



The Gorman-Rupp Company (GRC)

Updated May 19th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	2.7%	Market Cap:	\$911 M
Fair Value Price:	\$30	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	08/11/21 ¹
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date:	09/10/21
Dividend Yield:	1.8%	5 Year Price Target	\$36	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	6.9%

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 about \$370 million and a market capitalization of \$911 million. Today, Gorman-Rupp is a focused, niche manufacturer of critical systems that many industrial clients rely upon for their own success. Gorman-Rupp generates about one-third of its total revenue from outside of the US. The company also has one of the most impressive dividend increase streaks in the market, which currently stands at 48 years.

Gorman-Rupp reported first quarter earnings on April 22nd, 2021, with results coming in better than expected on the top line, and equal to expectations on profits. Total revenue was \$89 million, down from \$92 million in the year-ago period. The company's domestic sales were off -4%, while international sales were essentially flat to last year's Q1.

Water markets sales were up 0.9%, or \$0.6 million, year-over-year, as weakness in fire protection was more than offset by repair, construction, and agriculture revenue. Non-water market sales were down -12% as the industrial and OEM markets were down significantly.

Gross profit was \$23 million, or 25.9% of revenue, compared to \$23.4 million or 25.6% of revenue in last year's Q1. The 30bps increase was due to operating leverage on labor and overhead expenses.

Operating income was \$9 million for the quarter, or 10.1% of revenue. This was up from \$8.6 million or 9.4% in the year-ago period, as a result of improved leverage on labor and overhead, reduced marketing and travel spending, and overall expense control efforts.

Earnings were \$7.4 million, up from \$5.5 million a year ago. On a per-share basis, adjusted for a non-cash pension settlement charge in last year's Q1, earnings were up from 25 cents to 28 cents. We've added a nickel to our estimate for this year, which now stands at \$1.30 in earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.10	\$1.07	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.11	\$1.30	\$1.58
DPS	\$0.27	\$0.31	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.62	\$0.79
Shares²	26	26	26	26	26	26	26	26	26	26	26	26

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, as was the case in 2019 and 2020 following a strong performance in 2018. We are forecasting 4% earnings-per-share growth going forward from our earnings estimate but note that recent weakness continues to suggest further volatility moving forward.

The company can achieve this result mostly through low single-digit sales growth. Given the company's robust backlog of uncompleted work, we see revenue growth continuing for the near term once COVID headwinds have passed.

¹ Estimated date

² Share count 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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Gorman-Rupp's primary earnings growth driver is certainly revenue as its margins fluctuate over time, and Gorman-Rupp is focusing on cost containment efforts to help combat this while it waits for revenue to 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 solely for the current yield, however.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	21.4	21.5	23.5	23.1	25.8	28.4	24.7	21.6	24.5	28.8	26.9	23.0
Avg. Yld.	1.1%	1.4%	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	1.8%	1.8%	2.2%

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. Shares trade at 26.9 times our earnings estimate, which is in excess of our fair value estimate of 23 times earnings, so we are forecasting a small headwind to total returns from the valuation in the coming years. The yield should also remain near 2%; Gorman-Rupp did pay a \$2 special dividend in Q4 of 2018.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	29%	29%	27%	38%	45%	39%	33%	40%	53%	48%	50%

