



Pentair (PNR)

Updated October 27th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$99	5 Year CAGR Estimate:	1.6%	Market Cap:	\$16B
Fair Value Price:	\$73	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/20/25 ¹
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	02/02/25 ²
Dividend Yield:	0.9%	5 Year Price Target	\$102	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

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 22. The company was able to generate revenues of \$990 million during the quarter, which was 2% less than the company's revenues during the previous year's quarter, a result that beat estimates slightly. Core sales, which exclude the impact of currency rate movements, acquisitions, and disposessions, were down 1% year over year, which was worse than the core revenue growth rate during the previous quarter when core sales had improved by 1%.

Pentair recorded earnings-per-share of \$1.09 for the third quarter, which was up 16% year-over-year. Pentair's earnings-per-share beat the analyst consensus by \$0.02. Pentair updated and increased its guidance for the current year during the earnings report. For fiscal 2024, Pentair is now forecasting earnings-per-share of around \$4.27, which indicates a substantial profit increase versus 2023, during which Pentair had earned \$3.75 on a per-share basis. 2024 will be a year during which the company will see flat revenues according to management's guidance.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.14	\$3.94	\$2.47	\$3.53	\$2.35	\$2.38	\$2.50	\$3.32	\$3.68	\$3.75	\$4.27	\$5.99
DPS	\$1.10	\$1.28	\$1.34	\$1.38	\$0.70	\$0.72	\$0.76	\$0.80	\$0.84	\$0.88	\$0.92	\$1.17
Shares³	183	181	182	180	177	169	168	167	165	166	167	165

At first look the results in the above table do not look overly promising, as 2020's earnings-per-share were lower than the company's earnings-per-share from 2014. 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 6% annually, so underlying business growth has been solid. Following the spin-off of nVent, i.e. after 2018, Pentair has also grown its earnings-per-share reliably and at a compelling pace.

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 ~7% 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 business growth in the global water technology and infrastructure market, and tuck-in acquisitions, which Pentair makes from time to time. Tailwinds from margin expansion and share repurchases, which will lead to further declines in Pentair's share count, will help as well.

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.



Pentair (PNR)

Updated October 27th, 2024 by Jonathan Weber

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.9	15.2	22.9	18.3	16.2	19.3	21.2	22.0	12.2	18.9	23.2	17.0
Avg. Yld.	1.5%	2.1%	2.4%	2.1%	1.8%	1.6%	1.4%	1.1%	1.9%	1.2%	0.9%	1.2%

Pentair's valuation has on average been in the high-teens range over the last decade, although Pentair traded at more than 20x net profit at times. Shares are trading for around 23x forward earnings right now, using current earnings-per-share estimates for 2024. We do believe that Pentair's fair value multiple is lower than the current valuation, which could pose a total return headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35.0%	32.5%	54.3%	39.1%	29.8%	30.3%	30.4%	24.1%	22.8%	23.5%	21.5%	19.6%

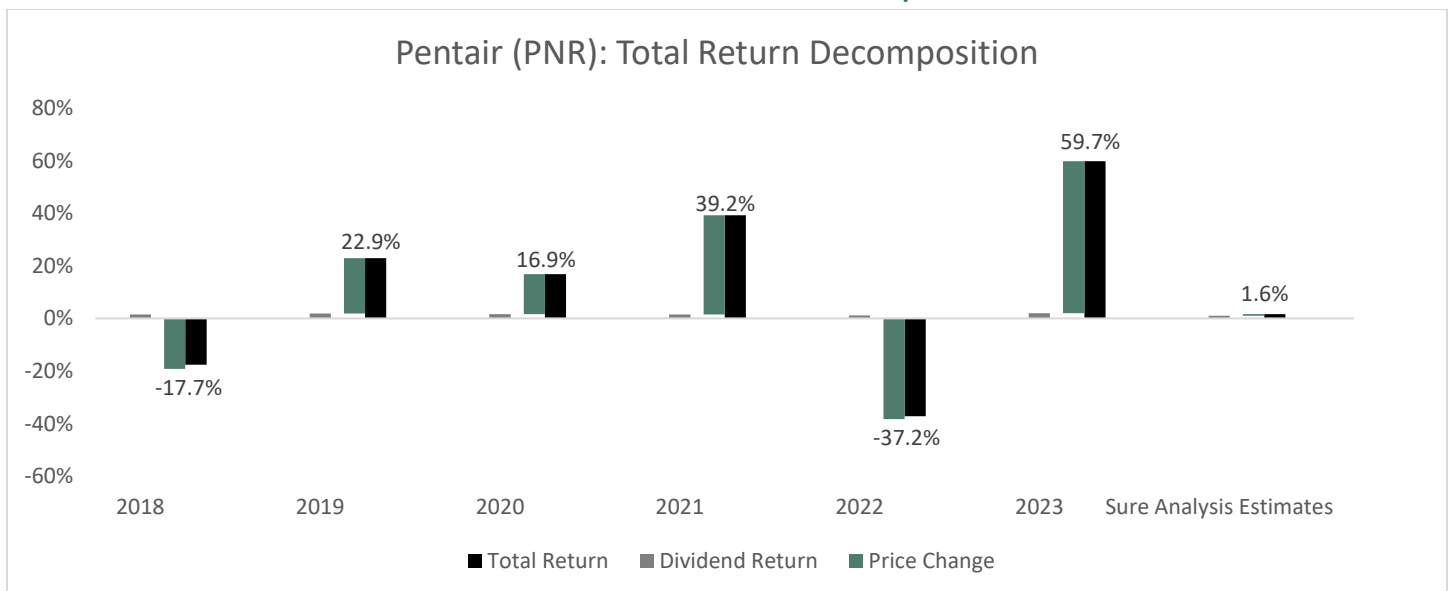
Pentair's dividend has grown consistently for decades, including during the last ten years, but the company cut its dividend in half when it spun off nVent. When we adjust for the spin-off of nVent, Pentair's dividend growth track record remains intact. The payout ratio is not very high, which makes us believe that the dividend looks quite safe. Even an earnings decline such as the one during the Great Recession 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 markets it targets, and through tuck-in acquisitions, Pentair can grow its size and scale further.

