



Parker-Hannifin Corporation (PH)

Updated August 28th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$590	5 Year CAGR Estimate:	4.2%	Market Cap:	\$76.0 B
Fair Value Price:	\$443	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	8/28/2024
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	9/13/2024
Dividend Yield:	1.1%	5 Year Price Target	\$681	Years Of Dividend Growth:	68
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 \$76.0 billion with annual revenues of \$20 billion. Parker-Hannifin has paid a dividend for 72 years and has increased that dividend for a remarkable 68 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 August, Parker-Hannifin reported (8/8/24) financial results for the fourth quarter of fiscal 2024. Sales grew 2% over the prior year's quarter, to a new all-time high. It was the seventh quarter after the acquisition of Meggitt. Adjusted earnings-per-share grew 11%, from \$6.10 to \$6.77, primarily thanks to robust demand in aerospace. Parker-Hannifin exceeded the analysts' consensus by \$0.55. Notably, Parker-Hannifin has exceeded the analysts' EPS estimates for 36 consecutive quarters, an eye-opening streak. Thanks to its sustained business momentum and record backlog, the company provided positive guidance for fiscal 2025. It expects 1.5%-4.5% sales growth and adjusted earnings-per-share of \$26.30-\$27.00. As management has proved conservative in its guidance for several years in a row, we expect earnings-per-share of at least \$27.00, which is the upper limit of the guidance. The stock has rallied 80% in the last 15 months thanks to impressive business performance.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$7.25	\$6.46	\$8.11	\$10.42	\$11.85	\$12.44	\$15.04	\$18.72	\$21.55	\$25.44	\$27.00	\$41.54
DPS	\$2.37	\$2.52	\$2.58	\$2.81	\$3.16	\$3.52	\$3.67	\$4.42	\$5.47	\$6.07	\$6.52	\$10.50
Shares¹	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.2	130.2	130.6	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. However, Parker-Hannifin has returned to high growth mode in the last four years. Given also its aforementioned acquisition of Meggitt, its record backlog and its consistent business performance, 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.0	16.6	16.3	17.3	14.2	10.2	17.3	15.7	14.2	18.3	21.9	16.4
Avg. Yld.	1.6%	2.0%	2.4%	1.8%	1.9%	2.8%	1.4%	1.5%	1.8%	1.3%	1.1%	1.5%

Parker-Hannifin has rallied 80% in the last 15 months and thus it is now trading at a nearly 10-year high price-to-earnings ratio of 21.9, which is much higher than the 10-year average earnings multiple of 16.4 of the stock. If the stock trades at its average valuation level in five years, it will incur a -5.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	32.7%	39.0%	31.8%	27.0%	26.7%	28.3%	24.4%	23.6%	25.4%	23.9%	24.1%	25.3%

