



Pentair (PNR)

Updated May 18th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	12.1%	Market Cap:	\$5.8B
Fair Value Price:	\$43	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	07/24/20 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Dividend Payment Date:	08/07/20 ²
Dividend Yield:	2.1%	5 Year Price Target	\$59	Years Of Dividend Growth:	43
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	5.6%

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. Pentair has increased its dividend for more than four decades in a row, when adjusted for spin-offs, which makes Pentair a member of the Dividend Aristocrats.

Pentair reported its first quarter earnings results on April 30. The company was able to generate revenues of \$710 million during the quarter, which was 3% more than the company's revenues during the previous year's quarter, which beat estimates easily. Core sales, which excludes the impact of currency rate movements, acquisitions, and disposessions, were up 3% year over year, which was a very solid performance compared to the revenues that Pentair generated over the last couple of quarters, during which core sales had not improved much.

Pentair recorded earnings-per-share of \$0.52 for the first quarter, up by a very solid 21% compared to the previous year's quarter. Pentair's earnings-per-share beat the analyst consensus by \$0.09, or roughly 20%. Pentair has withdrawn its previous guidance for 2020, citing uncertainties due to the coronavirus that is causing a global recession. We expect that earnings will be down this year, despite a strong first quarter. To calculate fair value, we utilize an earnings power estimate of \$2.40, which backs out the one-time impacts that the virus is causing.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.00	\$2.41	\$2.39	\$3.21	\$3.14	\$3.94	\$2.47	\$3.53	\$2.35	\$2.38	\$2.05	\$3.29
DPS	\$0.76	\$0.80	\$0.88	\$0.96	\$1.10	\$1.28	\$1.34	\$1.38	\$0.70	\$0.72	\$0.76	\$1.02
Shares³	98	99	206	197	183	181	182	180	177	169	160	145

At first look the results in the above table do not look overly promising, as 2020's earnings-per-share will be below the company's earnings-per-share from 2011. 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 (before the nVent spin-off) Pentair grew 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 even higher.

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 over the coming years. The company should be able to achieve this growth through a combination of rising revenues, which will be possible thanks to organic growth and acquisitions, and through tailwinds from margin expansion and share repurchases, which will lead to further declines in Pentair's share count.

¹ Estimated date

² Estimated date

³ 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.8	15.2	17.6	18.7	22.9	15.2	22.9	18.3	16.2	19.3	15.0	18.0
Avg. Yld.	2.3%	2.2%	2.1%	1.6%	1.5%	2.1%	2.4%	2.1%	1.8%	1.6%	2.1%	1.7%

Pentair's valuation has moved in a relatively tight range throughout most of the last decade, and shares did not become significantly more expensive during the recovery from the last financial crisis, relative to the profits that Pentair generated. Shares are trading well below the long-term median right now, using our earnings power estimate that is higher than this year's expected reported profits. We see upside potential from multiple expansion going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	38.0%	33.2%	36.8%	29.9%	35.0%	32.5%	54.3%	39.1%	29.8%	30.3%	31.7%	30.9%

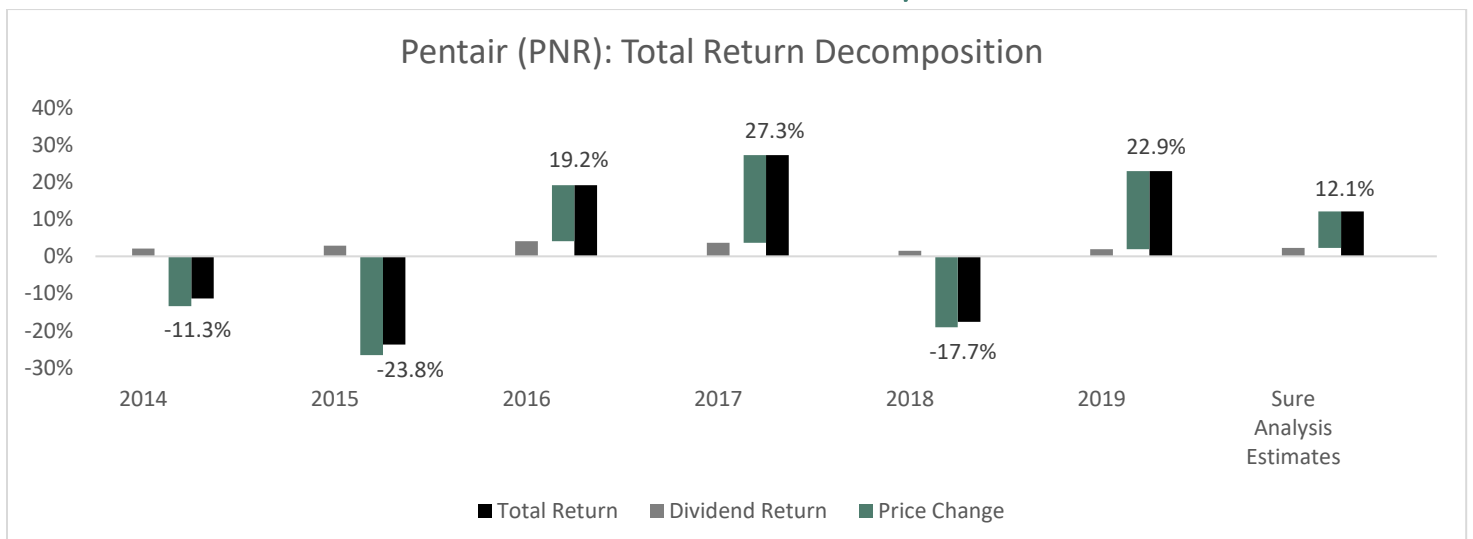
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes us believe that the dividend looks quite safe. Even an earnings decline such as the one during the last financial crisis would most 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 which has allowed its organizational structure to remain lean, and which has allowed the company to grow its already strong margins in the past. 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

