



Pentair (PNR)

Updated February 7th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	11.0%	Market Cap:	\$10 B
Fair Value Price:	\$71	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	04/21/22 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	05/05/22 ²
Dividend Yield:	1.4%	5 Year Price Target	\$98	Years Of Dividend Growth:	45
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	5.0%

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 fourth quarter earnings results on February 1. The company was able to generate revenues of \$990 million during the quarter, which was 24% 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 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 \$0.87 for the fourth quarter, which was up by a large 24% year over year. Pentair's earnings-per-share beat the analyst consensus by \$0.02. Pentair issued its guidance for the current year during the earnings report as well. For fiscal 2022, Pentair is now forecasting earnings-per-share in a range of \$3.70 to \$3.80, which indicates slid earnings-per-share growth of around 13% compared to the \$3.32 the company earned in 2021. 2022 will also be a new record year for the company, adjusted for the nVent spinoff, according to management.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.39	\$3.21	\$3.14	\$3.94	\$2.47	\$3.53	\$2.35	\$2.38	\$2.50	\$3.32	\$3.75	\$5.14
DPS	\$0.88	\$0.96	\$1.10	\$1.28	\$1.34	\$1.38	\$0.70	\$0.72	\$0.76	\$0.80	\$0.84	\$1.12
Shares³	206	197	183	181	182	180	177	169	168	167	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

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	17.6	18.7	22.9	15.2	22.9	18.3	16.2	19.3	21.2	22.0	16.3	19.0
Avg. Yld.	2.1%	1.6%	1.5%	2.1%	2.4%	2.1%	1.8%	1.6%	1.4%	1.1%	1.4%	1.2%

Pentair's valuation has mostly been in the high-teens range over 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 below the long-term median right now, using current earnings-per-share estimates for 2022. We believe that multiple expansion is more likely than multiple contraction going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	36.8%	29.9%	35.0%	32.5%	54.3%	39.1%	29.8%	30.3%	30.4%	24.1%	22.4%	21.9%

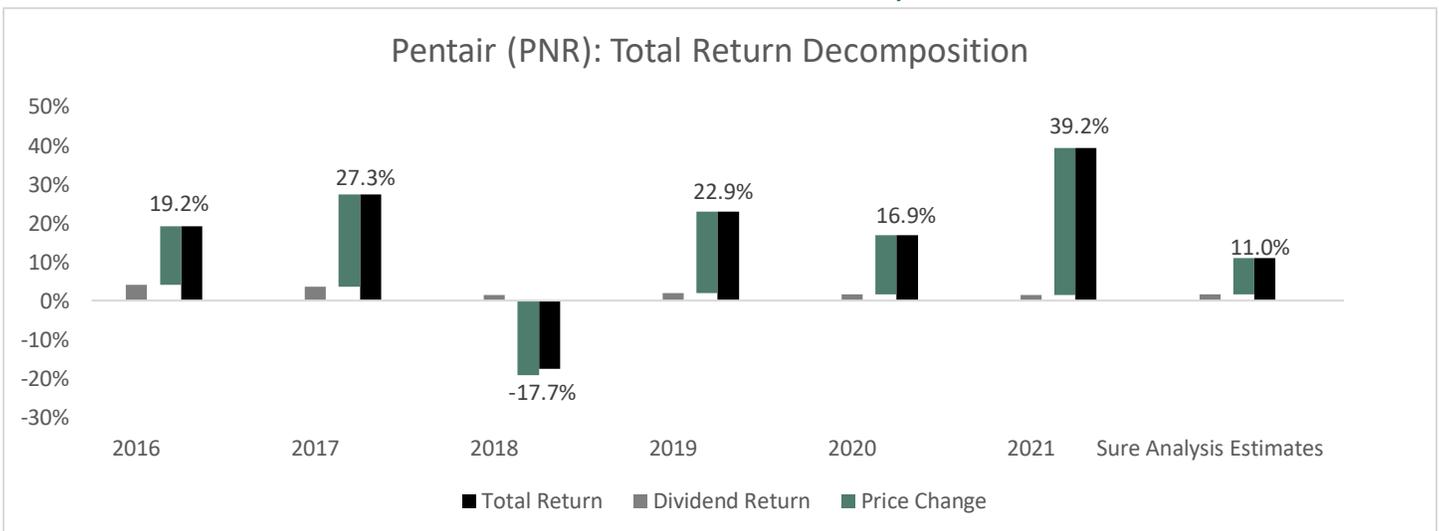
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes 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 will 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 have recovered substantially versus where they stood in the prior year. The total return forecast is pretty compelling right now, which is why we rate Pentair a buy at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,307	7,000	4,667	4,616	2,781	2,846	2,965	2,957	3,018	3,765
Gross Profit	1,266	2,370	1,621	1,599	959	988	1,048	1,052	1,058	1,319
Gross Margin	29.4%	33.9%	34.7%	34.6%	34.5%	34.7%	35.3%	35.6%	35.0%	35.0%
SG&A Exp.	1,118	1,494	986	884	531	536	534	540	521	596
D&A Exp.	160	275	140	149	88	87	85	80	75	78
Operating Profit	56	754	539	616	354	378	437	433	461	637
Operating Margin	1.3%	10.8%	11.5%	13.3%	12.7%	13.3%	14.7%	14.6%	15.3%	16.9%
Net Profit	(107)	537	215	(76)	522	667	347	356	359	553
Net Margin	-2.5%	7.7%	4.6%	-1.7%	18.8%	23.4%	11.7%	12.0%	11.9%	14.7%
Free Cash Flow	(51)	758	925	648	818	581	391	295	511	553
Income Tax	(67)	177	114	115	43	59	58	46	75	71

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	11,883	11,743	10,655	11,834	11,535	8,634	3,807	4,140	4,197	4,754
Cash & Equivalents	261	256	110	126	239	86	74	83	82	95
Acc. Receivable	1,275	1,285	1,206	773	764	483	488	503	368	534
Inventories	1,334	1,195	1,130	565	524	357	388	377	420	563
Goodwill & Int.	7,038	6,611	6,350	6,006	5,849	2,435	2,349	2,598	2,718	2,933
Total Liabilities	5,395	5,526	5,991	7,825	7,280	3,596	1,970	2,186	2,091	2,332
Accounts Payable	567	577	583	404	437	322	379	325	245	386
Long-Term Debt	2,457	2,550	3,004	4,686	4,279	1,441	788	1,029	840	894
Total Equity	6,371	6,095	4,664	4,009	4,254	5,038	1,836	1,954	2,106	2,422
LTD/E Ratio	0.39	0.42	0.64	1.17	1.01	0.29	0.43	0.53	0.40	0.37

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.3%	4.5%	1.9%	-0.7%	4.5%	6.6%	5.6%	9.0%	8.6%	12.4%
Return on Equity	-2.6%	8.6%	4.0%	-1.8%	12.6%	14.3%	10.1%	18.8%	17.7%	24.4%
ROIC	-1.7%	6.1%	2.6%	-0.9%	6.1%	8.9%	7.6%	12.7%	12.1%	17.7%
Shares Out.	206	197	183	181	182	180	177	169	168	167
Revenue/Share	33.81	34.21	24.09	25.28	15.19	15.49	16.72	17.35	18.03	22.48
FCF/Share	(0.40)	3.70	4.77	3.55	4.47	3.16	2.20	1.73	3.06	3.30

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

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