



Parker-Hannifin Corporation (PH)

Updated September 5th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$265	5 Year CAGR Estimate:	13.2%	Market Cap:	\$34.0 B
Fair Value Price:	\$297	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	8/26/2022
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	9/9/2022
Dividend Yield:	2.0%	5 Year Price Target	\$457	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$34.0 billion with annual revenues of \$16 billion. Parker-Hannifin has paid a dividend for 71 years and has increased that dividend for a remarkable 66 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 28 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 26% 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 August, Parker-Hannifin reported (8/4/21) financial results for the fourth quarter of fiscal 2022. Sales grew 6% over the prior year's quarter and adjusted earnings-per-share grew 18%, from \$4.38 to \$5.16, thanks to strong demand in most markets, which more than offset the headwind of cost inflation. Parker-Hannifin exceeded analysts' consensus by an impressive \$0.46 and posted record sales and earnings-per-share. Thanks to its sustained business momentum, the company raised its dividend by 29% in April. The dividend hike is impressive, as it would be natural to expect the company to preserve cash to fund its imminent major acquisition. Management issued guidance for earnings-per-share of \$18.10-\$18.90 in fiscal 2023. However, we note that this management tends to issue conservative guidance and thus we expect earnings-per-share at least at the upper limit of the range of the guidance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.44	\$15.04	\$18.72	\$18.90	\$29.08
DPS	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.67	\$4.42	\$5.32	\$8.57
Shares¹	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.2	129.0	125.0

Parker-Hannifin has essentially tripled its earnings-per-share over the last nine years. 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.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.8	13.9	18.0	16.6	16.3	17.3	14.2	10.2	17.3	15.7	14.0	15.7
Avg. Yld.	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.5%	2.0%	1.9%

Parker-Hannifin is currently trading at a price-to-earnings ratio of 14.0, which is lower than the 8-year average earnings multiple of 15.7. We prefer to use the 8-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 2.3% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27.2%	28.8%	32.7%	39.0%	31.8%	27.0%	26.7%	28.3%	24.4%	23.6%	28.1%	29.5%

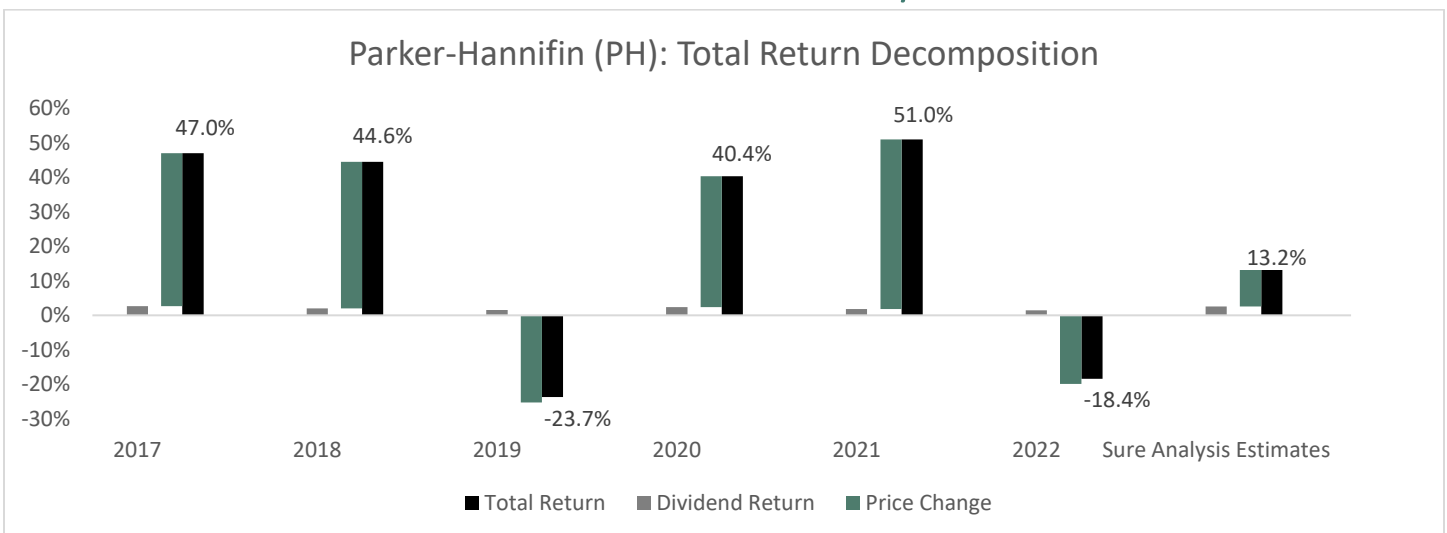
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial 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 cyclicity of the industrial sector. The company has raised its dividend for 66 consecutive years.

