



The Gorman-Rupp Company (GRC)

Updated February 7th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	14.6%	Market Cap:	\$915 M
Fair Value Price:	\$37	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	02/14/24
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	03/08/24
Dividend Yield:	2.1%	5 Year Price Target	\$65	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 \$685 million and a market capitalization of \$915 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 fourth quarter and full-year earnings on February 2nd, 2024, and results were ahead of expectations on both the top and bottom lines. Adjusted earnings-per-share came to 34 cents, which was nine cents better than estimates. Revenue was up 10% year-over-year to \$161 million, which beat expectations by almost \$4 million. The gain in revenue was due to an increase in volume, as well as positive impact of pricing increases taken in early-2023. Domestic sales rose almost 13% and international sales rose about 2%.

Gross profit was \$51 million, or 31.7% of revenue. These were up sharply year-over-year from \$36.6 million and 25.1%, respectively. The big boost in gross margin was attributable to a 620 basis point improvement in cost of material, which was from a reduction in last-in-first-out inventory expense and Fill-Rite inventory adjustments. In addition, pricing increases added 40 basis points and leverage on labor and overhead added to gross margins.

SG&A costs increased from 14.4% of sales to 16.2% year-over-year, as expenses to support sales growth and incentive compensation rose. Operating income was \$22 million, or 13.6% of revenue. These rose sharply from \$13 million, and 8.6%, respectively, year-over-year.

We start the year with an estimate of \$1.60 in earnings-per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.38	\$1.06	\$0.95	\$1.22	\$1.53	\$1.37	\$1.11	\$1.32	\$0.94	\$1.37	\$1.60	\$2.82
DPS	\$0.37	\$0.41	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.65	\$0.69	\$0.71	\$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 12% 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.

The company can achieve this result mostly through high 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.

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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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 ended 2023 with outstanding margin expansion.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	23.1	25.8	28.4	24.7	21.6	24.5	28.8	27.7	27.3	25.9	21.9	23.0
Avg. Yld.	1.2%	1.5%	1.6%	1.6%	1.5%	1.6%	1.8%	1.8%	2.7%	2.0%	2.1%	1.4%

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 21.9 times our earnings estimate, which is below 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 over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	38%	45%	39%	33%	40%	53%	49%	73%	52%	45%	33%

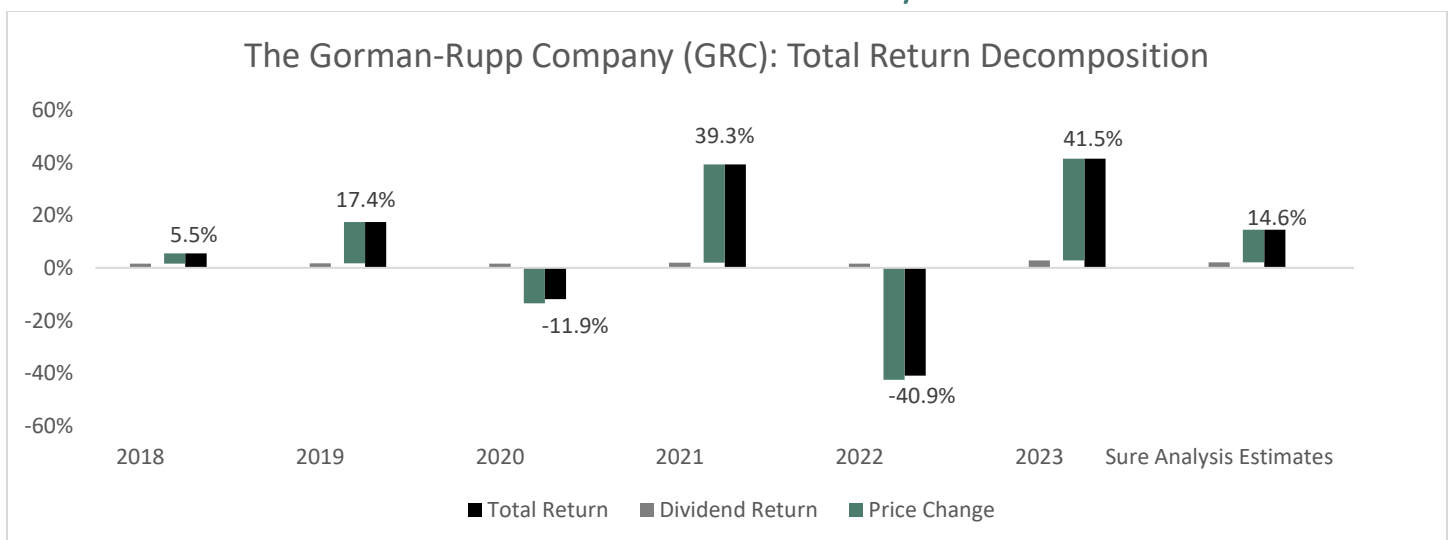
Gorman-Rupp's payout ratio is 45% of earnings for this year following the most recent increase in the dividend, but also higher earnings estimates. We see it declining in the years to come as earnings rebound.

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 95% of our estimate of fair value following the Q4 report. The company's level of earnings growth could afford investors 14.6% annual returns in conjunction with the 2.1% yield, aided by a 1% potential valuation tailwind. We are reiterating the stock at a buy rating after Q4 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	435	406	382	379	414	398	349	378	521	660
Gross Profit	108	93	93	101	110	103	90	96	131	196
Gross Margin	24.7%	22.8%	24.2%	26.7%	26.5%	25.8%	25.7%	25.3%	25.1%	29.8%
SG&A Exp.	54	56	54	55	59	59	54	57	83	97
D&A Exp.	15	15	16	15	14	14	13	12	21	28
Operating Profit	53	36	38	46	51	44	36	39	40	87
Operating Margin	12.3%	9.0%	10.0%	12.1%	12.2%	11.0%	10.2%	10.4%	7.7%	13.2%
Net Profit	36	25	25	27	40	36	25	30	11	35
Net Margin	8.3%	6.2%	6.5%	7.0%	9.6%	9.0%	7.2%	7.9%	2.1%	5.3%
Free Cash Flow	16	32	47	36	30	51	43	36	(4)	77
Income Tax	18	12	12	13	10	9	6	7	3	9

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	381	364	383	395	368	383	394	421	873	890
Cash & Equivalents	24	24	58	80	46	81	108	125	7	31
Accounts Receivable	71	77	71	67	68	65	51	59	93	90
Inventories	95	83	69	75	87	76	83	86	111	104
Goodwill & Int. Ass.	40	41	43	38	36	35	34	33	507	495
Total Liabilities	99	77	80	70	75	75	79	91	542	541
Accounts Payable	18	15	16	16	17	16	9	18	25	23
Long-Term Debt	12	---	---	---	---	---	---	---	437	404
Shareholder's Equity	282	287	303	325	293	308	316	330	331	349
LTD/E Ratio	0.04	---	---	---	---	---	---	---	1.32	1.16

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.8%	6.7%	6.7%	6.8%	10.5%	9.5%	6.5%	7.3%	1.7%	4.0%
Return on Equity	13.2%	8.8%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	3.4%	10.3%
ROIC	12.7%	8.6%	8.4%	8.5%	12.9%	11.9%	8.1%	9.2%	2.0%	4.6%
Shares Out.	26	26	26	26	26	26	26	26	26	26
Revenue/Share	16.56	15.51	14.65	14.54	15.87	15.23	13.44	14.45	19.97	25.29
FCF/Share	0.60	1.24	1.78	1.36	1.16	1.96	1.65	1.37	(0.16)	2.97

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

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