



Parker-Hannifin Corporation (PH)

Updated February 7th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$303	5 Year CAGR Estimate:	10.4%	Market Cap:	\$38.9 B
Fair Value Price:	\$305	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	2/10/2022
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	3/4/2022
Dividend Yield:	1.4%	5 Year Price Target	\$470	Years Of Dividend Growth:	65
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	17.0%

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 \$38.9 billion with annual revenues of over \$14 billion. Parker-Hannifin has paid a dividend for 71 years and has increased that dividend for a remarkable 65 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 26 consecutive quarters.

On August 2nd, 2021, Parker-Hannifin agreed to acquire Meggitt, a global leader in aerospace and defense motion and control technologies, for \$8.8 billion in a cash deal. Meggitt offers technology and products on every major aircraft platform and has annual revenues of \$2.3 billion. As the deal value is 23% of the market cap of Parker-Hannifin, it is obviously a major deal for the growth prospects of the company. The deal is expected to close in Q3-2022.

In early February, Parker-Hannifin reported (2/3/21) financial results for the second quarter of fiscal 2022. Sales and organic sales grew 12% and 13%, respectively, over the prior year's quarter and adjusted earnings-per-share grew 29%, from \$3.45 to \$4.46, thanks to strong demand in nearly all markets. Parker-Hannifin exceeded analysts' consensus by an impressive \$0.53 and posted record sales and operating margin for a second quarter. It also raised its guidance for organic sales growth in fiscal 2022 from 7%-10% to 10%-12% and adjusted earnings-per-share from \$16.95-\$17.65 to \$17.80-\$18.30. Given the solid business momentum of the company and its tendency to issue conservative guidance, we have raised our earnings-per-share forecast from \$17.50 to \$18.50.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$7.45	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.44	\$15.04	\$18.50	\$28.46
DPS	\$1.54	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.67	\$4.12	\$6.64
Shares¹	149.6	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.0	125.0

Since 2010, Parker-Hannifin has more than tripled its earnings-per-share. The growth trajectory of the company slowed in 2020 due to the global recession caused by the coronavirus. Moreover, even after the pandemic, the company will not be able to maintain its enormous historical growth rate due to size limitations. However, Parker-Hannifin has returned to high growth mode. Given also its aforementioned pending acquisition, we expect Parker Hannifin to grow its earnings-per-share at a 9.0% average annual rate over the next five years. We have lowered our expected growth rate from 10% to 9% due to the upward revision of this year's expected earnings-per-share.

Parker-Hannifin's growth will come in part from acquisitions. The \$4.3 billion CLARCOR transaction and the three 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.6	10.8	13.9	18.0	16.6	16.3	17.3	14.2	10.2	17.3	16.4	16.5
Avg. Yld.	1.6%	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.4%	1.4%

Parker-Hannifin is currently trading at a forward price-to-earnings ratio of 16.4, which is marginally lower than the 7-year average earnings multiple of 16.5 (excluding 2020 due to the pandemic). We prefer to use the 7-year average as fair value, as it is more representative of the current growth prospects of the company. If the stock trades at our fair value estimate in five years, it will enjoy a marginal 0.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2020	2027
Payout	20.7%	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	26.7%	28.3%	24.4%	22.3%	23.3%

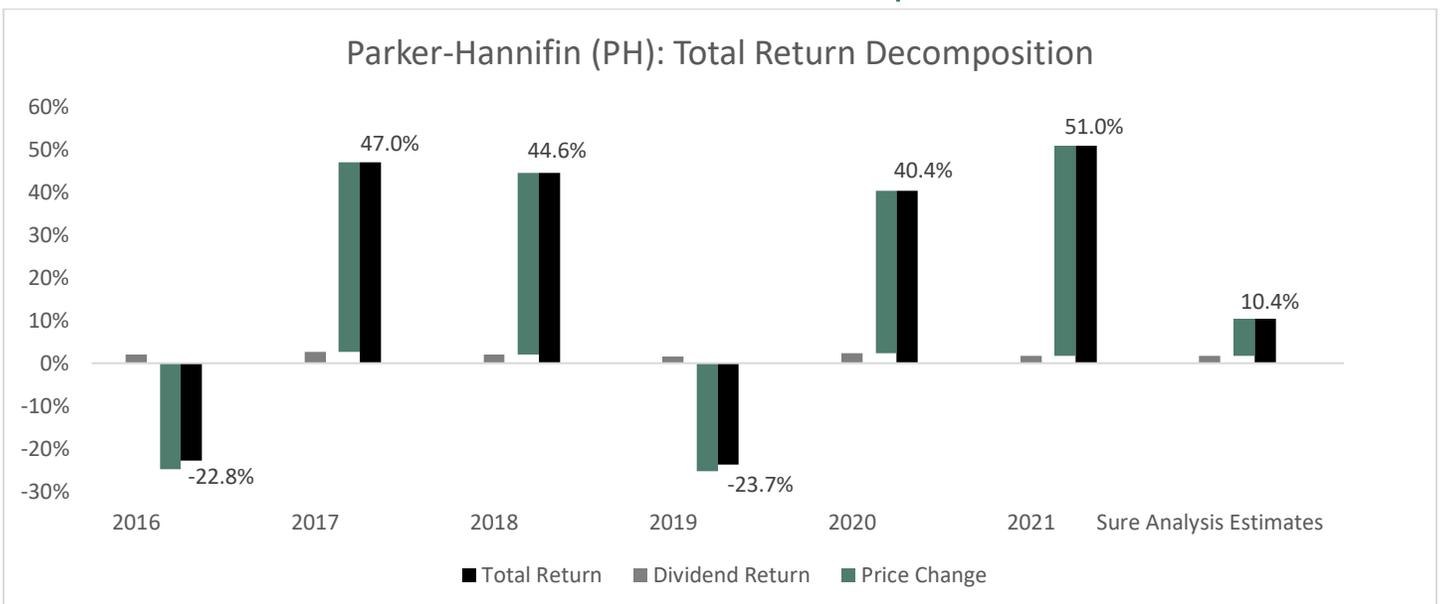
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial 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 cyclicality of the industrial sector. The company has raised its dividend for 65 consecutive years.

