



Parker-Hannifin Corporation (PH)

Updated February 2nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$500	5 Year CAGR Estimate:	4.8%	Market Cap:	\$65.2 B
Fair Value Price:	\$385	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	2/8/2024
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.1%	Dividend Payment Date:	3/1/2024
Dividend Yield:	1.2%	5 Year Price Target	\$592	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$65.2 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 29th, 2019, Parker-Hannifin acquired LORD, a leading manufacturer of advanced adhesives and coatings, for \$3.675 billion in cash. On September 16th, 2019, Parker-Hannifin acquired Exotic Metals Forming Company LLC for \$1.725 billion in cash.

On September 13th, 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 February, Parker-Hannifin reported (2/1/24) financial results for the second quarter of fiscal 2024. Sales grew 3% over the prior year's quarter, to a new all-time high. It was the fifth quarter after the acquisition of Meggitt. Adjusted earnings-per-share grew 29%, from \$4.76 to \$6.15, primarily thanks to robust demand in aerospace. Parker-Hannifin exceeded the analysts' consensus by a massive \$0.89. Notably, Parker-Hannifin has exceeded the analysts' EPS estimates for 34 consecutive quarters. Thanks to its sustained business momentum and record backlog, the company raised its already strong guidance for its earnings-per-share in fiscal 2024. It expects 3%-5% sales growth and raised its guidance for adjusted earnings-per-share from \$22.60-\$23.40 to \$23.90-\$24.50. As management has proved conservative in its guidance for several years in a row, we expect earnings-per-share of at least \$24.50, which is the upper limit of the guidance. The stock rallied 8% after the release of its impressive earnings report.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.45	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.44	\$15.04	\$18.72	\$21.55	\$24.50	\$37.70
DPS	\$1.86	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.67	\$4.42	\$5.47	\$5.92	\$9.53
Shares¹	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.2	130.2	131.0	130.0

Parker-Hannifin has more than 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 may find it hard 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 of Meggitt, 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.

¹ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.9	18.0	16.6	16.3	17.3	14.2	10.2	17.3	15.7	14.2	20.4	15.7
Avg. Yld.	2.0%	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.5%	1.8%	1.2%	1.6%

Parker-Hannifin has rallied 23% since our last research report, in November, and thus it is now trading at a 10-year high price-to-earnings ratio of 20.4, which is much higher than the 10-year average earnings multiple of 15.7 of the stock. If the stock trades at its average valuation level in five years, it will incur a -5.1% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28.8%	32.7%	39.0%	31.8%	27.0%	26.7%	28.3%	24.4%	23.6%	25.4%	24.2%	25.3%

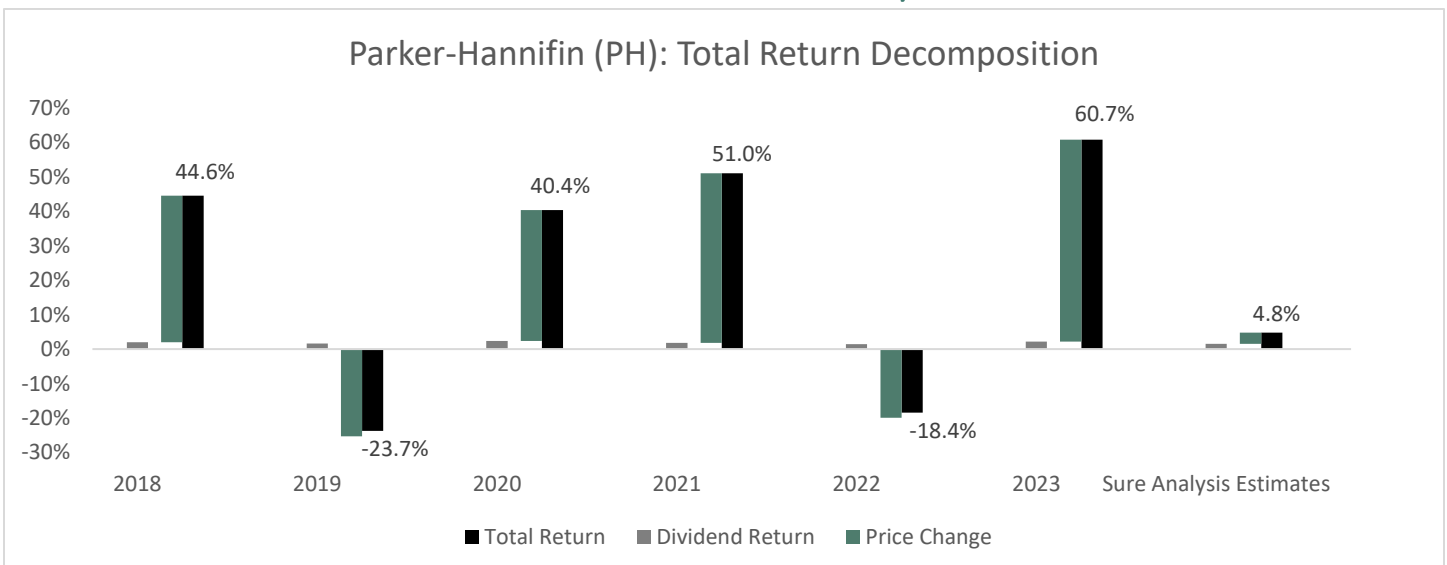
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial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

