



# The Gorman-Rupp Company (GRC)

Updated May 22<sup>nd</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$29	<b>5 Year CAGR Estimate:</b>	10.0%	<b>Market Cap:</b>	\$765 M
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	08/12/22 <sup>1</sup>
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Dividend Payment Date:</b>	09/10/22
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$43	<b>Years Of Dividend Growth:</b>	49
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$470 million and a market capitalization of \$765 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 U.S. The company also has one of the most impressive dividend increase streaks in the market, which currently stands at 49 years.

Gorman-Rupp reported first quarter earnings on April 27<sup>th</sup>, 2022, and results were mixed. Earnings-per-share came to 29 cents, which was five cents lower than expected. Revenue, however, was \$102 million, which was up 15% year-over-year, and beat estimates by more than \$4 million.

Net sales were 15.6% higher in the Domestic market, while international sales were up 12.8%. Sales were up in almost all markets for the company in Q1, and incoming orders were up 9.6% year-over-year to \$112 million.

Water markets revenue was up 11.5%, or \$7.5 million. Non-water markets revenue soared 23.3%, or \$5.7 million.

Gross profit was \$25.5 million in Q1, or 25% of revenue. That was up from \$23 million on a dollar basis, but down from 25.9% as a percentage of revenue. The decline of 90bps of revenue was attributable to a 200bps increase in cost of material, partially offset by a 110bps improvement in labor and overhead leverage, which was due to higher sales volume.

Earnings-per-share were up just one penny against the year-ago period, and we now expect to see \$1.45 in earnings-per-share for this year.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.07	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.11	\$1.32	<b>\$1.45</b>	<b>\$1.94</b>
<b>DPS</b>	\$0.31	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.65	<b>\$0.68</b>	<b>\$0.87</b>
<b>Shares<sup>2</sup></b>	26	26	26	26	26	26	26	26	26	26	<b>26</b>	<b>26</b>

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 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 6% 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, which the company says continues to occur. Gorman-Rupp's primary earnings growth driver is certainly revenue as its margins

<sup>1</sup> Estimated date

<sup>2</sup> 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.



# The Gorman-Rupp Company (GRC)

Updated May 22<sup>nd</sup>, 2022, by Josh Arnold

fluctuate over time, and Gorman-Rupp is focusing on cost containment efforts to help combat this while it waits for revenue to rise. The company is facing significant input cost inflation.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.5	23.5	23.1	25.8	28.4	24.7	21.6	24.5	28.8	27.7	20.0	22.0
Avg. Yld.	1.4%	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	1.8%	1.8%	2.3%	2.0%

Gorman-Rupp's price-to-earnings multiple stayed in a narrow range from 2008 to 2014, but in more recent years, investors have been willing to pay more. Shares trade at 20 times our earnings estimate, which is below our revised estimate of 22 times earnings. As such we are forecasting a small positive impact to total returns from the valuation in the coming years. The yield should move a bit lower over time as the valuation improves.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	29%	27%	38%	45%	39%	33%	40%	53%	49%	47%	45%