Following the spin-off of other businesses, 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 in the long run, but management's forecasts of 10%+ growth seem a bit aggressive. In 2020, profits will likely decline due to the coronavirus impact, but over the next five years we still forecast attractive returns, which is why we rate Pentair a buy right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,031	3,457	4,307	7,000	4,667	4,616	2,781	2,846	2,965	2,957
Gross Profit	931	1,074	1,266	2,370	1,621	1,599	959	988	1,048	1,052
Gross Margin	30.7%	31.1%	29.4%	33.9%	34.7%	34.6%	34.5%	34.7%	35.3%	35.6%
SG&A Exp.	551	695	1,118	1,494	986	884	531	536	534	540
D&A Exp.	84	108	160	275	140	149	88	87	85	80
Operating Profit	313	301	56	754	539	616	354	378	437	433
Operating Margin	10.3%	8.7%	1.3%	10.8%	11.5%	13.3%	12.7%	13.3%	14.7%	14.6%
Net Profit	185	(8)	(107)	537	215	(76)	522	667	347	356
Net Margin	6.1%	-0.2%	-2.5%	7.7%	4.6%	-1.7%	18.8%	23.4%	11.7%	12.0%
Free Cash Flow	211	247	(51)	758	925	648	818	581	391	295
Income Tax	89	46	(67)	177	114	115	43	59	58	46

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3974	4586	11883	11743	10655	11834	11535	8634	3807	4140
Cash & Equivalents	46	50	261	256	110	126	239	86	74	83
Acc. Receivable	553	569	1,275	1,285	1,206	773	764	483	488	503
Inventories	405	450	1,334	1,195	1,130	565	524	357	388	377
Goodwill & Int.	2,520	2,866	7,038	6,611	6,350	6,006	5,849	2,435	2,349	2,598
Total Liabilities	1,769	2,539	5,395	5,526	5,991	7,825	7,280	3,596	1,970	2,186
Accounts Payable	262	295	567	577	583	404	437	322	379	325
Long-Term Debt	707	1,309	2,457	2,550	3,004	4,686	4,279	1,441	788	1,029
Total Equity	2,093	1,933	6,371	6,095	4,664	4,009	4,254	5,038	1,836	1,954
D/E Ratio	0.34	0.68	0.39	0.42	0.64	1.17	1.01	0.29	0.43	0.53

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.7%	-0.2%	-1.3%	4.5%	1.9%	-0.7%	4.5%	6.6%	5.6%	9.0%
Return on Equity	9.0%	-0.4%	-2.6%	8.6%	4.0%	-1.8%	12.6%	14.3%	10.1%	18.8%
ROIC	6.3%	-0.2%	-1.7%	6.1%	2.6%	-0.9%	6.1%	8.9%	7.6%	12.7%
Shares Out.	98	99	206	197	183	181	182	180	177	169
Revenue/Share	30.52	35.20	33.81	34.21	24.09	25.28	15.19	15.49	16.72	17.35
FCF/Share	2.12	2.51	(0.40)	3.70	4.77	3.55	4.47	3.16	2.20	1.73

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

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