Due to the recent acquisitions of Parker Hannifin, its interest expense has increased nearly 50% since 2017. However, its interest expense still consumes only 9% of its operating income. In addition, thanks to its strong free cash flows, Parker-Hannifin is now accumulating cash at a fast pace to fund its acquisition of Meggitt.

Final Thoughts & Recommendation

Parker-Hannifin has proved resilient to the pandemic and has exciting growth prospects ahead. Given also its high quality, we expect it to offer a 10.4% average annual return over the next five years and rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13,146	13,016	13,216	12,712	11,361	12,029	14,302	14,320	13,696	14,348
Gross Profit	3,188	2,929	3,028	3,056	2,537	2,910	3,565	3,631	3,403	3,898
Gross Margin	24.2%	22.5%	22.9%	24.0%	22.3%	24.2%	24.9%	25.4%	24.8%	27.2%
SG&A Exp.	1,519	1,555	1,634	1,545	1,359	1,413	1,640	1,544	1,657	1,527
D&A Exp.	322	336	337	317	307	355	466	436	538	595
Operating Profit	1,668	1,374	1,394	1,512	1,178	1,497	1,925	2,087	1,747	2,371
Op. Margin	12.7%	10.6%	10.5%	11.9%	10.4%	12.4%	13.5%	14.6%	12.8%	16.5%
Net Profit	1,152	948	1,041	1,012	807	983	1,061	1,525	1,202	1,746
Net Margin	8.8%	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%	12.2%
Free Cash Flow	1,312	925	1,172	1,148	1,061	1,097	1,349	1,535	1,838	2,365
Income Tax	421	362	515	420	308	345	641	424	305	500

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	11,170	12,541	13,274	12,279	12,034	15,490	15,320	17,577	19,888	20,341
Cash & Equivalents	838	1,781	1,614	1,181	1,222	885	822	3,220	686	733
Accounts Receivable	1,782	1,841	1,858	1,620	1,594	1,931	2,146	2,131	1,854	2,184
Inventories	1,401	1,377	1,372	1,300	1,173	1,549	1,621	1,678	1,964	2,091
Goodwill & Int. Ass.	4,021	4,514	4,360	3,956	3,826	7,894	7,520	7,237	11,669	11,579
Total Liabilities	6,265	6,799	6,612	7,172	7,455	10,223	9,455	11,609	13,646	11,928
Accounts Payable	1,195	1,156	1,252	1,092	1,035	1,300	1,430	1,413	1,112	1,668
Long-Term Debt	1,730	2,830	2,325	2,947	3,014	5,870	4,957	7,108	8,462	6,585
Shareholder's Equity	4,897	5,738	6,659	5,104	4,575	5,262	5,860	5,962	6,227	8,398
D/E Ratio	0.35	0.49	0.35	0.58	0.66	1.12	0.85	1.19	1.36	0.78

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.4%	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%	9.3%	6.4%	8.7%
Return on Equity	22.4%	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%	25.8%	19.7%	23.9%
ROIC	16.6%	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%	12.8%	8.7%	11.8%
Shares Out.	149.6	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6
Revenue/Share	85.00	85.86	87.27	87.60	82.98	88.74	105.61	108.67	105.51	109.66
FCF/Share	8.48	6.10	7.74	7.91	7.75	8.09	9.96	11.65	14.16	18.08

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

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