



Pentair (PNR)

Updated November 3rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	4.9%	Market Cap:	\$12B
Fair Value Price:	\$64	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	01/21/22 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	02/05/22
Dividend Yield:	1.1%	5 Year Price Target	\$88	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 third quarter earnings results on October 26. The company was able to generate revenues of \$970 million during the quarter, which was 21% 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 18% year over year, which was a slightly weaker than the revenue growth rate during the previous quarter, but still a huge improvement over the comparable period in fiscal 2020.

Pentair recorded earnings-per-share of \$0.89 for the third quarter, which was up by a pretty large 27% year over year. Pentair's earnings-per-share beat the analyst consensus by \$0.05. Pentair updated and increased its guidance for the current year during the earnings report. For fiscal 2021, Pentair is now forecasting earnings-per-share in a range of \$3.34 to \$3.40, 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	\$3.37	\$4.62
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
Shares²	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 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	21.7	19.0
Avg. Yld.	2.2%	2.1%	1.6%	1.5%	2.1%	2.4%	2.1%	1.8%	1.6%	1.4%	1.1%	1.2%

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%	23.7%	23.2%

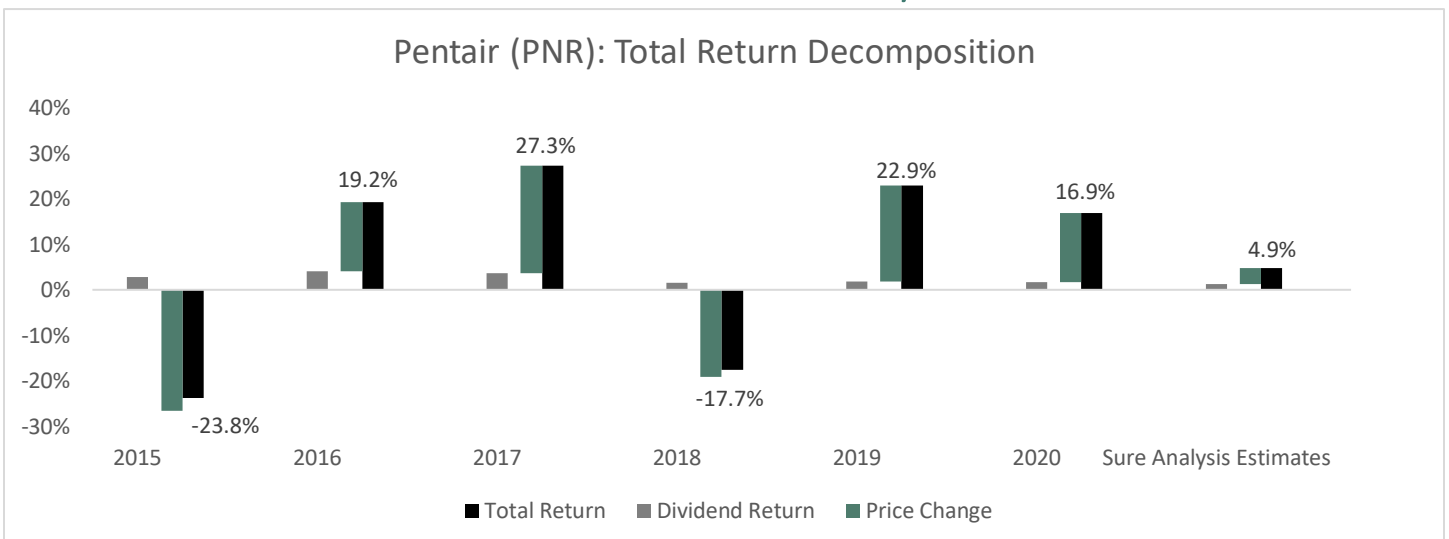
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes 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 leading pure-play water/fluids company 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 very meaningfully versus 2020, which had also been a very solid year already. The total return forecast isn't great, however, 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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