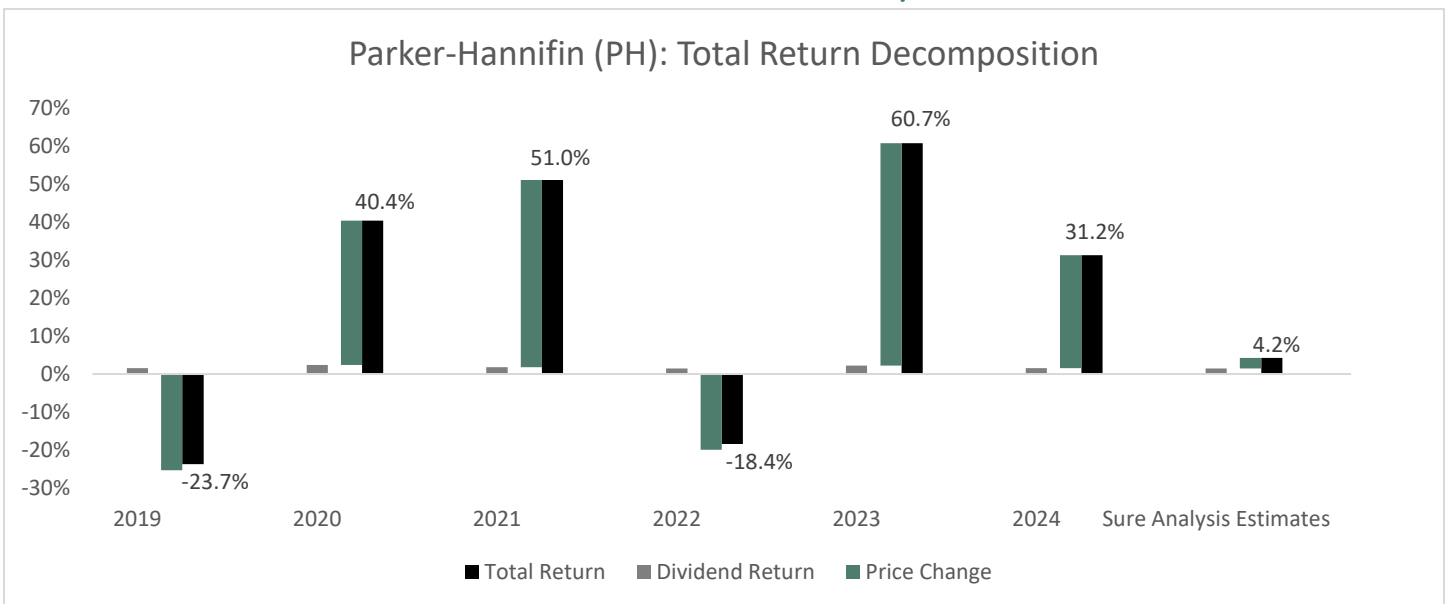
Parker-Hannifin has a number of competitive advantages, including its scale, global distribution network, and technical experience. Parker-Hannifin manufactures components that are relatively obscure yet critical to the operations of heavy machinery, factory equipment, aircrafts, and other large industrial 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 68 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 80% in 15 months and hence it has become less attractive. It could offer a 4.2% average annual return over the next five years thanks to 9.0% earnings growth and its 1.1% dividend, partly offset by a -5.6% valuation headwind. We maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	12,712	11,361	12,029	14,302	14,320	13,696	14,348	15,861	19,065	19,930
Gross Profit	3,056	2,537	2,910	3,565	3,631	3,403	3,898	4,474	6,429	7,128
Gross Margin	24.0%	22.3%	24.2%	24.9%	25.4%	24.8%	27.2%	28.2%	33.7%	35.8%
SG&A Exp.	1,545	1,359	1,413	1,640	1,544	1,657	1,527	1,627	3,354	3,242
D&A Exp.	317	307	355	466	436	538	595	572	818	927
Operating Profit	1,512	1,178	1,497	1,925	2,087	1,747	2,371	2,847	3,075	3,886
Op. Margin	11.9%	10.4%	12.4%	13.5%	14.6%	12.8%	16.5%	17.9%	16.1%	19.5%
Net Profit	1,012	807	983	1,061	1,525	1,202	1,746	1,316	2,083	2,844
Net Margin	8.0%	7.1%	8.2%	7.4%	10.6%	8.8%	12.2%	8.3%	10.9%	14.3%
Free Cash Flow	1,148	1,061	1,097	1,349	1,535	1,838	2,365	2,212	2,599	2,984
Income Tax	420	308	345	641	424	305	500	298	596	750

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	12,279	12,034	15,490	15,320	17,577	19,888	20,341	25,944	29,964	29,298
Cash & Equivalents	1,181	1,222	885	822	3,220	686	733	536	475	422
Accounts Receivable	1,620	1,594	1,931	2,146	2,131	1,854	2,184	2,342	2,827	2,866
Inventories	1,300	1,173	1,549	1,621	1,678	1,964	2,091	2,215	2,908	2,787
Goodwill & Int. Ass.	3,956	3,826	7,894	7,520	7,237	11,669	11,579	10,876	19,079	18,324
Total Liabilities	7,172	7,455	10,223	9,455	11,609	13,646	11,928	17,084	19,626	17,217
Accounts Payable	1,092	1,035	1,300	1,430	1,413	1,112	1,668	1,732	2,051	1,992
Long-Term Debt	2,947	3,014	5,870	4,957	7,108	8,462	6,585	11,480	12,559	10,560
Shareholder's Equity	5,104	4,575	5,262	5,860	5,962	6,227	8,398	8,848	10,327	12,072
LTD/E Ratio	0.58	0.66	1.12	0.85	1.19	1.36	0.78	1.30	1.22	0.87

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.9%	6.6%	7.1%	6.9%	9.3%	6.4%	8.7%	5.7%	7.5%	9.6%
Return on Equity	17.2%	16.7%	20.0%	19.1%	25.8%	19.7%	23.9%	15.3%	21.7%	25.4%
ROIC	11.9%	10.3%	10.5%	9.7%	12.8%	8.7%	11.8%	7.4%	9.6%	12.5%
Shares Out.	138.4	134.0	133.1	132.4	128.5	130.0	131.6	130.4	129.8	130.2
Revenue/Share	87.60	82.98	88.74	105.61	108.67	105.51	109.66	121.68	146.86	153.02
FCF/Share	7.91	7.75	8.09	9.96	11.65	14.16	18.08	16.97	20.02	22.91

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

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