



Pentair (PNR)

Updated April 30th, 2021 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$65 | 5 Year CAGR Estimate: | 4.1% | Market Cap: | \$11B |
| Fair Value Price: | \$55 | 5 Year Growth Estimate: | 6.5% | Ex-Dividend Date: | 07/21/21 ¹ |
| % Fair Value: | 119% | 5 Year Valuation Multiple Estimate: | -3.5% | Dividend Payment Date: | 08/05/21 ² |
| Dividend Yield: | 1.2% | 5 Year Price Target | \$75 | Years Of Dividend Growth: | 44 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 5.3% |

Overview & Current Events

Until recently, Pentair was a diversified industrial conglomerate. The company 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 22. The company was able to generate revenues of \$870 million during the quarter, which was 22% more than the company's revenues during the previous year's quarter, a result that beat estimates easily. Core sales, which excludes the impact of currency rate movements, acquisitions, and disposessions, were up 19% year over year, which was a lot better than the sales performance during the last couple of quarters, during which sales had been more or less flat on a year-over-year basis.

Pentair recorded earnings-per-share of \$0.81 for the first quarter, which was up by a very large 56% year over year, impacted by a weak performance during 2020's first quarter. Pentair's earnings-per-share beat the analyst consensus by \$0.19. Pentair updated and increased its guidance for the current year during the earnings report. For fiscal 2021, Pentair is forecasting earnings-per-share in a range of \$2.80 to \$2.95, which indicates strong earnings growth versus 2020 and which would make 2021 a new record year for the company, adjusted for the nVent spinoff.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.41 | \$2.39 | \$3.21 | \$3.14 | \$3.94 | \$2.47 | \$3.53 | \$2.35 | \$2.38 | \$2.50 | \$2.87 | \$3.93 |
| DPS | \$0.80 | \$0.88 | \$0.96 | \$1.10 | \$1.28 | \$1.34 | \$1.38 | \$0.70 | \$0.72 | \$0.76 | \$0.80 | \$1.07 |
| Shares³ | 99 | 206 | 197 | 183 | 181 | 182 | 180 | 177 | 169 | 168 | 166 | 150 |

At first look the results in the above table do not look overly promising, as 2020's earnings-per-share were more or less in line with 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, however, 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

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Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 15.2 | 17.6 | 18.7 | 22.9 | 15.2 | 22.9 | 18.3 | 16.2 | 19.3 | 21.2 | 22.6 | 19.0 |
| Avg. Yld. | 2.2% | 2.1% | 1.6% | 1.5% | 2.1% | 2.4% | 2.1% | 1.8% | 1.6% | 1.4% | 1.2% | 1.4% |

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 slightly above the long-term median right now, using current earnings-per-share estimates for 2021. We believe that multiple contraction is more likely than multiple expansion going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 33.2% | 36.8% | 29.9% | 35.0% | 32.5% | 54.3% | 39.1% | 29.8% | 30.3% | 30.4% | 27.9% | 27.2% |

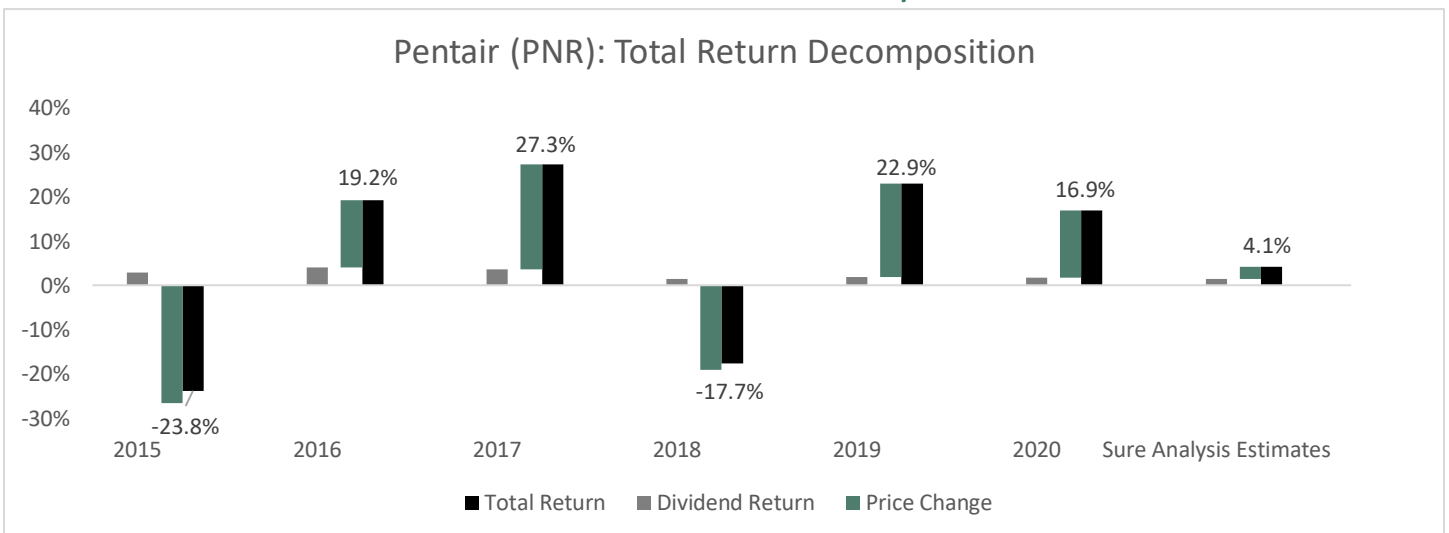
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes 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.