Due to the recent acquisitions of Parker Hannifin, its interest expense has more than tripled since 2017. However, its interest expense still consumes only 13% 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. However, the stock has rallied 56% in 8 months and hence it has become less attractive. It could offer a 4.8% average annual return over the next five years thanks to 9.0% earnings growth and its 1.2% dividend, partly offset by a -5.1% valuation headwind. We maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	13,216	12,712	11,361	12,029	14,302	14,320	13,696	14,348	15,861	19,065
Gross Profit	3,028	3,056	2,537	2,910	3,565	3,631	3,403	3,898	4,474	6,429
Gross Margin	22.9%	24.0%	22.3%	24.2%	24.9%	25.4%	24.8%	27.2%	28.2%	33.7%
SG&A Exp.	1,634	1,545	1,359	1,413	1,640	1,544	1,657	1,527	1,627	3,354
D&A Exp.	337	317	307	355	466	436	538	595	572	818
Operating Profit	1,394	1,512	1,178	1,497	1,925	2,087	1,747	2,371	2,847	3,075
Op. Margin	10.5%	11.9%	10.4%	12.4%	13.5%	14.6%	12.8%	16.5%	17.9%	16.1%
Net Profit	1,041	1,012	807	983	1,061	1,525	1,202	1,746	1,316	2,083
Net Margin	7.9%	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%	12.2%	8.3%	10.9%
Free Cash Flow	1,172	1,148	1,061	1,097	1,349	1,535	1,838	2,365	2,212	2,599
Income Tax	515	420	308	345	641	424	305	500	298	596

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,274	12,279	12,034	15,490	15,320	17,577	19,888	20,341	25,944	29,964
Cash & Equivalents	1,614	1,181	1,222	885	822	3,220	686	733	536	475
Accounts Receivable	1,858	1,620	1,594	1,931	2,146	2,131	1,854	2,184	2,342	2,827
Inventories	1,372	1,300	1,173	1,549	1,621	1,678	1,964	2,091	2,215	2,908
Goodwill & Int. Ass.	4,360	3,956	3,826	7,894	7,520	7,237	11,669	11,579	10,876	19,079
Total Liabilities	6,612	7,172	7,455	10,223	9,455	11,609	13,646	11,928	17,084	19,626
Accounts Payable	1,252	1,092	1,035	1,300	1,430	1,413	1,112	1,668	1,732	2,051
Long-Term Debt	2,325	2,947	3,014	5,870	4,957	7,108	8,462	6,585	11,480	12,559
Shareholder's Equity	6,659	5,104	4,575	5,262	5,860	5,962	6,227	8,398	8,848	10,327
LTD/E Ratio	0.35	0.58	0.66	1.12	0.85	1.19	1.36	0.78	1.30	1.22

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.1%	7.9%	6.6%	7.1%	6.9%	9.3%	6.4%	8.7%	5.7%	7.5%
Return on Equity	16.8%	17.2%	16.7%	20.0%	19.1%	25.8%	19.7%	23.9%	15.3%	21.7%
ROIC	11.9%	11.9%	10.3%	10.5%	9.7%	12.8%	8.7%	11.8%	7.4%	9.6%
Shares Out.	148.8	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.4	129.8
Revenue/Share	87.27	87.60	82.98	88.74	105.61	108.67	105.51	109.66	121.68	146.86
FCF/Share	7.74	7.91	7.75	8.09	9.96	11.65	14.16	18.08	16.97	20.02

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

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