

Parker-Hannifin (PH)

\$208.08 (As of 01/13/20)

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)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Parker-Hannifin expects strength in the aerospace end markets, unique Win Strategy and ongoing investments to drive its near-term revenues. Also, increased productivity and acquired assets will be boons. In addition, the company is on track to boost its shareholder return over time. In the past six months, the stock has outperformed the industry. However, Parker-Hannifin expects to incur business-realignment expenses of \$40 million in fiscal 2020. Also, foreign exchange headwind might be concerning, with an adverse impact of 1% on sales expected in fiscal 2020. Further, rise in debt levels can increase its financial obligations and hurt profitability. At the end of first-quarter fiscal 2020, the company's long-term debt was \$7,366.9 million, up 70.8% year over year.

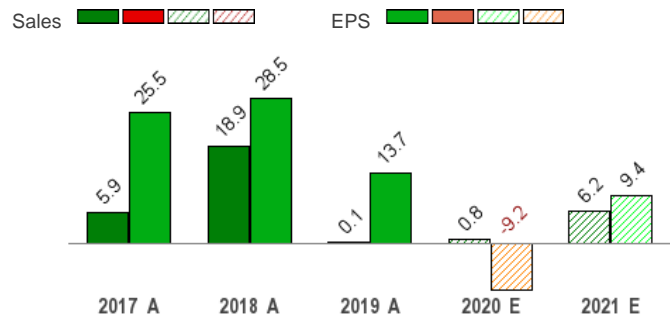
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$212.05 - \$152.18
20 Day Average Volume (sh)	722,743
Market Cap	\$26.7 B
YTD Price Change	1.1%
Beta	1.57
Dividend / Div Yld	\$3.52 / 1.7%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 28% (184 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/30/2020
Earnings ESP	1.8%
P/E TTM	17.7
P/E F1	19.3
PEG F1	2.1
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,737 E	3,676 E	3,971 E	4,116 E	15,328 E
2020	3,335 A	3,461 E	3,765 E	3,892 E	14,431 E
2019	3,479 A	3,472 A	3,688 A	3,681 A	14,320 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.83 E	\$2.48 E	\$3.09 E	\$3.36 E	\$11.77 E
2020	\$2.76 A	\$2.28 E	\$2.70 E	\$2.92 E	\$10.76 E
2019	\$2.84 A	\$2.51 A	\$3.17 A	\$3.31 A	\$11.85 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 01/13/2020. The reports text is as of 01/14/2020.

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 (81.1% of first-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.

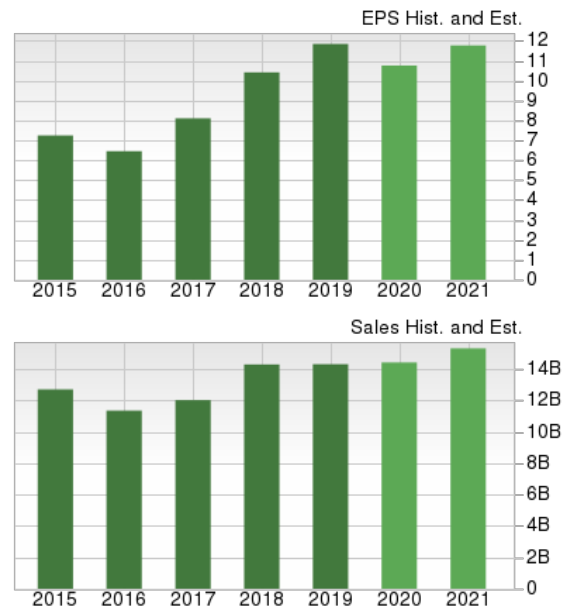
The segment sells its products through two main channels, namely, original equipment manufacturers (OEMs) and extensive distribution network to smaller OEMs and the aftermarket.

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 (18.9%): 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.



Reasons To Buy:

▲ Parker-Hannifin reported better-than-expected revenues for first-quarter fiscal 2020, with top line beating the Zacks Consensus Estimate by 0.6%. Notably, organic revenues for the company's Aerospace Systems segment improved 8.2% year over year on the back of broad-based growth across all aerospace end markets. In the quarters ahead, the company believes strengthening OEM business, particularly in military end markets along with growth in commercial aftermarket will support its Aerospace Systems segment's top line. Also, strength in end markets like machine tools, heavy duty truck, forestry as well as lawn and turf end-markets, is likely to supplement the company's top-line performance. Moreover, benefits of its unique Win Strategy and ongoing investments are also expected to support the company's revenue growth. In the past six months, the company's shares have returned 24%, compared with the industry's growth of 8.2%.