Above-average operating efficiency is one of Pentair's advantages over peers. 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/fluids company that is a leader in its industry and that should be able to grow through further tuck-in acquisitions. We believe that Pentair should be able to grow its earnings-per-share at a solid pace in the long run, but management's forecast of 10%+ earnings growth seems a bit aggressive. In 2021, profits will likely grow meaningfully versus 2020, which had also been a very solid year. The total return forecast isn't great, due to a rather high valuation, which is why we rate the stock a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 3,457 | 4,307 | 7,000 | 4,667 | 4,616 | 2,781 | 2,846 | 2,965 | 2,957 | 3,018 |
| Gross Profit | 1,074 | 1,266 | 2,370 | 1,621 | 1,599 | 959 | 988 | 1,048 | 1,052 | 1,058 |
| Gross Margin | 31.1% | 29.4% | 33.9% | 34.7% | 34.6% | 34.5% | 34.7% | 35.3% | 35.6% | 35.0% |
| SG&A Exp. | 695 | 1,118 | 1,494 | 986 | 884 | 531 | 536 | 534 | 540 | 521 |
| D&A Exp. | 108 | 160 | 275 | 140 | 149 | 88 | 87 | 85 | 80 | 75 |
| Operating Profit | 301 | 56 | 754 | 539 | 616 | 354 | 378 | 437 | 433 | 461 |
| Operating Margin | 8.7% | 1.3% | 10.8% | 11.5% | 13.3% | 12.7% | 13.3% | 14.7% | 14.6% | 15.3% |
| Net Profit | (8) | (107) | 537 | 215 | (76) | 522 | 667 | 347 | 356 | 359 |
| Net Margin | -0.2% | -2.5% | 7.7% | 4.6% | -1.7% | 18.8% | 23.4% | 11.7% | 12.0% | 11.9% |
| Free Cash Flow | 247 | (51) | 758 | 925 | 648 | 818 | 581 | 391 | 295 | 511 |
| Income Tax | 46 | (67) | 177 | 114 | 115 | 43 | 59 | 58 | 46 | 75 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|-------|--------|--------|--------|--------|--------|-------|-------|-------|-------|
| Total Assets | 4,586 | 11,883 | 11,743 | 10,655 | 11,834 | 11,535 | 8,634 | 3,807 | 4,140 | 4,197 |
| Cash & Equivalents | 50 | 261 | 256 | 110 | 126 | 239 | 86 | 74 | 83 | 82 |
| Acc. Receivable | 569 | 1,275 | 1,285 | 1,206 | 773 | 764 | 483 | 488 | 503 | 368 |
| Inventories | 450 | 1,334 | 1,195 | 1,130 | 565 | 524 | 357 | 388 | 377 | 420 |
| Goodwill & Int. | 2,866 | 7,038 | 6,611 | 6,350 | 6,006 | 5,849 | 2,435 | 2,349 | 2,598 | 2,718 |
| Total Liabilities | 2,539 | 5,395 | 5,526 | 5,991 | 7,825 | 7,280 | 3,596 | 1,970 | 2,186 | 2,091 |
| Accounts Payable | 295 | 567 | 577 | 583 | 404 | 437 | 322 | 379 | 325 | 245 |
| Long-Term Debt | 1,309 | 2,457 | 2,550 | 3,004 | 4,686 | 4,279 | 1,441 | 788 | 1,029 | 840 |
| Total Equity | 1,933 | 6,371 | 6,095 | 4,664 | 4,009 | 4,254 | 5,038 | 1,836 | 1,954 | 2,106 |
| D/E Ratio | 0.68 | 0.39 | 0.42 | 0.64 | 1.17 | 1.01 | 0.29 | 0.43 | 0.53 | 0.40 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | -0.2% | -1.3% | 4.5% | 1.9% | -0.7% | 4.5% | 6.6% | 5.6% | 9.0% | 8.6% |
| Return on Equity | -0.4% | -2.6% | 8.6% | 4.0% | -1.8% | 12.6% | 14.3% | 10.1% | 18.8% | 17.7% |
| ROIC | -0.2% | -1.7% | 6.1% | 2.6% | -0.9% | 6.1% | 8.9% | 7.6% | 12.7% | 12.1% |
| Shares Out. | 99 | 206 | 197 | 183 | 181 | 182 | 180 | 177 | 169 | 168 |
| Revenue/Share | 35.20 | 33.81 | 34.21 | 24.09 | 25.28 | 15.19 | 15.49 | 16.72 | 17.35 | 18.03 |
| FCF/Share | 2.51 | (0.40) | 3.70 | 4.77 | 3.55 | 4.47 | 3.16 | 2.20 | 1.73 | 3.06 |

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

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