Enpro Inc. (NPO)

Updated November 11th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$165	**5 Year CAGR Estimate:**	0.0%	**Market Cap:**	$3.5 Billion
Fair Value Price:	$124	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/04/24
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.6%	**Dividend Payment Date:**	12/18/24
Dividend Yield:	0.7%	**5 Year Price Target**	$158	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Formerly known as EnPro Industries, Inc., Enpro Inc. is an industrial company that designs, develops, manufactures, and sells products and solutions to safeguard its customer's critical environments. The company has two reportable segments, including Sealing Technologies and Advanced Surface Technologies, which account for ~67% and ~33% of annual sales respectively. Sealing Technologies sells products used to safeguard environments with critical applications in diverse end markets such as pharmaceutical, aerospace, power generation, and food and beverage. The Advanced Surface Technologies segment provides leading edge precision manufacturing, coatings, cleaning, and refurbishment solutions along with innovative optical filter products. Enpro generates annual revenue of just over $1 billion.

On November 5th, 2024, Enpro announced third quarter earnings results for the period ending September 30th, 2024. For the quarter, revenue grew 4.1% to $260.9 million, but this was $3.6 million below estimates. Adjusted earnings-per-share of $1.74 compared favorably to $1.58 in the prior year, but this was $0.13 less than expected.

Excluding the benefit of an acquisition that closed earlier in the year, revenue was up slightly year-over-year. Strength in general industrial and aerospace markets, along with pricing actions, were offset by weaker semiconductor spending and a large decline in commercial vehicle OEM sales. Adjusted EBITDA grew 11.1% to $64.1 million while the adjusted EBITDA margin expanded 160 basis points to 24.6%. Sales for Sealing Technologies were up 4.5% to $168.6 million, mostly due to a recent acquisition. Absent this, sales were flat. Commercial OEM sales fell 33%. Advanced Surface Technologies improved 3.5% to $92.5 million due to better demand for advanced node cleaning solutions.

The company provided updated guidance for 2024 as well, with Enpro now projecting revenue to be down low single-digits for the year, compared to up low to mid-single-digits previously. Adjusted earnings-per-share is now expected to be in a range of $6.75 to $7.00 for 2024, down from $7.00 to $7.60 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.85	$(0.92)	$(1.84)	$24.77	$1.14	$1.84	$8.93	$8.55	$9.86	$1.06	***$6.88***	***$8.78***
DPS	---	$0.80	$0.84	$0.88	$0.96	$1.00	$1.04	$1.08	$1.12	$1.16	***$1.20***	***$1.53***
Shares[1]	26	23	22	22	21	21	21	21	21	21	***21***	***20***

Enpro has an extremely uneven earnings track record over the long-term. The company has experienced some very lofty highs as well as some periods of steep declines. The company has also remade its business in recent years. This includes the selling of non-core assets, such as its Power Systems business that was sold in 2019 for $450 million in cash, while pursuing an aggressive acquisition strategy. Most recently, Enpro completed its $210 million purchase Advanced Micro Instruments on January 29th, 2024, adding the maker of highly-engineered and application specific analyzers and sensing technologies that monitor infrastructure integrity to the company's business. Given the company's penchant for buying and selling its business segments and the uneven nature of its performance, we are comfortable projecting 5% earnings growth going forward.

[1] In millions of shares.

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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Amid its erratic long-term performance, has still managed to raise its dividend for the last decade. Dividend growth has been just under 4% over the last five years, but we expect increases to match earnings growth through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	38.8	---	---	113.21	52.72	185.6	99.98	13.17	13.6	56.6	***24.0***	***18.0***
Avg. Yld.	---	1.8%	1.3%	0.9%	1.6%	1.5%	1.4%	1.0%	1.0%	0.7%	***0.7%***	***1.0%***

Shares of Enpro have gained 7.1% since our last report. Valuations for the name have experienced massive fluctuations over the last decade, with the average reaching nearly 72 times earnings over the last decade. Shares are current trading at 24 times expected earnings-per-share for the year, which is above our target of 18 times earnings. Reverting to our target valuation would reduce annual returns by 5.6% annually through 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