Stronger end-market sales, CLARCOR buyout benefits, ongoing Win Strategy and greater operational excellence are likely to drive Parker-Hannifin's near-term bottom-line results.

▲ Parker-Hannifin intends to finance new growth-based investments, acquire businesses and boost shareholders' remuneration with increased liquidity. The company's CLARCOR acquisition (completed in March 2017) is likely to bring in synergy savings worth roughly \$160 million in fiscal 2020. Also, in September 2019, the company completed the acquisition of Exotic Metals Forming Company. Exotic Metals' unique products and proprietary manufacturing capabilities will enhance Parker-Hannifin's aerospace products and solutions. Notably, in the first-quarter fiscal 2020, the buyout had a positive contribution of 3.7% to sales of the Aerospace segment. Moreover, the company's buyout of LORD Corporation (completed in October 2019) will enhance its engineered materials product and solutions offerings. As a matter of fact, the company believes that both these buyouts will be accretive to organic growth, EBITDA margins, earnings and cash flow. Notably, it expects to achieve synergy savings of \$15 million from LORD and Exotic buyouts for fiscal 2020.

▲ Parker-Hannifin is steadily improving its cash position. In the last five fiscal years (2015-2019), the company's cash flow from operations increased 5.9% (CAGR). Notably, in the fiscal first quarter, Parker-Hannifin's cash flow as well as cash and cash equivalents were up a whopping 181.7% and 281%, respectively, on a year-over-year basis. In addition, the company 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.

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 both fourth-quarter fiscal 2019 and first-quarter fiscal 2020, business-realignment expenses hurt the company's adjusted earnings by 4 cents per share. As a matter of fact, for fiscal 2020, Parker-Hannifin expects to incur business-realignment expenses of \$40 million, higher than \$20 million projected earlier.
- ▼ Parker-Hannifin's long-term debt in the last five fiscal years (2015-2019) increased 19.1% (CAGR). At the end of first-quarter fiscal 2020, the company's long-term debt totaled about \$7,366.9 million, up 70.8% on a year-over-year basis. Also, net interest expenses in the quarter were about \$70 million, up 58%. Moreover, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 54.7%, higher than the industry's ratio of 47.3%. 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, we notice that a stronger U.S. dollar is currently weighing over the company's international revenues. Notably, adverse foreign currency translation impact had hurt Parker-Hannifin's fiscal first-quarter revenues by 1.5% year over year. As a matter of fact, in fiscal 2020, adverse foreign currency translation impact is likely to affect the company's top line by 1%.

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's Q1 Earnings Top Estimates, Down Y/Y

Parker-Hannifin reported better-than-expected results for first-quarter fiscal 2020 (ended September 2019), wherein both earnings and revenues beat estimates.

Earnings/Revenues

Quarterly adjusted earnings came in at \$2.76 per share, down 2.8% year over year from \$2.84. However, the bottom line outpaced the Zacks Consensus Estimate of \$2.64.

Revenues for the fiscal first quarter were \$3,334.5 million, down 4.2% year over year. However, the top line beat the consensus estimate of \$3,314 million.

Segmental Breakup

North American segment's revenues came in at \$1,624.6 million, down 3.4% year over year.

The company's **International** top-line figure declined 12.6% to \$1,078.8 million.

Aerospace Systems segment generated revenues of \$631.1 million, up 11.8%.

Costs/Margins

Cost of sales in the fiscal first quarter was \$2,479.7 million, down 4.4% year over year. Selling, general and administrative expenses were \$399.2 million, up from \$394.3 million. Adjusted operating margin was 17.3%, up 10 basis points.

Balance Sheet/Cash Flow

Exiting the fiscal first quarter, Parker-Hannifin had cash and cash equivalents of \$3,627.4 million, up from \$3,219.8 million recorded on Jun 30, 2019. At the end of the reported quarter, long-term debt was \$7,366.9 million compared with \$6,520.8 million as of Jun 30, 2019.

In first three months of fiscal 2020, the company generated \$449.1 million cash from operating activities, up from \$159.4 million in first-quarter fiscal 2019.

Outlook

Parker-Hannifin intends to boost its near-term revenues and profitability on the back of its Win Strategy. The company revised its earnings view for fiscal 2020 to \$10.10-\$10.90 from \$11.50-\$12.30 per share guided earlier.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.63%
EPS Surprise	4.55%
Quarterly EPS	2.76
Annual EPS (TTM)	11.75

Recent News

On **Jan 13, 2020**, Parker-Hannifin's Precision Fluidics division announced the launch of its latest Ultra Low Carryover Valve, a miniature liquid solenoid valve.

