



Parker-Hannifin Corporation (PH)

Updated February 10th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$276	5 Year CAGR Estimate:	6.6%	Market Cap:	\$36.0 B
Fair Value Price:	\$216	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	2/9/2021
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	3/5/2021
Dividend Yield:	1.3%	5 Year Price Target	\$347	Years Of Dividend Growth:	64
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	15.8%

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 \$36.0 billion with annual revenues of \$14 billion. Parker-Hannifin has paid a dividend for 70 years and has increased that dividend for a remarkable 64 consecutive years.

On October 29th, 2019, Parker-Hannifin completed the acquisition of LORD, a leading manufacturer of advanced adhesives and coatings, for \$3.675 billion in cash. On September 16th, 2019, Parker-Hannifin completed the acquisition of Exotic Metals Forming Company LLC for \$1.725 billion in cash. These two acquisitions have added ~\$1.5 billion in annual revenues. Notably Parker-Hannifin has exceeded analysts' EPS estimates for 22 consecutive quarters.

In early February, Parker-Hannifin reported (2/4/21) financial results for the second quarter of fiscal 2021. Due to the global recession caused by the pandemic, sales fell -3% over the prior year's quarter but adjusted earnings-per-share grew 15%, from \$2.98 to \$3.44, thanks to much higher margins. Parker-Hannifin exceeded analysts' earnings-per-share estimates by an impressive \$0.86 in the quarter, as analysts were expecting a much greater effect of the pandemic on results. Moreover, the company posted record operating margin and earnings in the quarter. Furthermore, Parker-Hannifin has reduced its debt by \$2.8 billion in the last 14 months. This amount is 52% of the debt required for the aforementioned acquisitions.

Thanks to the strong performance in the first two quarters, management raised its guidance again for fiscal 2021. It now expects a 2.5%-4.5% organic sales decline (instead of 6%-9%) and adjusted earnings-per-share of \$13.65-\$14.15 (instead of \$11.70-\$12.30). We have thus raised our forecast for earnings-per-share in fiscal 2021 from \$12.30 to \$14.10.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$6.37	\$7.45	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$10.79	\$14.10	\$22.71
DPS	\$1.25	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.60	\$4.80
Shares¹	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	130.5	120.0

Since 2010, Parker-Hannifin has more than tripled its earnings-per-share. The growth trajectory of the company was disrupted last year due to the global recession caused by the coronavirus. Moreover, even after the pandemic, the company will not be able to maintain its historical growth rate, particularly given the deceleration in North America and international markets before the pandemic. However, we expect the coronavirus crisis to subside and the global economy to recover in the second half of this year thanks to the massive vaccination program underway. As a result, we expect Parker Hannifin to grow its earnings-per-share at a 10.0% average annual rate over the next five years.

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

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2026
Avg. P/E	16.7	12.6	10.8	13.9	18.0	16.6	16.3	17.3	14.2	16.4	19.0	15.3
Avg. Yld.	1.8%	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.0%	1.3%	1.4%

Parker-Hannifin has nearly tripled off its bottom in March and it is currently trading at a price-to-earnings ratio of 19.0, which is a nearly decade-high valuation level, much higher than the 10-year average earnings multiple of 15.3. If the stock reverts to our fair value estimate over the next five years, it will incur a -4.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	19.6%	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	26.7%	32.6%	25.5%	21.1%

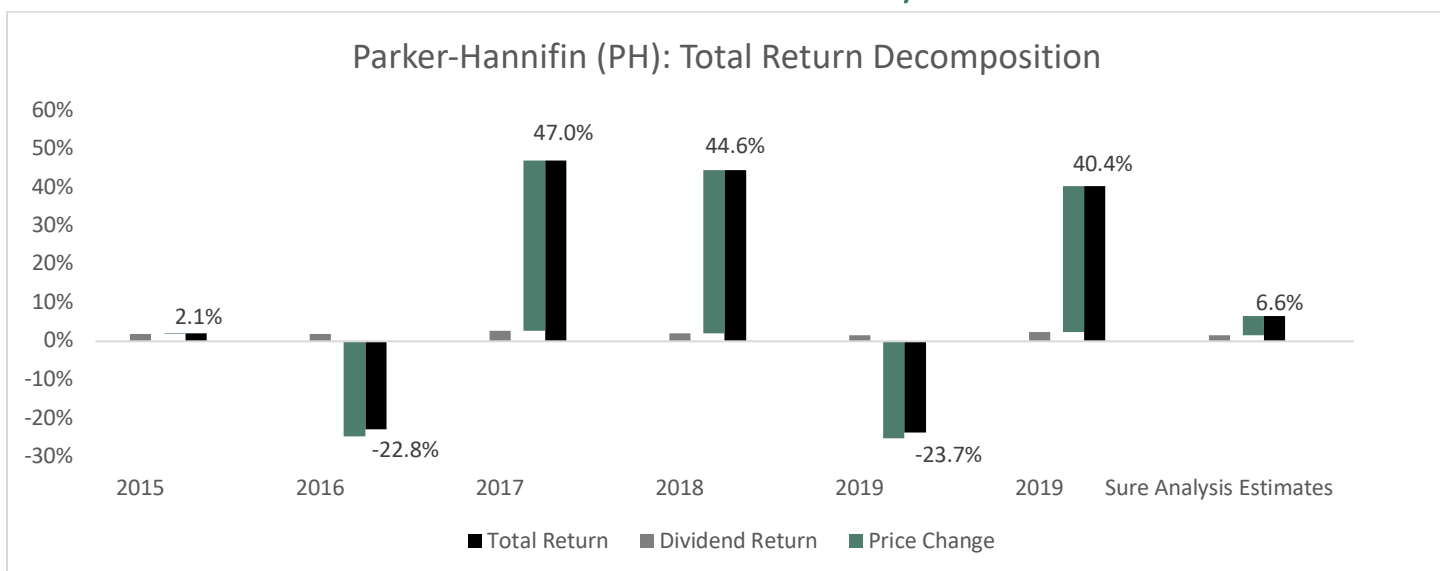
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet absolutely critical to the operations of heavy machinery, factory equipment, aircrafts, and other 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 cyclical nature of the industrial sector. The company has raised its dividend for 64 consecutive years.