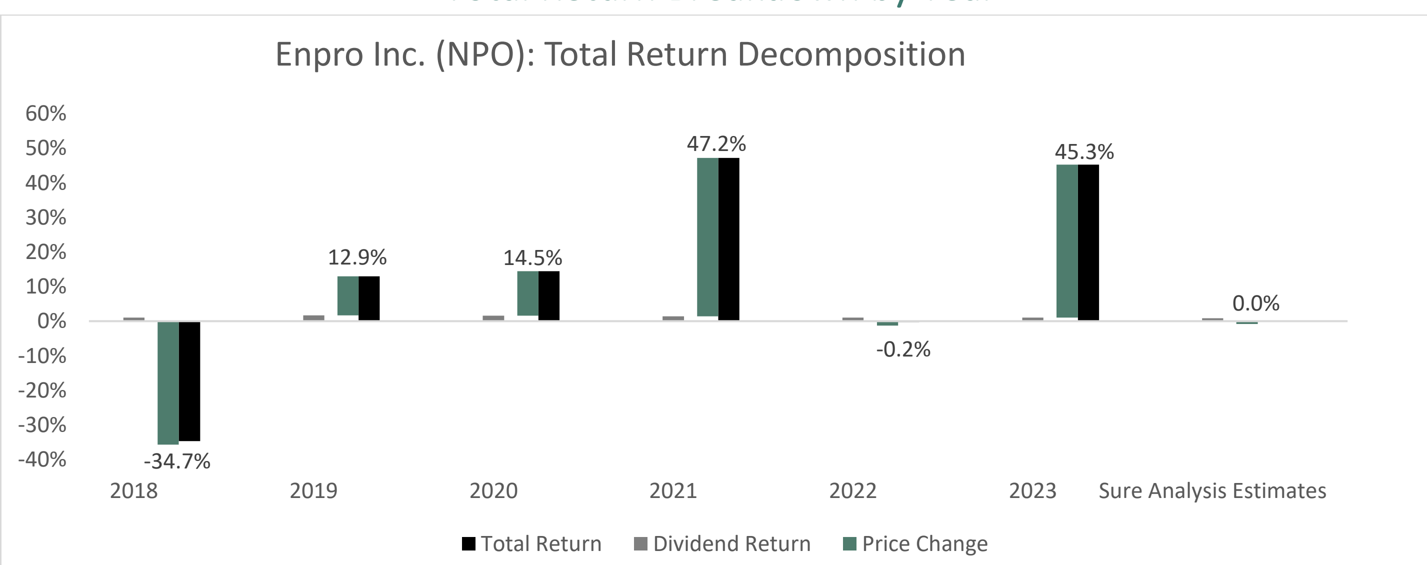
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	4%	84%	543%	12%	13%	11%	109%	***17%***	***17%***

Enpro benefits from being one of the leading names in industry as its products are mission critical for its customers. That said, Enpro is not immune to the impacts of a recession. The company's earnings-per-share grew did improve 43% to $2.40 in 2008, but turned sharply negative to a loss of almost $7.00 in 2009. With recent additions to the company meant to bolster the semiconductor business, a weakening market for these related products has already had a negative impact on results. We would expect that a recessionary environment would cause demand for products company wide to dry up.

Final Thoughts & Recommendation

Following third quarter results, Enpro is expected to return 0.0% annually through 2029, down from our prior estimate of 2.6%. Our forecast stems from earnings growth of 5% and a starting yield of 0.7% that are offset by a mid-single-digit headwind from multiple contraction. Enpro has seen its share of highs and lows over the last decade, with growth hard to come by in consecutive years. The dividend streak is solid and appears to be well covered, but the yield hardly compensates for the times when earnings growth disappears. We have lowered our five-year price target $10 to $158, and we continue to rate shares of Enpro as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,219	1,204	1,188	1,101	1,274	1,206	800	840	1,099	1,059
Gross Profit	417	396	396	385	419	404	286	328	423	427
Gross Margin	34.2%	32.8%	33.3%	35.0%	32.8%	33.5%	35.7%	39.0%	38.5%	40.3%
SG&A Exp.	320	303	303	298	312	315	230	260	283	284
D&A Exp.	58	58	57	59	66	68	57	64	103	95
Operating Profit	93	85	78	70	86	57	29	65	137	138
Operating Margin	7.7%	7.0%	6.5%	6.4%	6.7%	4.7%	3.6%	7.8%	12.5%	13.0%
Net Profit	22	(21)	(40)	540	20	38	178	178	205	22
Net Margin	1.8%	-1.7%	-3.4%	49.0%	1.5%	3.2%	22.2%	21.2%	18.7%	2.1%
Free Cash Flow	(20)	45	25	16	190	186	37	127	98	174
Income Tax	11	2	(29)	28	20	(4)	(3)	9	24	31

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,603	1,499	1,546	1,886	1,716	2,035	2,084	2,975	2,648	2,500
Cash & Equivalents	194	103	112	189	130	121	230	338	334	370
Acc. Receivable	205	213	208	262	164	161	143	145	137	117
Inventories	160	178	175	204	174	157	139	136	152	143
Goodwill & Int.	435	386	378	683	619	952	1,175	1,842	1,664	1,542
Total Liabilities	978	1,039	1,188	983	858	1,120	957	1,654	1,235	1,072
Accounts Payable	88	102	103	131	96	83	70	72	73	69
Long-Term Debt	616	664	747	619	465	629	491	1,126	791	647
Total Equity	625	460	359	903	858	887	1,079	1,270	1,395	1,410
LTD/E Ratio	0.99	1.44	2.08	0.69	0.54	0.71	0.46	0.89	0.57	0.46

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	-1.3%	-2.6%	31.5%	1.1%	2.0%	8.6%	7.0%	7.3%	0.9%
Return on Equity	3.6%	-3.9%	-9.8%	85.6%	2.2%	4.3%	17.4%	14.5%	15.0%	1.6%
ROIC	1.9%	-1.8%	-3.6%	41.1%	1.4%	2.7%	11.2%	8.8%	8.8%	1.0%
Shares Out.	26	23	22	22	21	21	21	21	21	21
Revenue/Share	47.26	53.53	54.99	50.52	60.96	57.97	39.02	40.40	52.59	50.44
FCF/Share	(0.78)	2.00	1.14	0.75	9.11	8.94	1.81	6.11	4.69	8.28

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