

## Parker-Hannifin (PH)

**\$208.53** (As of 08/11/20)

Price Target (6-12 Months): **\$219.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

## Summary

Strength in Parker-Hannifin's military OEM, military MRO, material handling, mining, telecommunications and refrigeration end-markets are likely to supplement its revenues in the quarters ahead. The company expects both Exotic Metals Forming and LORD buyouts to continue to be accretive to organic growth and margins. Also, its unique Win Strategy and several cost-control measures are likely to prove beneficial. It is on track to boost shareholder return over time. In the past three months, the stock has outperformed the industry. However, challenged end markets due to the coronavirus outbreak-led market downturn will likely adversely impact its near-term results. Foreign exchange headwinds might have an adverse impact on its fiscal 2020 sales. Rise in debt levels can increase the company's financial obligations and hurt profitability.

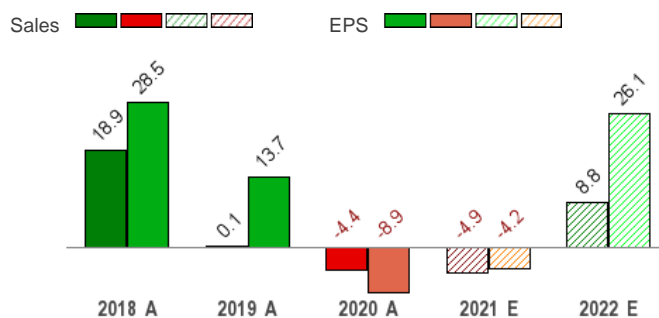
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$215.94 - \$93.00
20 Day Average Volume (sh)	958,934
Market Cap	\$26.7 B
YTD Price Change	1.3%
Beta	1.63
Dividend / Div Yld	\$3.52 / 1.7%
Industry	<a href="#">Manufacturing - General Industrial</a>
Zacks Industry Rank	Top 49% (124 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	73.5%
Last Sales Surprise	10.2%
EPS F1 Est- 4 week change	11.1%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	19.4
P/E F1	20.2
PEG F1	2.2
P/S TTM	2.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,416 E	3,286 E	3,732 E	3,536 E	14,179 E
2021	2,987 E	3,043 E	3,395 E	3,363 E	13,029 E
2020	3,335 A	3,498 A	3,702 A	3,161 A	13,696 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$3.14 E	\$2.75 E	\$3.65 E	\$3.80 E	\$13.04 E
2021	\$2.23 E	\$2.18 E	\$2.90 E	\$3.18 E	\$10.34 E
2020	\$2.76 A	\$2.54 A	\$2.92 A	\$2.55 A	\$10.79 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

## Overview

Parker-Hannifin Corporation is a global diversified manufacturer of motion & control technologies and systems. The company provides precision engineered solutions for a wide variety of mobile, industrial and aerospace markets.

**Diversified Industrial Segment** (80.3% of fourth-quarter fiscal 2020 sales): This segment is engaged in the production of a wide range of motion-control and fluid systems & components. The products offered by this segment are used in transportation, mobile construction, refrigeration and air conditioning, agriculture and other markets.

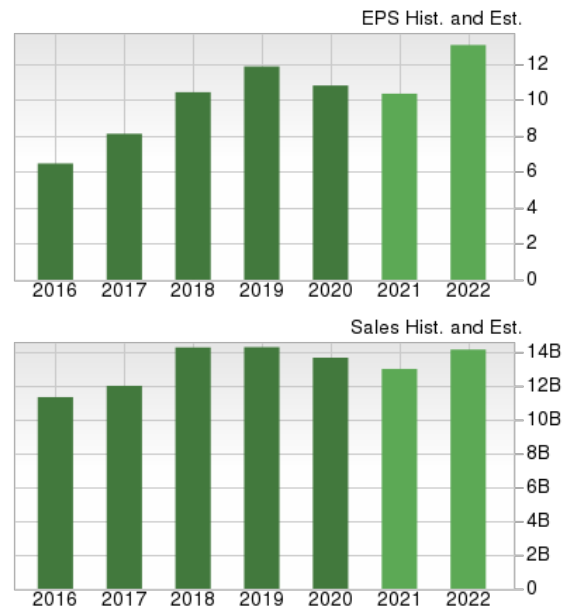
The segment sells its products through two main channels, namely, original equipment manufacturers (OEMs) and extensive distribution network to smaller OEMs and the aftermarket.