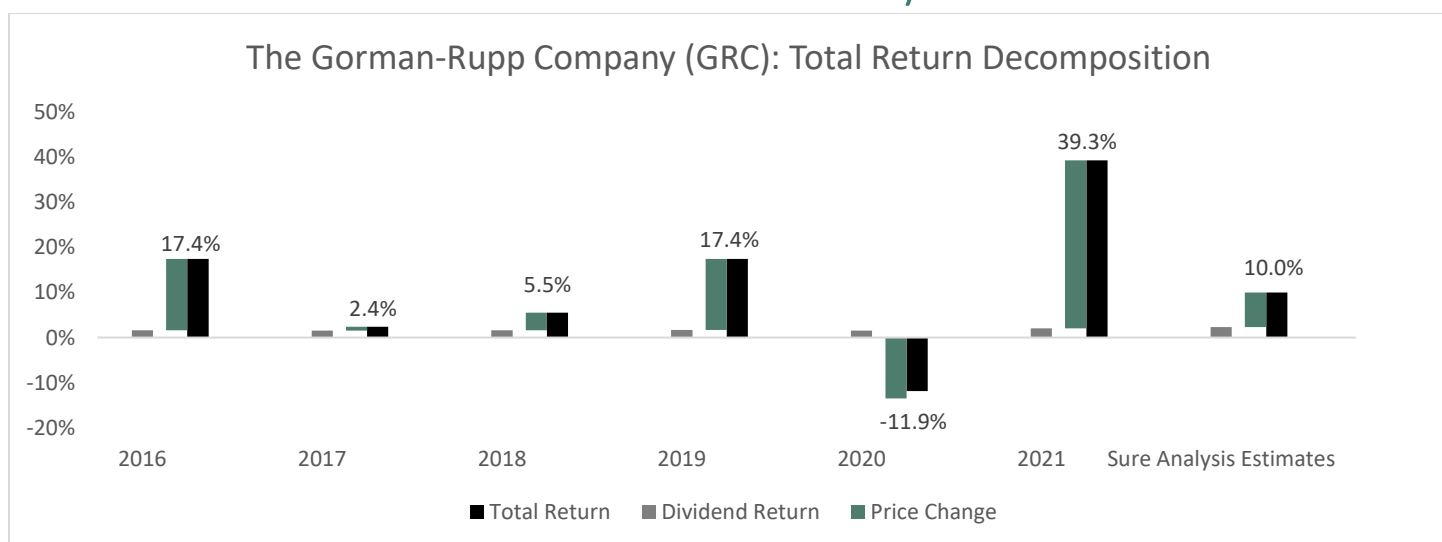
Gorman-Rupp's payout ratio is under half of earnings and should remain there for the foreseeable future as we anticipate moderate dividend growth over the intermediate term.

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. Depressed earnings for 2020 came to fruition but rebounded in 2021. We expect to continue into 2022.

## Final Thoughts & Recommendation

Gorman-Rupp is trading at 91% of our estimate of fair value following the Q1 report. The company's moderate level of earnings growth could afford investors 10% annual returns in conjunction with the yield and the much-improved valuation, despite our lowered estimate of fair value. Given this, we're upgrading the stock from hold to buy.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# The Gorman-Rupp Company (GRC)

Updated May 22<sup>nd</sup>, 2022, by Josh Arnold

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	376	392	435	406	382	379	414	398	349	378
Gross Profit	90	94	108	93	93	101	110	103	90	96
Gross Margin	24.0%	23.9%	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%	25.7%	25.3%
SG&A Exp.	48	52	54	56	54	55	59	59	54	57
D&A Exp.	12	14	15	15	16	15	14	14	13	12
Operating Profit	42	42	53	36	38	46	51	44	36	39
Operating Margin	11.2%	10.7%	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%	10.2%	10.4%
Net Profit	28	30	36	25	25	27	40	36	25	30
Net Margin	7.5%	7.7%	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%	7.2%	7.9%
Free Cash Flow	16	29	16	32	47	36	30	51	43	36
Income Tax	14	14	18	12	12	13	10	9	6	7

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	335	356	381	364	383	395	368	383	394	421
Cash & Equivalents	20	31	24	24	58	80	46	81	108	125
Accounts Receivable	59	59	71	77	71	67	68	65	51	59
Inventories	91	90	95	83	69	75	87	76	83	86
Goodwill & Int. Ass.	32	32	40	41	43	38	36	35	34	33
Total Liabilities	100	91	99	77	80	70	75	75	79	91
Accounts Payable	15	18	18	15	16	16	17	16	9	18
Long-Term Debt	22	9	12	---	---	---	---	---	---	---
Shareholder's Equity	235	264	282	287	303	325	293	308	316	330
LTD/E Ratio	0.09	0.03	0.04	---	---	---	---	---	---	---

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.9%	8.7%	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%	6.5%	7.3%
Return on Equity	12.5%	12.1%	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%
ROIC	11.7%	11.4%	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	14.32	14.92	16.56	15.51	14.65	14.54	15.87	15.23	13.44	14.45
FCF/Share	0.62	1.12	0.60	1.24	1.78	1.36	1.16	1.96	1.65	1.37

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.