



The Gorman-Rupp Company (GRC)

Updated April 30th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	9.6%	Market Cap:	\$643 M
Fair Value Price:	\$24	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/12/23
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	06/09/23
Dividend Yield:	2.8%	5 Year Price Target	\$35	Years Of Dividend Growth:	50
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 \$630 million and a market capitalization of \$643 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 50 years. That makes Gorman-Rupp a member of the prestigious Dividend Kings.

Gorman-Rupp reported first quarter earnings on April 27th, 2023, and results were ahead of expectations on both the top and bottom lines. Adjusted earnings-per-share came to 27 cents, which was seven cents better than estimates. Revenue was up 57% to \$161 million, which was \$3 million better than expected. Domestic sales were up 65% while international sales rose 37%. Acquired Fill-Rite sales accounted for about two-thirds of the increase.

Excluding Fill-Rite, sales in water markets were up 20% as fire suppression was up \$7.7 million, municipal sales rose \$3.1 million, repair market was up \$2.1 million, and construction was up \$1.9 million. Partially offsetting this was a fractional decline in the agriculture market.

Gross profit was \$45.5 million, which was 28.4% of revenue. These were up from \$25.5 million and 25.0%, respectively, in the year-ago period. Margins improved due to leverage from higher sales and a better sales mix, which includes Fill-Rite.

Operating income was \$19.1 million, or 11.9% of revenue. These were higher from \$9.5 million and 9.3%, respectively, a year ago. Operating margin was up due to improved leverage in labor, overhead, and SG&A.

We've left our estimate of earnings at \$1.05 per share unchanged.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.15	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.11	\$1.32	\$0.94	\$1.05	\$1.54
DPS	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.65	\$0.69	\$0.70	\$0.89
Shares¹	26	26	26	26	26	26	26	26	26	26	26	26

Gorman-Rupp's earnings volatility has been very high, and that has translated into a lot 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 8% earnings-per-share growth going forward from our earnings estimate but note that recent weakness continues to suggest further volatility moving forward, particularly given current inflationary and supply chain challenges. Given that, and the low base for 2023, the company may see outsized growth in the near-term.

¹ 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.



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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 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, but recent results suggest that may be waning. 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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.5	23.1	25.8	28.4	24.7	21.6	24.5	28.8	27.7	27.3	23.8	23.0
Avg. Yld.	1.2%	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	1.8%	1.8%	2.7%	2.8%	2.5%

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 23.8 times our earnings estimate, which is ahead of our estimate of 23 times earnings. As such we are forecasting a -0.7% impact on total returns from the valuation in the coming years. The yield could decline slightly over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	27%	38%	45%	39%	33%	40%	53%	49%	73%	67%	58%

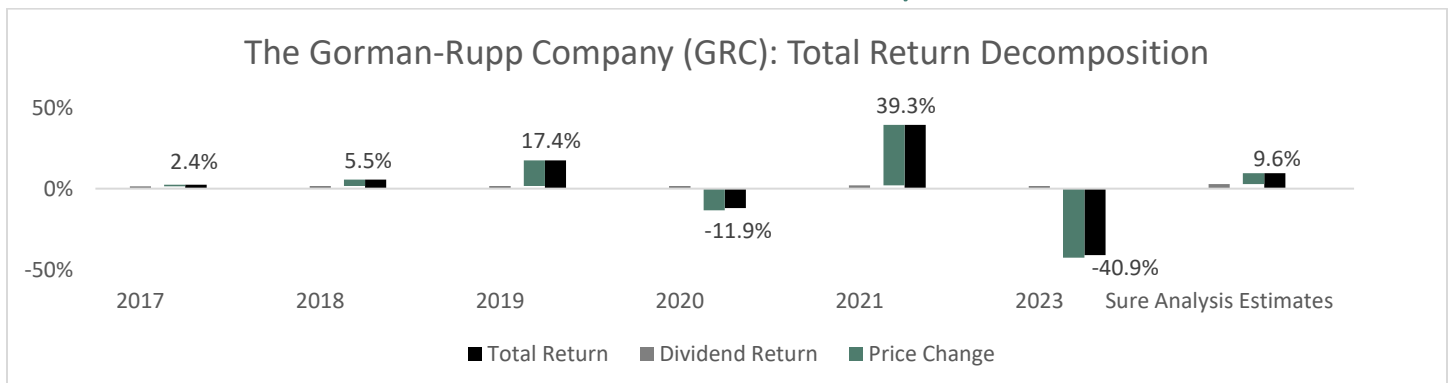
Gorman-Rupp's payout ratio is 67% of earnings for this year following the increase in the dividend. We see it declining in the years to come as earnings rebound.

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.

Final Thoughts & Recommendation

Gorman-Rupp is trading at 104% of our estimate of fair value following the Q1 report. The company's level of earnings growth could afford investors 9.6% annual returns in conjunction with the 2.8% yield, offset by a 0.7% potential valuation headwind. We are reiterating the stock at a hold rating following Q1 results but note much-improved total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	392	435	406	382	379	414	398	349	378	521
Gross Profit	94	108	93	93	101	110	103	90	96	131
Gross Margin	23.9%	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%	25.7%	25.3%	25.1%
SG&A Exp.	52	54	56	54	55	59	59	54	57	83
D&A Exp.	14	15	15	16	15	14	14	13	12	---
Operating Profit	42	53	36	38	46	51	44	36	39	40
Operating Margin	10.7%	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%	10.2%	10.4%	7.7%
Net Profit	30	36	25	25	27	40	36	25	30	11
Net Margin	7.7%	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%	7.2%	7.9%	2.1%
Free Cash Flow	29	16	32	47	36	30	51	43	36	---
Income Tax	14	18	12	12	13	10	9	6	7	3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	356	381	364	383	395	368	383	394	421	873
Cash & Equivalents	31	24	24	58	80	46	81	108	125	7
Accounts Receivable	59	71	77	71	67	68	65	51	59	93
Inventories	90	95	83	69	75	87	76	83	86	111
Goodwill & Int. Ass.	32	40	41	43	38	36	35	34	33	507
Total Liabilities	91	99	77	80	70	75	75	79	91	542
Accounts Payable	18	18	15	16	16	17	16	9	18	25
Long-Term Debt	9	12	---	---	---	---	---	---	---	437
Shareholder's Equity	264	282	287	303	325	293	308	316	330	331
LTD/E Ratio	0.03	0.04	---	---	---	---	---	---	---	1.32

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.7%	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%	6.5%	7.3%	1.7%
Return on Equity	12.1%	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	3.4%
ROIC	11.4%	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	2.0%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	14.92	16.56	15.51	14.65	14.54	15.87	15.23	13.44	14.45	20.01
FCF/Share	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.

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