



Pentair (PNR)

Updated November 4th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	7.7%	Market Cap:	\$10B
Fair Value Price:	\$63	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/20/24 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	02/04/24 ²
Dividend Yield:	1.4%	5 Year Price Target	\$85	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Until recently, Pentair was a diversified industrial conglomerate. The company spun off its Technical Solutions segment and now operates as a pure-play water solutions company that operates in 3 segments: Aquatic Systems, Filtration Solutions, and Flow Technologies. Pentair was founded in 1966. Pentair has increased its dividend for more than four decades in a row, when adjusted for spin-offs, which makes Pentair a member of the Dividend Aristocrats.

Pentair reported its third quarter earnings results on October 24. The company was able to generate revenues of \$1.0 billion during the quarter, which was 4% less than the company's revenues during the previous year's quarter, a result that still beat estimates easily. Core sales, which excludes the impact of currency rate movements, acquisitions, and disposessions, were down 7% year over year, which was weaker than the average core revenue growth rate over the last couple of quarters, during which Pentair reported positive core sales growth.

Pentair recorded earnings-per-share of \$0.94 for the third quarter, which was down 5% year-over-year. Pentair's earnings-per-share still beat the analyst consensus by \$0.07. Pentair updated its guidance for the current year during the earnings report. For fiscal 2023, Pentair is now forecasting earnings-per-share of around \$3.73, which indicates a small profit increase versus 2022, during which Pentair had earned \$3.68 on a per-share basis. 2023 will be a flat-to-down year when it comes to revenues, as the midpoint of the revenue guidance range implies a sales decline of 1%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.21	\$3.14	\$3.94	\$2.47	\$3.53	\$2.35	\$2.38	\$2.50	\$3.32	\$3.68	\$3.73	\$4.99
DPS	\$0.96	\$1.10	\$1.28	\$1.34	\$1.38	\$0.70	\$0.72	\$0.76	\$0.80	\$0.84	\$0.88	\$1.12
Shares³	197	183	181	182	180	177	169	168	167	165	162	150

At first look the results in the above table do not look overly promising, as 2020's earnings-per-share were more or less in line with the company's earnings-per-share from 2011. Earnings-per-share results during 2018 and the following years are impacted by the spin-off of nVent, however, as the results of Pentair's former technical solutions segment are not included in the company's reported results any longer. Between 2008 and 2017 (before the nVent spin-off) Pentair grew its earnings-per-share by 5.5% annually. Adjusted for the impact of the last financial crisis - an unusually harsh recession which made Pentair's earnings-per-share decline by slightly more than 30% between 2008 and 2009 - Pentair's long-term earnings-per-share growth rate would have been even higher.

Pentair's management believes that a long-term earnings-per-share growth rate of 10% is possible, but we are a bit more conservative. It is, we believe, realistic to expect a ~6% earnings-per-share growth rate from Pentair over the coming years. The company should be able to achieve this growth through a combination of rising revenues, which will be possible thanks to organic growth and acquisitions, and through tailwinds from margin expansion and share repurchases, which will lead to further declines in Pentair's share count.

¹ Estimated date

² Estimated date

³ 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	18.7	22.9	15.2	22.9	18.3	16.2	19.3	21.2	22.0	12.2	16.6	17.0
Avg. Yld.	1.6%	1.5%	2.1%	2.4%	2.1%	1.8%	1.6%	1.4%	1.1%	1.9%	1.4%	1.3%

Pentair's valuation has mostly been in the high-teens range over the last decade, although Pentair traded at more than 20x net profit at times. Shares are trading below the long-term median right now, using current earnings-per-share estimates for 2023. We do believe that Pentair's fair value multiple is lower compared to where shares traded in the past, and we think that shares are relatively fairly valued at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29.9%	35.0%	32.5%	54.3%	39.1%	29.8%	30.3%	30.4%	24.1%	22.8%	23.6%	22.5%