Final Thoughts & Recommendation

Pentair is a leading pure-play water/fluids company that should be able to grow through further tuck-in acquisitions and organic business expansion. 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 2022 and 2023, profits hit new highs, accounting for the nVent spin-off, and 2024 will likely be even better. The total return forecast is not compelling as shares trade substantially above fair value, which is why we rate Pentair a sell today.

Total Return Breakdown by Year



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.



Pentair (PNR)

Updated October 27th, 2024 by Jonathan Weber

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,667	4,616	2,781	2,846	2,965	2,957	3,018	3,765	4,122	4,105
Gross Profit	1,621	1,599	959	988	1,048	1,052	1,058	1,319	1,365	1,519
Gross Margin	34.7%	34.6%	34.5%	34.7%	35.3%	35.6%	35.0%	35.0%	33.1%	37.0%
SG&A Exp.	986	884	531	536	534	540	521	596	677	680
D&A Exp.	140	149	88	87	85	80	75	78	107	115
Operating Profit	539	616	354	378	437	433	461	637	595	739
Operating Margin	11.5%	13.3%	12.7%	13.3%	14.7%	14.6%	15.3%	16.9%	14.4%	18.0%
Net Profit	215	(76)	522	667	347	356	359	553	481	623
Net Margin	4.6%	-1.7%	18.8%	23.4%	11.7%	12.0%	11.9%	14.7%	11.7%	15.2%
Free Cash Flow	925	648	818	581	391	295	511	553	278	543
Income Tax	114	115	43	59	58	46	75	71	67	(4)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,655	11,834	11,535	8,634	3,807	4,140	4,197	4,754	6,448	6,563
Cash & Equivalents	110	126	239	86	74	83	82	95	109	170
Acc. Receivable	1,206	773	764	483	488	503	368	534	532	562
Inventories	1,130	565	524	357	388	377	420	563	790	678
Goodwill & Int.	6,350	6,006	5,849	2,435	2,349	2,598	2,718	2,933	4,347	4,317
Total Liabilities	5,991	7,825	7,280	3,596	1,970	2,186	2,091	2,332	3,739	3,346
Accounts Payable	583	404	437	322	379	325	245	386	355	279
Long-Term Debt	3,004	4,686	4,279	1,441	788	1,029	840	894	2,317	1,988
Total Equity	4,664	4,009	4,254	5,038	1,836	1,954	2,106	2,422	2,708	3,217
LTD/E Ratio	0.64	1.17	1.01	0.29	0.43	0.53	0.40	0.37	0.86	0.62

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.9%	-0.7%	4.5%	6.6%	5.6%	9.0%	8.6%	12.4%	8.6%	9.6%
Return on Equity	4.0%	-1.8%	12.6%	14.3%	10.1%	18.8%	17.7%	24.4%	18.7%	21.0%
ROIC	2.6%	-0.9%	6.1%	8.9%	7.6%	12.7%	12.1%	17.7%	11.5%	12.2%
Shares Out.	183	181	182	180	177	169	168	167	165	166
Revenue/Share	24.09	25.28	15.19	15.49	16.72	17.35	18.03	22.48	24.89	24.68
FCF/Share	4.77	3.55	4.47	3.16	2.20	1.73	3.06	3.30	1.68	3.27

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.