Products offered include sealing devices (dynamic and static); filters, systems and instruments to monitor and remove contaminants from fuel, air, oil, water and other liquids and gases; fluid connectors that control, transmit and contain fluid; hydraulic components and systems for builders and users of industrial and mobile machinery and equipment; and high-quality flow control solutions.

**Aerospace Systems** (19.7%): This segment supervises the designing and manufacturing of products and also provides aftermarket support for a broad range of aerospace products including commercial, business jet, military and general aviation aircraft and missile.

Products offered include control actuation systems & components, fluid metering, delivery & atomization devices, fuel systems & components, pneumatic control components, hydraulic systems & components and lubrication components among others.

The segment's products and services are offered to OEM and maintenance, repair and overhaul (MRO) customers throughout the world. Notably, the products are marketed by field sales employees and are sold to manufacturers as well as end customers.



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## Reasons To Buy:

- ▲ In the past three months, Parker-Hannifin's shares have gained 42.1% as compared with the industry's growth of 31.9%. Strength in end markets like military OEM, military MRO, material handling, mining, telecommunications and refrigeration end-markets is likely to supplement the company's top-line performance in the quarters ahead. Moreover, benefits of its unique Win Strategy are expected to support the company's revenue growth. Further, in response to the coronavirus crisis, it has been executing several cost-control measures to maintain a healthy capital structure. Some of the actions being taken by the company include the reduction of discretionary expenses, salary and capital expenditure. In the quarters ahead, the measures will help it maintain a healthy margin performance amid the crisis. In the past seven days, the company's earnings estimates have been raised by 12.7% for first-quarter fiscal 2021.
- ▲ Parker-Hannifin intends to finance new growth-based investments, acquire businesses and boost shareholders' remuneration with increased liquidity. In September 2019, the company completed the acquisition of Exotic Metals Forming Company. Exotic Metals' unique products and proprietary manufacturing capabilities have been enhancing Parker-Hannifin's aerospace products and solutions. Moreover, the company's buyout of LORD Corporation (completed in October 2019) has been enhancing its engineered materials' product and solutions offerings. It believes that both buyouts will continue to be accretive to organic growth and margins. Notably, buyouts had a positive contribution of 9.3% and 8.1% to the company's sales in third and fourth quarters of fiscal 2020. For fiscal 2021, it expects acquisitions to have a positive impact of 2.7% on sales.
- ▲ Parker-Hannifin is steadily improving its cash position. In the last five fiscal years (2016-2020), the company's cash flow from operations increased 12.1% (CAGR). Notably, in fiscal 2020, Parker-Hannifin's cash flow from operations was up 19.7% on a year-over-year basis. In addition, the company remains highly committed toward increasing wealth of its shareholders through dividend payouts. In this regard, in fiscal 2020, the company paid out cash dividends of \$453.8 million, up 10% on a year-over-year basis. Notably, it increased the quarterly dividend rate by 16% or 12 cents per share to 88 cents in April 2019. On an annualized basis, the dividend increased to \$3.52 from \$3.04 per share.

Acquisition benefits, ongoing Win Strategy and shareholder-friendly policies are likely to drive Parker-Hannifin's competency.

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## Reasons To Sell:

- ▼ Parker-Hannifin's realignment plan might prove beneficial over the long run but will affect its near-term financials. For instance, in the third and fourth quarters of fiscal 2020, business realignment expenses hurt its adjusted earnings by 10 cents and 37 cents per share, respectively. Notably, the company anticipates incurring realignment expenses of \$65 million in fiscal 2021. Also, the challenged end-market conditions, particularly at commercial OEM, commercial MRO, construction, machine tools, rail and oil and gas space will likely continue to adversely impact its top-line performance, going forward. Notably, the company stated that in the fiscal fourth quarter, its overall orders declined 22% year over year, primarily affected by the coronavirus-led market downturn. The duration of the coronavirus pandemic and the impacts of the governmental regulations imposed in response to the crisis will likely have a bearing on the company's results. For fiscal 2021, it anticipates overall sales to decline 6.7-10.7% on a year-over-year basis.
- ▼ Parker-Hannifin's long-term debt in the last five fiscal years (2016-2020) increased 23.4% (CAGR). Although, the company's long-term debt was down 5.5% sequentially to \$7,652.3 million at the end of fourth-quarter fiscal 2020, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.56, higher than the industry's ratio of 0.49. Also, net interest expenses in the fiscal fourth quarter were high at \$74.5 million. Also, the company's ability of repay the financial obligations seems to have weakened in the quarter, with times interest earned declining from 6.8 in the fiscal third quarter of 2020 to 5.9 in the fourth quarter. We believe that a highly leveraged balance sheet can inflate its financial obligations and hurt profitability.
- ▼ Parker-Hannifin intends to boost its revenues and profitability on the back of overseas business expansion. However, this exposes the company to several political, economic and environmental headwinds. For instance, a stronger U.S. dollar is currently weighing over its international revenues. Notably, adverse foreign currency translation impact had hurt Parker-Hannifin's fiscal third and fourth-quarter revenues by 1.5% and 1.1%, respectively, on a year-over-year basis. A stronger U.S. dollar might further depress the company's overseas business's results in the quarters ahead.