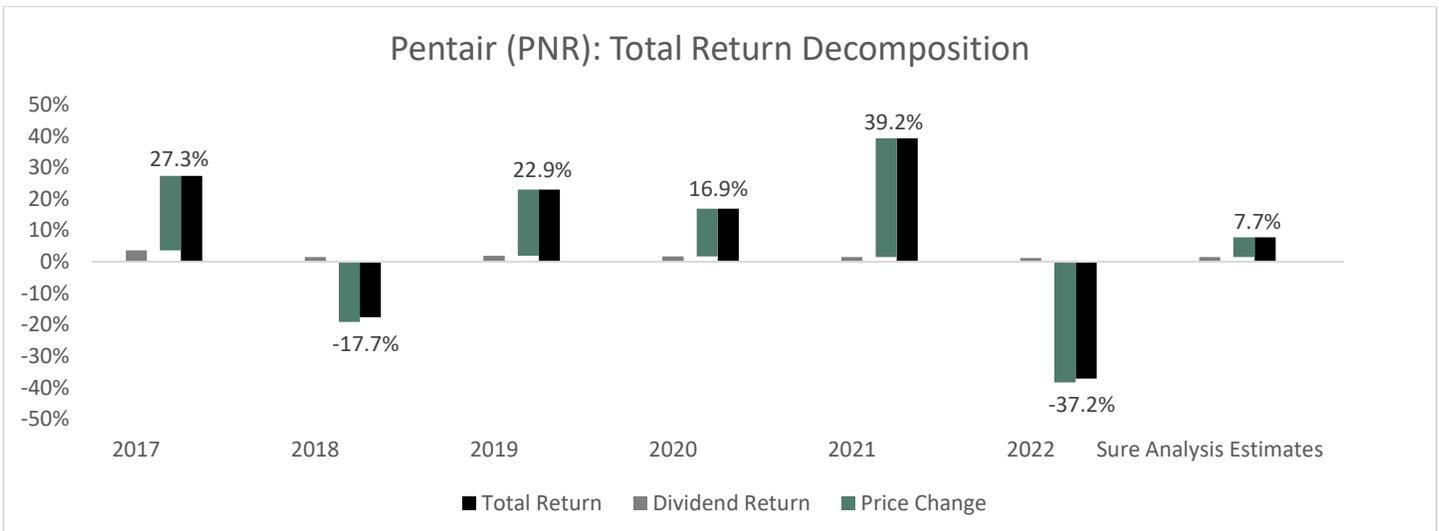
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes us believe that the dividend looks quite safe. Even an earnings decline such as the one during the last financial crisis would most likely not result in a dividend cut.

Above-average operating efficiency is one of Pentair's advantages over peers. The company employs a strategy called the Pentair Integrated Management System which has allowed its organizational structure to remain lean, and which has allowed the company to grow its already strong margins in the past. Pentair is a leader in the niche markets it targets, and through tuck-in acquisitions, Pentair can grow its size and scale further.

Final Thoughts & Recommendation

Following the spin-off of other businesses, Pentair has become a leading pure-play water/fluids company that should be able to grow through further tuck-in acquisitions. We believe that Pentair will be able to grow its earnings-per-share at a solid pace in the long run, but management's forecast of 10%+ earnings growth seems a bit aggressive. In 2021 and 2022, profits recovered substantially versus where they stood in the prior years, and 2023 will likely see some profit growth as well. The total return forecast is solid, which is why we rate Pentair a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7,000	4,667	4,616	2,781	2,846	2,965	2,957	3,018	3,765	4,122
Gross Profit	2,370	1,621	1,599	959	988	1,048	1,052	1,058	1,319	1,365
Gross Margin	33.9%	34.7%	34.6%	34.5%	34.7%	35.3%	35.6%	35.0%	35.0%	33.1%
SG&A Exp.	1,494	986	884	531	536	534	540	521	596	677
D&A Exp.	275	140	149	88	87	85	80	75	78	107
Operating Profit	754	539	616	354	378	437	433	461	637	595
Operating Margin	10.8%	11.5%	13.3%	12.7%	13.3%	14.7%	14.6%	15.3%	16.9%	14.4%
Net Profit	537	215	(76)	522	667	347	356	359	553	481
Net Margin	7.7%	4.6%	-1.7%	18.8%	23.4%	11.7%	12.0%	11.9%	14.7%	11.7%
Free Cash Flow	758	925	648	818	581	391	295	511	553	278
Income Tax	177	114	115	43	59	58	46	75	71	67

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	11,743	10,655	11,834	11,535	8,634	3,807	4,140	4,197	4,754	6,448
Cash & Equivalents	256	110	126	239	86	74	83	82	95	109
Acc. Receivable	1,285	1,206	773	764	483	488	503	368	534	532
Inventories	1,195	1,130	565	524	357	388	377	420	563	790
Goodwill & Int.	6,611	6,350	6,006	5,849	2,435	2,349	2,598	2,718	2,933	4,347
Total Liabilities	5,526	5,991	7,825	7,280	3,596	1,970	2,186	2,091	2,332	3,739
Accounts Payable	577	583	404	437	322	379	325	245	386	355
Long-Term Debt	2,550	3,004	4,686	4,279	1,441	788	1,029	840	894	2,317
Total Equity	6,095	4,664	4,009	4,254	5,038	1,836	1,954	2,106	2,422	2,708
LTD/E Ratio	0.42	0.64	1.17	1.01	0.29	0.43	0.53	0.40	0.37	0.86

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.5%	1.9%	-0.7%	4.5%	6.6%	5.6%	9.0%	8.6%	12.4%	8.6%
Return on Equity	8.6%	4.0%	-1.8%	12.6%	14.3%	10.1%	18.8%	17.7%	24.4%	18.7%
ROIC	6.1%	2.6%	-0.9%	6.1%	8.9%	7.6%	12.7%	12.1%	17.7%	11.5%
Shares Out.	197	183	181	182	180	177	169	168	167	165
Revenue/Share	34.21	24.09	25.28	15.19	15.49	16.72	17.35	18.03	22.48	24.89
FCF/Share	3.70	4.77	3.55	4.47	3.16	2.20	1.73	3.06	3.30	1.68

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

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