



Parker-Hannifin Corporation (PH)

Updated August 13th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	11.6%	Volatility Percentile:	67.6%
Fair Value Price:	\$180	5 Year Growth Estimate:	7.8%	Momentum Percentile:	43.5%
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Growth Percentile:	76.8%
Dividend Yield:	2.1%	5 Year Price Target	\$263	Valuation Percentile:	68.1%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	67.6%

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 \$21 billion with annual revenues of \$14 billion. Parker-Hannifin has paid a dividend for 69 years and has increased that dividend for a remarkable 63 consecutive years.

In early August, Parker-Hannifin reported (8/1/19) financial results for the fourth quarter of fiscal 2019. In the quarter, the company posted record operating margin of 17.4% and record adjusted earnings-per-share of \$3.31 thanks to strong performance in its aerospace segment. In the year, Parker-Hannifin posted record sales of \$14.3 billion and record adjusted earnings-per-share of \$11.85.

This earnings report was very similar to the company's previous reports, showing sustained success in the business performance of Parker-Hannifin. Moreover, the company expects to complete the acquisition of LORD in the running quarter and has entered into a definitive agreement to acquire Exotic Metals Forming Company LLC. These two acquisitions are expected to add \$1.5 billion in annual revenues. On the other hand, management provided somewhat disappointing guidance for this year. It expects adjusted earnings-per-share \$11.50-\$12.30 in this fiscal year, thus implying much slower growth than its previous guidance for at least 10% annual earnings-per-share growth until 2023. Notably Parker-Hannifin has exceeded analysts' earnings-per-share estimates for 16 consecutive quarters.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.40	\$6.37	\$7.45	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.00	\$17.50
DPS	\$1.01	\$1.25	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$4.80
Shares¹	161.3	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4	130.5	128.0	120.0

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. Nevertheless, due to deceleration in the U.S. business of the company, we expect approximately 7.8% annual earnings-per-share growth over the next five years, less than management's previous guidance for at least 10% annual earnings-per-share growth.

Parker-Hannifin's growth will come in part from acquisitions. The \$4.3 billion CLARCOR transaction and the aforementioned two acquisitions are examples of this. Parker Hannifin integrates the new products in its system while it achieves significant synergies.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2025
Avg. P/E	14.5	16.7	12.6	10.8	13.9	18.0	16.6	16.3	17.3	14.2	13.8	15.0
Avg. Yld.	2.2%	1.8%	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.1%	1.8%

Parker-Hannifin is currently trading at a price-to-earnings ratio of 13.8, which is 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 1.7% annualized gain.

1. In millions

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29.7%	19.6%	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	26.7%	29.3%	27.4%

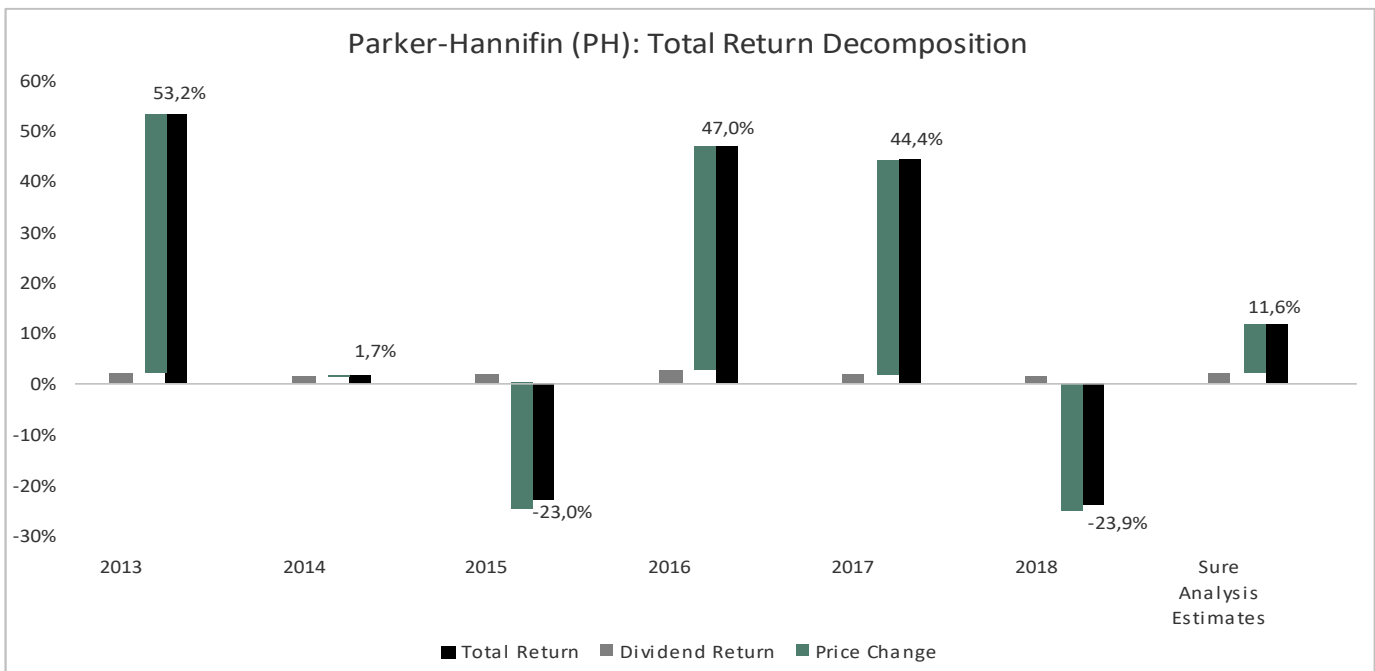
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet absolutely critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial devices. This is appealing because the company operates in a profitable niche that helps discourage large would-be competitors. The competitive advantage of Parker-Hannifin is clearly reflected in its dividend growth record, which is exceptional, particularly given the high cyclicality of the industrial sector. The company recently raised its dividend by 16% and it has now raised its dividend for 63 consecutive years.

Thanks to its impressive performance, Parker-Hannifin has reduced its interest expense by 11% in the last 12 months. We expect a 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 posting record results and has exciting growth potential in the years ahead. We expect the stock to offer an 11.6% average annual return over the next five years thanks to 7.8% annual earnings-per-share growth, its 2.1% dividend and a modest expansion of its valuation level. The stock thus maintains its buy rating. While its dividend yield is only slightly above 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, in our view, 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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