The coronavirus outbreak-led market downturn, foreign exchange headwinds, high debt level and realignment expenses might weigh on Parker-Hannifin's results in the quarters ahead.

## Last Earnings Report

### Parker-Hannifin Q4 Earnings Top Estimates, Decrease Y/Y

Parker-Hannifin has reported better-than-expected earnings results for the fourth quarter of fiscal 2020 (ended Jun 30, 2020), with a beat of 73.5%. Also, its sales surpassed estimate by 10.2%.

The company's adjusted earnings were \$2.55 per share in the quarter, surpassing the Zacks Consensus Estimate of \$1.47. However, earnings declined 23% from the year-ago quarter's \$3.31 per share.

For fiscal 2020, the company's adjusted earnings were \$10.79 per share, down 8.9% year over year.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	10.23%
EPS Surprise	73.47%
Quarterly EPS	2.55
Annual EPS (TTM)	10.77

### Revenue Details

In the quarter under review, the company's net sales were \$3,160.6 million, reflecting a 14.1% year-over-year decline. Organic sales in the quarter declined 21% year over year. Orders were down 22% in the quarter.

Notably, the company's top line surpassed the Zacks Consensus Estimate of \$2,867 million.

For fiscal 2020, net sales were \$13,695.5 million, reflecting a 4.4% year-over-year decline.

Parker-Hannifin reports revenues under two segments. A brief discussion on the quarterly results is provided below:

The **Diversified Industrial** segment's revenues totaled \$2,536.7 million, representing 80.3% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues decreased 15.5% year over year.

It is worth mentioning that the segment's revenues generated in North America totaled \$1,440.2 million, decreasing 17.5% year over year. Also, the segment's International revenues were \$1,096.4 million, down 12.9% year over year. Orders in the quarter decreased 29% year over year for Diversified Industrial North America and that for Diversified Industrial International fell 21%.

The **Aerospace Systems** segment generated revenues of \$624 million, accounting for 19.7% of net revenues in the reported quarter. Sales fell 8% year over year. Orders in the quarter decreased 5% year over year.

### Margin Profile

In the reported quarter, the company's cost of sales decreased 14% year over year at \$2,357.3 million. It represented 74.6% of the quarter's net sales versus 74.4% in the year-ago quarter. Selling, general and administrative expenses decreased 9.8% year over year to \$352.7 million. It represented 11.2% of net sales in the reported quarter versus 10.6% in the year-ago quarter.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) in the quarter decreased 6.8% year over year to \$646.2 million. Adjusted EBITDA margin expanded 160 bps to 20.4%. Interest expenses in the quarter increased 48.7% year over year to \$74.5 million.

### Balance Sheet & Cash Flow

Exiting fiscal 2020, Parker-Hannifin had cash and cash equivalents of \$685.5 million, down 1.7% from \$697.6 million recorded in the last reported quarter. Long-term debt was down 5.5% sequentially to \$7,652.3 million.

In fiscal 2020, the company generated net cash of \$2,070.9 million from operating activities, reflecting growth of 19.7% from the year-ago period. Capital spending totaled \$232.6 million versus \$195.1 million in the year-ago period.

In fiscal 2020, the company paid out cash dividends of \$453.8 million, up 10% on a year-over-year basis.

### Outlook

Parker-Hannifin intends to boost its near-term revenues and profitability on the back of its Win Strategy. For fiscal 2021 (ending June 2021), the company anticipates generating adjusted earnings of \$9.80-\$10.80 per share.

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## Recent News

On **Jun 5, 2020**, Parker-Hannifin paid a quarterly cash dividend of 88 cents per share to shareholders of record as of May 8, 2020.

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## Valuation

Parker-Hannifin's shares have increased 1.3% and 25.9% in the year to date period and over the trailing 12 months, respectively. Stocks in the Zacks sub-industry are down 3.1%, while the Zacks Industrial Products sector decreased 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector increased 9.3% and 12.5%, respectively.

