



# Parker-Hannifin Corporation (PH)

Updated May 16<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$328	<b>5 Year CAGR Estimate:</b>	10.7%	<b>Market Cap:</b>	\$41.6 B
<b>Fair Value Price:</b>	\$328	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	5/11/2023
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.0%	<b>Dividend Payment Date:</b>	6/2/2023
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$505	<b>Years Of Dividend Growth:</b>	67
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$41.6 billion with annual revenues of \$16 billion. Parker-Hannifin has paid a dividend for 72 years and has increased that dividend for a remarkable 67 consecutive years. On October 29<sup>th</sup>, 2019, Parker-Hannifin acquired LORD, a leading manufacturer of advanced adhesives and coatings, for \$3.675 billion in cash. On September 16<sup>th</sup>, 2019, Parker-Hannifin acquired Exotic Metals Forming Company LLC for \$1.725 billion in cash.

On September 13<sup>th</sup>, 2022, Parker-Hannifin acquired 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 May, Parker-Hannifin reported (5/4/23) financial results for the third quarter of fiscal 2023. Organic sales grew 12% and sales grew 24% over the prior year's quarter, to a new all-time high. It was the second quarter after the acquisition of Meggitt. Adjusted earnings-per-share grew 23%, from \$4.83 to a record \$5.93, thanks to robust demand in all segments, which more than offset the headwind of cost inflation. Parker-Hannifin exceeded the analysts' consensus by an impressive \$0.92 and raised its dividend by 11%. Notably, Parker-Hannifin has exceeded the analysts' EPS estimates for 31 consecutive quarters. Thanks to its sustained business momentum and record backlog, the company raised its guidance for its earnings-per-share in fiscal 2023 for a third consecutive quarter, from \$19.20-\$19.70 to \$20.60-\$20.90. As management has proved conservative in its guidance for several years in a row, we have raised our annual forecast from \$19.70 to \$20.90, 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
<b>EPS</b>	\$6.26	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.44	\$15.04	\$18.72	<b>\$20.90</b>	<b>\$32.16</b>
<b>DPS</b>	\$1.70	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.67	\$4.42	<b>\$5.92</b>	<b>\$9.53</b>
<b>Shares<sup>1</sup></b>	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.2	<b>130.0</b>	<b>125.0</b>

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.

<sup>1</sup> 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	15.7	15.7
Avg. Yld.	1.9%	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.5%	1.8%	1.9%

Parker-Hannifin is trading at a price-to-earnings ratio of 15.7, which is equal to the 8-year average of the stock. We use the 8-year average as fair value, as it is more representative of the current growth prospects of the company. The stock is trading at its fair valuation level so we do not expect valuation to play a major role in the 5-year return of the stock.

## 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%	28.3%	29.6%

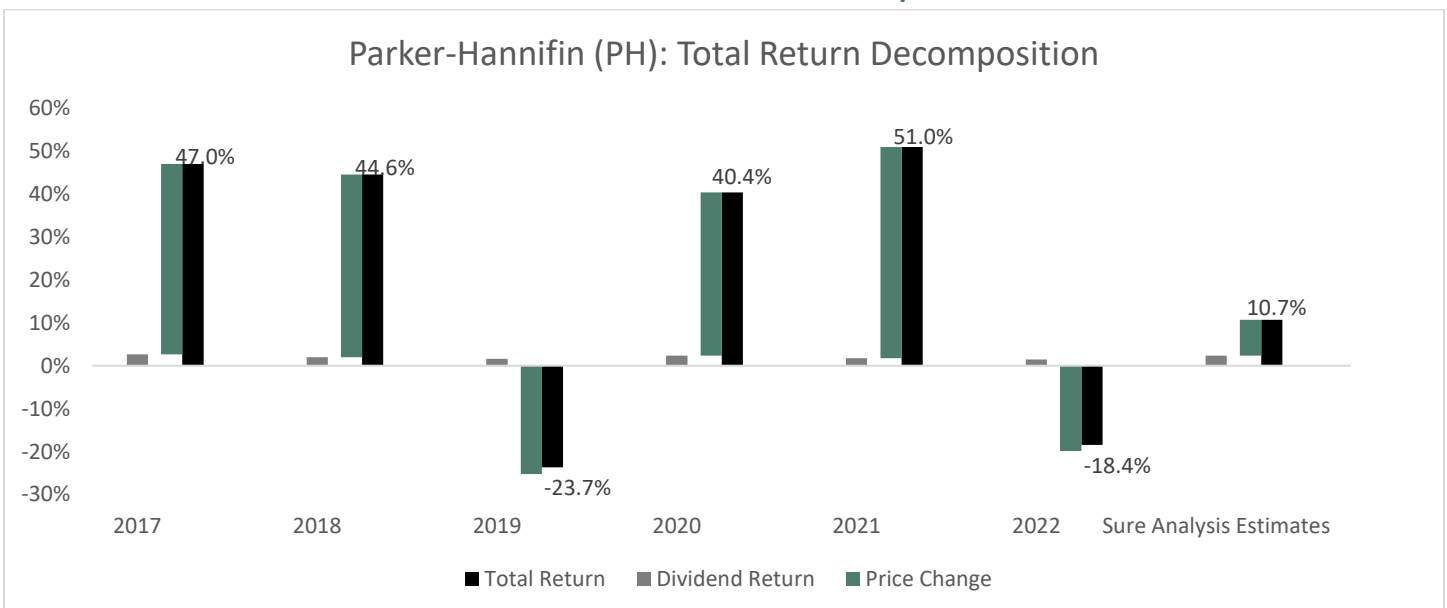
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial 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 67 consecutive years.