Due to the recent acquisitions of Parker Hannifin, its interest expense has increased more than 50%. However, its interest expense still consumes only 13% of its operating income. In addition, thanks to its strong free cash flows, Parker-Hannifin will reduce its interest expense at a fast clip, just as it has done after past acquisitions.

Final Thoughts & Recommendation

Parker-Hannifin has proved resilient amid the pandemic and has promising growth prospects ahead, but the market has already priced these in the stock. As a result, we expect the stock to offer just a 6.6% average annual return over the next five years. Parker-Hannifin may remain richly valued thanks to its strong business performance but relying on a rich valuation is a risky investing strategy. We thus rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12,346	13,146	13,016	13,216	12,712	11,361	12,029	14,302	14,320	13,696
Gross Profit	2,958	3,188	2,929	3,028	3,056	2,537	2,910	3,565	3,617	3,409
Gross Margin	24.0%	24.2%	22.5%	22.9%	24.0%	22.3%	24.2%	24.9%	25.3%	24.9%
SG&A Exp.	1,468	1,519	1,555	1,634	1,545	1,359	1,413	1,640	1,544	1,657
D&A Exp.	340	322	336	337	317	307	355	466	436	538
Operating Profit	1,491	1,668	1,374	1,394	1,512	1,178	1,497	1,925	2,073	1,752
Op. Margin	12.1%	12.7%	10.6%	10.5%	11.9%	10.4%	12.4%	13.5%	14.5%	12.8%
Net Profit	1,049	1,152	948	1,041	1,012	807	983	1,061	1,512	1,206
Net Margin	8.5%	8.8%	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%
Free Cash Flow	960	1,312	925	1,172	1,148	1,061	1,097	1,349	1,535	1,838
Income Tax	357	421	362	515	420	308	345	641	420	306

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	10,887	11,170	12,541	13,274	12,279	12,034	15,490	15,320	17,577	19,738
Cash & Equivalents	657	838	1,781	1,614	1,181	1,222	885	822	3,220	686
Accounts Receivable	1,770	1,782	1,841	1,858	1,620	1,594	1,931	2,146	2,131	1,854
Inventories	1,412	1,401	1,377	1,372	1,300	1,173	1,549	1,621	1,678	1,815
Goodwill & Int. Ass.	4,187	4,021	4,514	4,360	3,956	3,826	7,894	7,520	7,237	11,669
Total Liabilities	5,398	6,265	6,799	6,612	7,172	7,455	10,223	9,455	11,609	13,610
Accounts Payable	1,174	1,195	1,156	1,252	1,092	1,035	1,300	1,430	1,413	1,112
Long-Term Debt	1,766	1,730	2,830	2,325	2,947	3,014	5,870	4,957	7,108	8,462
Shareholder's Equity	5,384	4,897	5,738	6,659	5,104	4,575	5,262	5,860	5,962	6,114
D/E Ratio	0.33	0.35	0.49	0.35	0.58	0.66	1.12	0.85	1.19	1.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.1%	10.4%	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%	9.2%	6.5%
Return on Equity	21.5%	22.4%	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%	25.6%	20.0%
ROIC	15.6%	16.6%	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%	12.7%	8.7%
Shares Out.	155.1	149.6	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0
Revenue/Share	74.92	85.00	85.86	87.27	87.60	82.98	88.74	105.61	108.67	105.51
FCF/Share	5.82	8.48	6.10	7.74	7.91	7.75	8.11	9.99	11.65	---

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

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