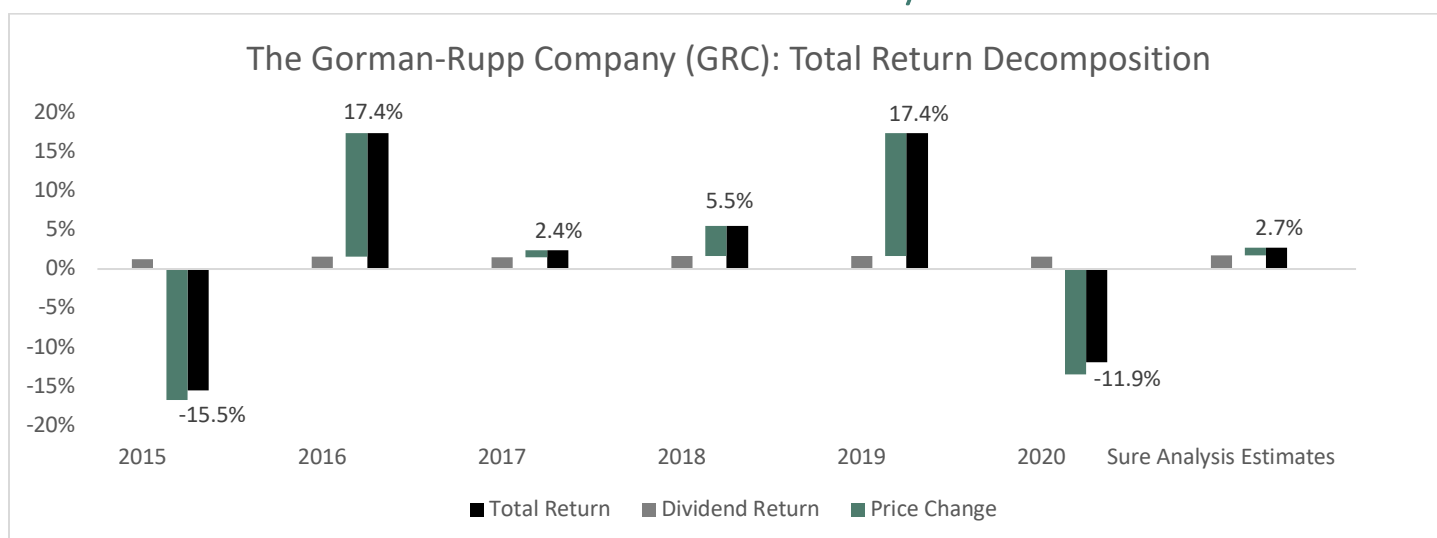
Gorman-Rupp's payout ratio is around half of earnings and should remain there for the foreseeable future as we anticipate moderate dividend growth over the intermediate term.

The company's 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 recessions as revenue and earnings both fell very sharply during the Great Recession. We see earnings as at-risk for this recession, as noted above, and indeed, depressed earnings for 2020 came to fruition; we continue to expect a decent rebound for 2021.

Final Thoughts & Recommendation

Gorman-Rupp is trading at 117% of our estimate of fair value following the Q1 report. The company's moderate level of earnings growth could afford investors 2.7% annual returns. However, given that investors are likely to experience significant volatility in earnings in the coming years, we reiterate the stock at a sell rating at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	359	376	392	435	406	382	379	414	398	349
Gross Profit	88	90	94	108	93	93	101	110	103	90
Gross Margin	24.4%	24.0%	23.9%	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%	25.7%
SG&A Exp.	45	48	52	54	56	54	55	59	59	54
D&A Exp.	11	12	14	15	15	16	15	14	14	---
Operating Profit	43	42	42	53	36	38	46	51	44	36
Operating Margin	12.0%	11.2%	10.7%	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%	10.2%
Net Profit	29	28	30	36	25	25	27	40	36	25
Net Margin	8.0%	7.5%	7.7%	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%	7.2%
Free Cash Flow	10	16	29	16	32	47	36	30	51	---
Income Tax	14	14	14	18	12	12	13	10	9	6

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	299	335	356	381	364	383	395	368	383	394
Cash & Equivalents	20	20	31	24	24	58	80	46	81	108
Accounts Receivable	56	59	59	71	77	71	67	68	65	51
Inventories	73	91	90	95	83	69	75	87	76	83
Goodwill & Int. Ass.	25	32	32	40	41	43	38	36	35	34
Total Liabilities	84	100	91	99	77	80	70	75	75	79
Accounts Payable	16	15	18	18	15	16	16	17	16	9
Long-Term Debt	10	22	9	12	---	---	---	---	---	---
Shareholder's Equity	215	235	264	282	287	303	325	293	308	316
D/E Ratio	0.05	0.09	0.03	0.04	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.8%	8.9%	8.7%	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%	6.5%
Return on Equity	13.9%	12.5%	12.1%	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%	8.1%
ROIC	12.8%	11.7%	11.4%	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%	8.1%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	13.70	14.32	14.92	16.56	15.51	14.65	14.54	15.87	15.23	13.44
FCF/Share	0.38	0.62	1.12	0.60	1.24	1.78	1.36	1.16	1.96	---

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

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