Due to the recent acquisitions of Parker Hannifin, its interest expense has increased 56% 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 COVID-19 and has exciting growth prospects ahead. Given also its high quality, we expect it to offer a 13.2% average annual return over the next five years thanks to 9.0% earnings growth, its 2.0% dividend and a 2.3% valuation tailwind. We maintain our buy rating. The valuation of the stock has been hurt by high inflation this year but we view this headwind as temporary and expect the stock to offer a high 5-year return.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	13,016	13,216	12,712	11,361	12,029	14,302	14,320	13,696	14,348	15,861
Gross Profit	2,929	3,028	3,056	2,537	2,910	3,565	3,631	3,403	3,898	4,474
Gross Margin	22.5%	22.9%	24.0%	22.3%	24.2%	24.9%	25.4%	24.8%	27.2%	28.2%
SG&A Exp.	1,555	1,634	1,545	1,359	1,413	1,640	1,544	1,657	1,527	1,627
D&A Exp.	336	337	317	307	355	466	436	538	595	572
Operating Profit	1,374	1,394	1,512	1,178	1,497	1,925	2,087	1,747	2,371	2,847
Op. Margin	10.6%	10.5%	11.9%	10.4%	12.4%	13.5%	14.6%	12.8%	16.5%	17.9%
Net Profit	948	1,041	1,012	807	983	1,061	1,525	1,202	1,746	1,316
Net Margin	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%	12.2%	8.3%
Free Cash Flow	925	1,172	1,148	1,061	1,097	1,349	1,535	1,838	2,365	2,212
Income Tax	362	515	420	308	345	641	424	305	500	298

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,541	13,274	12,279	12,034	15,490	15,320	17,577	19,888	20,341	25,944
Cash & Equivalents	1,781	1,614	1,181	1,222	885	822	3,220	686	733	536
Accounts Receivable	1,841	1,858	1,620	1,594	1,931	2,146	2,131	1,854	2,184	2,342
Inventories	1,377	1,372	1,300	1,173	1,549	1,621	1,678	1,964	2,091	2,215
Goodwill & Int. Ass.	4,514	4,360	3,956	3,826	7,894	7,520	7,237	11,669	11,579	10,876
Total Liabilities	6,799	6,612	7,172	7,455	10,223	9,455	11,609	13,646	11,928	17,084
Accounts Payable	1,156	1,252	1,092	1,035	1,300	1,430	1,413	1,112	1,668	1,732
Long-Term Debt	2,830	2,325	2,947	3,014	5,870	4,957	7,108	8,462	6,585	11,480
Shareholder's Equity	5,738	6,659	5,104	4,575	5,262	5,860	5,962	6,227	8,398	8,848
LTD/E Ratio	0.49	0.35	0.58	0.66	1.12	0.85	1.19	1.36	0.78	1.30

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%	9.3%	6.4%	8.7%	5.7%
Return on Equity	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%	25.8%	19.7%	23.9%	15.3%
ROIC	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%	12.8%	8.7%	11.8%	7.4%
Shares Out.	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.4
Revenue/Share	85.86	87.27	87.60	82.98	88.74	105.61	108.67	105.51	109.66	121.68
FCF/Share	6.10	7.74	7.91	7.75	8.09	9.96	11.65	14.16	18.08	16.97

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

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