%
<b>Return on Equity</b>	10.7%	12.8%	21.5%	22.4%	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%
<b>ROIC</b>	7.3%	8.6%	15.6%	16.6%	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%
<b>Shares Out.</b>	160.5	161.3	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4
<b>Revenue/Share</b>	63.35	61.34	74.92	85.00	85.86	87.27	87.60	82.98	88.74	105.61
<b>FCF/Share</b>	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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