Due to the recent acquisitions of Parker Hannifin, its interest expense has nearly doubled since 2017. However, its interest expense still consumes only 15% 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 can offer a 10.7% average annual return until 2028 thanks to 9.0% earnings growth and its 1.8% starting dividend yield and thus receives a buy rating. We 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
<b>Revenue</b>	13,016	13,216	12,712	11,361	12,029	14,302	14,320	13,696	14,348	15,861
<b>Gross Profit</b>	2,929	3,028	3,056	2,537	2,910	3,565	3,631	3,403	3,898	4,474
<b>Gross Margin</b>	22.5%	22.9%	24.0%	22.3%	24.2%	24.9%	25.4%	24.8%	27.2%	28.2%
<b>SG&amp;A Exp.</b>	1,555	1,634	1,545	1,359	1,413	1,640	1,544	1,657	1,527	1,627
<b>D&amp;A Exp.</b>	336	337	317	307	355	466	436	538	595	572
<b>Operating Profit</b>	1,374	1,394	1,512	1,178	1,497	1,925	2,087	1,747	2,371	2,847
<b>Op. Margin</b>	10.6%	10.5%	11.9%	10.4%	12.4%	13.5%	14.6%	12.8%	16.5%	17.9%
<b>Net Profit</b>	948	1,041	1,012	807	983	1,061	1,525	1,202	1,746	1,316
<b>Net Margin</b>	7.3%	7.9%	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%	12.2%	8.3%
<b>Free Cash Flow</b>	925	1,172	1,148	1,061	1,097	1,349	1,535	1,838	2,365	2,212
<b>Income Tax</b>	362	515	420	308	345	641	424	305	500	298

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	12,541	13,274	12,279	12,034	15,490	15,320	17,577	19,888	20,341	25,944
<b>Cash &amp; Equivalents</b>	1,781	1,614	1,181	1,222	885	822	3,220	686	733	536
<b>Accounts Receivable</b>	1,841	1,858	1,620	1,594	1,931	2,146	2,131	1,854	2,184	2,342
<b>Inventories</b>	1,377	1,372	1,300	1,173	1,549	1,621	1,678	1,964	2,091	2,215
<b>Goodwill &amp; Int. Ass.</b>	4,514	4,360	3,956	3,826	7,894	7,520	7,237	11,669	11,579	10,876
<b>Total Liabilities</b>	6,799	6,612	7,172	7,455	10,223	9,455	11,609	13,646	11,928	17,084
<b>Accounts Payable</b>	1,156	1,252	1,092	1,035	1,300	1,430	1,413	1,112	1,668	1,732
<b>Long-Term Debt</b>	2,830	2,325	2,947	3,014	5,870	4,957	7,108	8,462	6,585	11,480
<b>Shareholder's Equity</b>	5,738	6,659	5,104	4,575	5,262	5,860	5,962	6,227	8,398	8,848
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.0%	8.1%	7.9%	6.6%	7.1%	6.9%	9.3%	6.4%	8.7%	5.7%
<b>Return on Equity</b>	17.8%	16.8%	17.2%	16.7%	20.0%	19.1%	25.8%	19.7%	23.9%	15.3%
<b>ROIC</b>	12.5%	11.9%	11.9%	10.3%	10.5%	9.7%	12.8%	8.7%	11.8%	7.4%
<b>Shares Out.</b>	149.3	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.4
<b>Revenue/Share</b>	85.86	87.27	87.60	82.98	88.74	105.61	108.67	105.51	109.66	121.68
<b>FCF/Share</b>	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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