



The Gorman-Rupp Company (GRC)

Updated November 5th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	11.0%	Market Cap:	\$813 M
Fair Value Price:	\$30	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/14/23
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	12/08/23
Dividend Yield:	2.3%	5 Year Price Target	\$48	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$655 million and a market capitalization of \$813 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 51 years. That makes Gorman-Rupp a member of the prestigious Dividend Kings.

Gorman-Rupp posted third quarter earnings on October 27th, 2023, and results were largely in line with expectations. Adjusted earnings-per-share came to 25 cents, while revenue rose 8.9% year-over-year to \$168 million. The increase in sales was due to an increase in volume, as well as the positive impact of pricing increases put into place last year. Domestic sales rose 10.1%, or \$11.7 million, and international sales rose 5.2%, or \$2 million.

Gross profit was \$48.1 million in Q3, or 28.7% of revenue. These were both higher from \$40.6 million, or 26.4% of revenue, respectively, a year ago. The 230 basis points increase in gross margin was due to a 320 basis point improvement in the cost of material, and a 150 basis point improvement from selling price increases. These were partially offset by an increase in labor and overhead expenses.

Operating income came to \$22 million, or 13.1% of revenue, up from \$15 million, or 10%, a year ago. We now see \$1.30 in earnings-per-share for this year with a quarter remaining.

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	\$1.30	\$2.09
DPS	\$0.33	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.65	\$0.69	\$0.72	\$0.92
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 10% 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.

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, 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 have passed; Q3 was outstanding for margins.

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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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%	2.3%	1.9%

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 fractional impact on total returns from the valuation in the coming years. The yield could also 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%	55%	44%

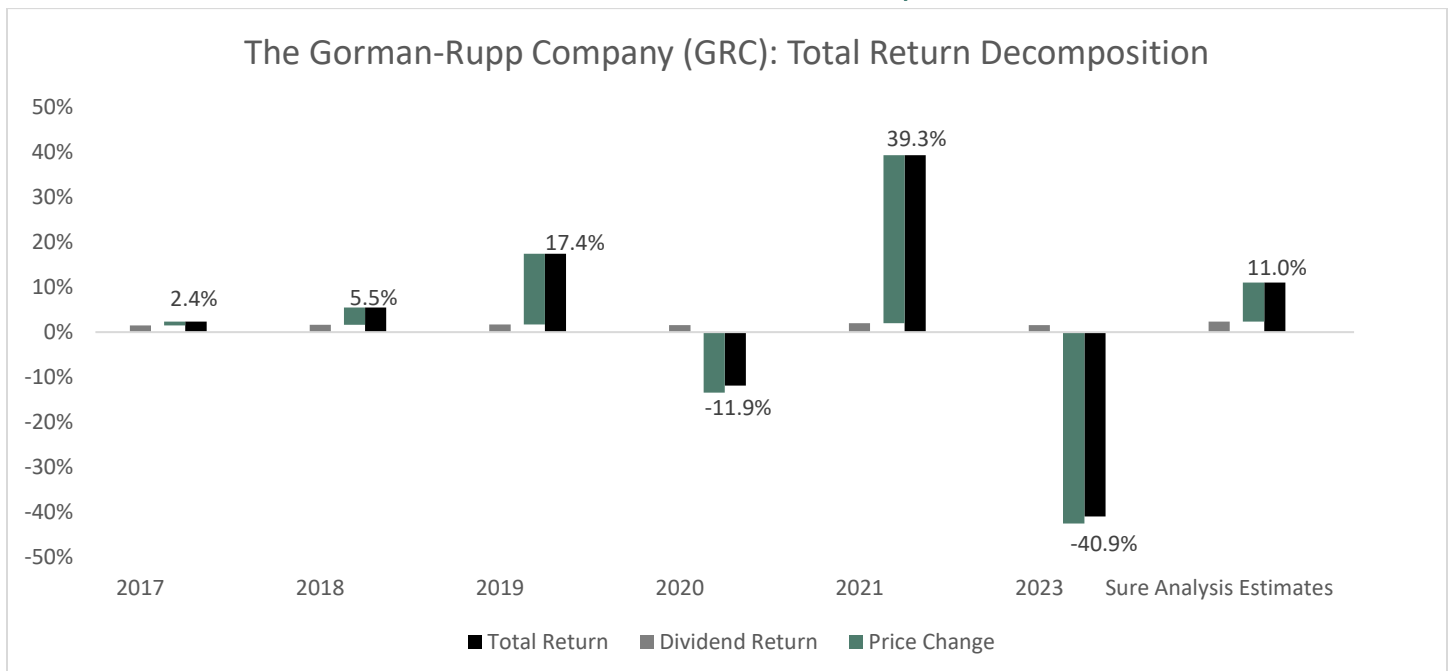
Gorman-Rupp's payout ratio is 55% of earnings for this year following the increase in the dividend. We see it declining in the years to come as earnings rebound.

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.

Final Thoughts & Recommendation

Gorman-Rupp is trading at 104% of our estimate of fair value following the Q3 report. The company's level of earnings growth could afford investors 11% annual returns in conjunction with the 2.3% yield, offset by a 0.7% potential valuation headwind. We are boosting the stock from hold to buy after Q3 results as expected total returns are now much better.

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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