



Parker-Hannifin Corporation (PH)

Updated February 6th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$350	5 Year CAGR Estimate:	7.9%	Market Cap:	\$44.9 B
Fair Value Price:	\$309	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	2/9/2023
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	3/3/2023
Dividend Yield:	1.5%	5 Year Price Target	\$476	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$44.9 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.

On September 13th, 2022, Parker-Hannifin completed the acquisition of 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 at the time of the acquisition, it is obviously a major deal for the growth prospects of the company.

In early February, Parker-Hannifin reported (2/2/23) financial results for the second quarter of fiscal 2023. Organic sales grew 10% and sales grew 22% over the prior year's quarter. It was the first full quarter of the acquisition of Meggitt. Adjusted earnings-per-share grew 7%, from \$4.46 to \$4.76, thanks to robust demand in all segments, which more than offset the headwind of cost inflation. Parker-Hannifin exceeded the analysts' consensus by \$0.30 and posted record sales and earnings-per-share. Notably, Parker-Hannifin has exceeded the analysts' EPS estimates for 30 consecutive quarters. Thanks to its sustained business momentum, the company raised its guidance for its earnings-per-share in fiscal 2023 for a second consecutive quarter, from \$18.60-\$19.30 to \$19.20-\$19.70. As management has proved conservative in its guidance for several years in a row, we have raised our annual forecast from \$18.90 to \$19.70, which is the upper limit of the new 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	\$19.70	\$30.31
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 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	17.8	15.7
Avg. Yld.	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.5%	1.5%	1.8%

Parker-Hannifin is currently trading at a price-to-earnings ratio of 17.8, which is higher 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 incur a -2.4% annualized drag 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%	27.0%	28.3%

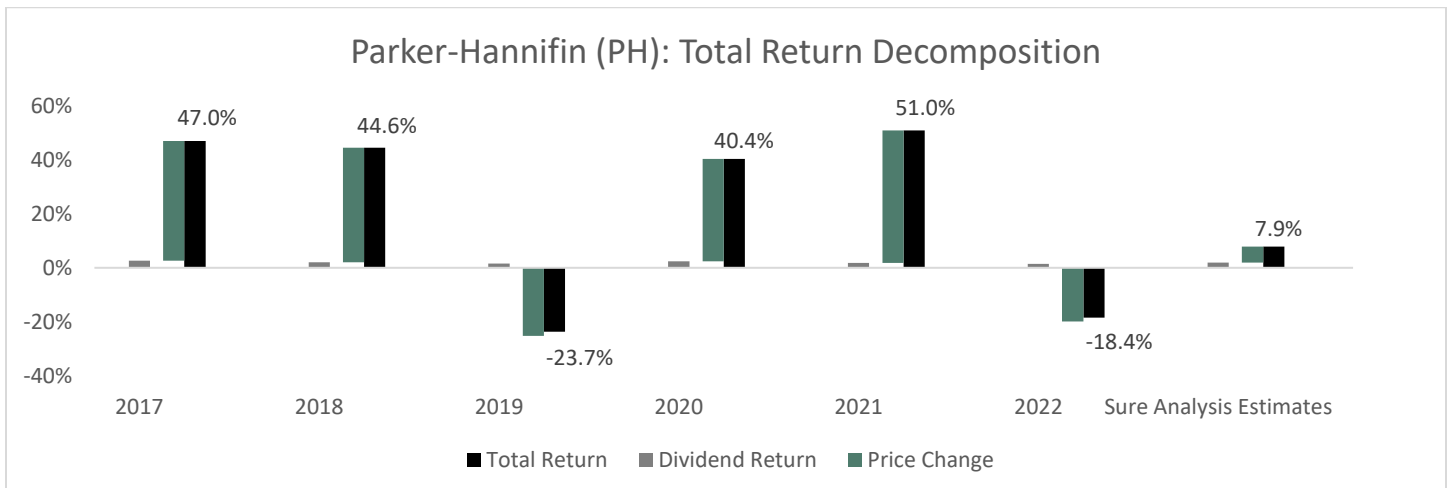
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial 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 66 consecutive years. We expect it to announce a double-digit hike in late April.

Due to the recent acquisitions of Parker Hannifin, its interest expense has nearly doubled since 2017. However, its interest expense still consumes only 14% of its operating income. In addition, thanks to its strong free cash flows, Parker-Hannifin is likely to reduce its debt and its interest expense at a fast pace.

Final Thoughts & Recommendation

Parker-Hannifin has proved resilient to COVID-19 and high inflation and has exciting growth prospects ahead. It has rallied 16% since our last research report but remains attractive. We expect it to offer a 7.9% average annual return until 2028 thanks to 9.0% earnings growth and its 1.5% dividend, partly offset by a -2.4% valuation headwind. We lower our rating from “buy” to “hold” but remain enthusiastic over the long-term prospects of this high-quality stock.

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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