The S&P 500 Index has moved up 4.1% year to date and increased 14.9% in the past year.

The stock is currently trading at 20.67x forward 12-month earnings per share, which compares to 27.49x for the Zacks sub-industry, 22.17x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.61x and as low as 8.87x, with a 5-year median of 16.55x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$219 price target reflects 21.71x forward 12-month earnings per share.

The table below shows summary valuation data for PH.

Valuation Multiples - PH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.67	27.49	22.17	22.8
	5-Year High	21.61	27.49	22.17	22.8
	5-Year Low	8.87	15.6	12.55	15.25
	5-Year Median	16.55	19.7	17.48	17.58
P/Sales F12M	Current	1.97	3.52	2.96	3.67
	5-Year High	1.97	3.52	2.96	3.67
	5-Year Low	0.85	1.58	1.52	2.53
	5-Year Median	1.54	2.25	2.04	3.05

As of 08/11/2020

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## Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
Broadwind Energy, Inc. (BWEN)	Neutral	3
Donaldson Company, Inc. (DCI)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Gates Industrial Corporation PLC (GTES)	Neutral	2
Honeywell International Inc. (HON)	Neutral	3
Triumph Group, Inc. (TGI)	Neutral	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	PH	X Industry	S&P 500	DCI	DHR	ETN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	B	C	A
Market Cap	26.74 B	1.33 B	23.61 B	6.61 B	141.89 B	40.88 B
# of Analysts	10	3	14	7	8	9
Dividend Yield	1.69%	0.00%	1.69%	1.61%	0.36%	2.86%
Value Score	C	-	-	C	D	B
Cash/Price	0.03	0.10	0.07	0.05	0.04	0.01
EV/EBITDA	14.26	13.13	13.32	14.84	35.19	12.83
PEG Ratio	2.21	3.32	2.95	2.76	3.17	2.36
Price/Book (P/B)	4.36	2.01	3.22	7.00	4.30	2.87
Price/Cash Flow (P/CF)	13.79	11.88	12.79	18.02	32.19	12.92
P/E (F1)	20.18	28.94	22.02	26.23	36.88	25.98
Price/Sales (P/S)	1.95	1.28	2.57	2.46	7.26	2.13
Earnings Yield	4.96%	2.96%	4.29%	3.82%	2.71%	3.85%
Debt/Equity	1.25	0.51	0.77	0.83	0.68	0.51
Cash Flow (\$/share)	15.12	2.49	6.94	2.89	6.21	7.91
Growth Score	A	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	17.12%	10.21%	10.41%	10.48%	2.68%	7.09%
Proj. EPS Growth (F1/F0)	-4.21%	-23.70%	-6.51%	2.20%	22.71%	-30.63%
Curr. Cash Flow Growth	-2.94%	0.16%	5.22%	8.18%	1.84%	0.36%
Hist. Cash Flow Growth (3-5 yrs)	7.19%	7.19%	8.55%	2.27%	5.87%	2.58%
Current Ratio	1.55	2.06	1.34	2.82	2.20	1.50
Debt/Capital	55.53%	34.34%	44.59%	45.63%	38.15%	33.67%
Net Margin	8.81%	4.34%	10.13%	9.32%	17.73%	8.03%
Return on Equity	22.54%	10.81%	14.59%	29.45%	11.88%	12.73%
Sales/Assets	0.68	0.76	0.51	1.19	0.30	0.61
Proj. Sales Growth (F1/F0)	-4.86%	-7.25%	-1.45%	0.65%	6.73%	-19.59%
Momentum Score	A	-	-	C	B	A
Daily Price Chg	1.99%	0.40%	-0.17%	0.73%	-1.01%	2.43%
1 Week Price Chg	10.44%	4.95%	2.30%	6.02%	0.79%	4.97%
4 Week Price Chg	13.54%	8.72%	6.41%	11.24%	7.85%	12.69%
12 Week Price Chg	27.05%	23.95%	15.42%	17.22%	25.70%	33.85%
52 Week Price Chg	25.89%	0.00%	2.88%	6.43%	42.31%	28.67%
20 Day Average Volume	958,934	60,682	2,007,486	422,789	2,440,850	1,454,642
(F1) EPS Est 1 week change	10.49%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	11.10%	3.44%	1.84%	0.00%	10.94%	8.19%
(F1) EPS Est 12 week change	13.85%	4.81%	2.40%	4.99%	11.02%	3.43%
(Q1) EPS Est Mthly Chg	20.01%	3.49%	0.72%	0.00%	7.54%	16.08%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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