On **Jan 3, 2020**, Parker-Hannifin's business division, Electronic Controls, announced the launch of version 2.0 of its software tool suite for the PHD family of displays for mobile equipment.

On **Dec 20, 2019**, Parker-Hannifin's business division, Parker HVAC Filtration, unveiled two new filtration products, Parker Pur Ag SlimBox Filter and Parker Pur Ag V-Bank Filter, particularly for the agriculture industry.

On **Dec 6, 2019**, Parker-Hannifin paid out a quarterly cash dividend of 88 cents per share to shareholders on record as of Nov 8.

On **Nov 11, 2019**, Parker-Hannifin announced introduction of Pro Display 12, a high-level 12-inch HMI display module, including optimum camera connectivity.

On **Oct 29, 2019**, Parker-Hannifin announced that it has completed the acquisition of LORD Corporation for about \$3.675 billion in cash.

The buyout is likely to drive organic growth, stronger cash flow, higher EBITDA margins and will also be accretive to the company's earnings per share. Notably, LORD's complementary products and strong position in the market will help in expanding Parker-Hannifin's capabilities in the materials science end-market.

Valuation

Parker-Hannifin shares gained 34.8% over the trailing 12-months. Over the past year, the Zacks sub-industry is up 32%, while the Zacks Industrial Products sector increased 18.6%.

The S&P 500 index has moved up 25.1% in the past year.

The stock is currently trading at 18.43X forward 12-month earnings per share, which compares to 21.23X for the Zacks sub-industry, 18.21X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.71X and as low as 11.75X, with a 5-year median of 15.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$219 price target reflects 19.39X 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	18.43	21.23	18.21	19
	5-Year High	20.71	22.52	19.9	19.34
	5-Year Low	11.75	15.16	12.59	15.17
	5-Year Median	15.71	18.9	16.54	17.44
EV/EBITDA F12M	Current	11.13	12.73	17.8	12.66
	5-Year High	12.79	12.73	18.2	12.66
	5-Year Low	7.61	8.25	10.68	9.08
	5-Year Median	9.74	10.62	14.01	10.78
EV/Sales F12M	Current	2	2.76	3.14	3.26
	5-Year High	2.21	2.77	3.14	3.37
	5-Year Low	1.11	1.66	1.76	2.3
	5-Year Median	1.69	2.3	2.28	2.78

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 254)



Top Peers

Donaldson Company, Inc. (DCI)	Neutral
Danaher Corporation (DHR)	Neutral
Emerson Electric Co. (EMR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Gates Industrial Corporation PLC (GTES)	Neutral
Honeywell International Inc. (HON)	Neutral
Triumph Group, Inc. (TGI)	Neutral
United Technologies Corporation (UTX)	Neutral

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	PH Neutral	X Industry	S&P 500	DCI Neutral	DHR Neutral	ETN Neutral
VGM Score	B	-	-	B	F	B
Market Cap	26.73 B	1.84 B	24.31 B	7.10 B	114.62 B	39.22 B
# of Analysts	9	4	13	6	3	10
Dividend Yield	1.69%	0.00%	1.76%	1.50%	0.43%	2.99%
Value Score	C	-	-	D	F	B
Cash/Price	0.15	0.05	0.04	0.03	0.13	0.02
EV/EBITDA	11.79	13.46	14.12	15.83	24.91	12.99
PEG Ratio	2.12	2.17	2.05	3.17	2.54	1.87
Price/Book (P/B)	4.38	2.50	3.34	7.72	3.63	2.47
Price/Cash Flow (P/CF)	13.36	12.95	13.66	19.38	24.78	12.62
P/E (F1)	19.34	18.61	18.82	24.85	29.50	16.37
Price/Sales (P/S)	1.89	1.40	2.64	2.52	5.61	1.81
Earnings Yield	5.17%	5.32%	5.29%	4.03%	3.39%	6.11%
Debt/Equity	1.21	0.56	0.72	0.71	0.52	0.52
Cash Flow (\$/share)	15.57	2.41	6.94	2.89	6.44	7.52
Growth Score	B	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	14.43%	5.37%	10.56%	8.85%	2.97%	5.47%
Proj. EPS Growth (F1/F0)	-9.16%	7.45%	7.49%	2.11%	18.38%	1.40%
Curr. Cash Flow Growth	6.37%	16.39%	14.83%	8.18%	10.54%	8.89%
Hist. Cash Flow Growth (3-5 yrs)	7.55%	7.16%	9.00%	2.27%	6.62%	1.88%
Current Ratio	1.96	2.03	1.23	2.18	3.43	1.72
Debt/Capital	54.69%	36.44%	42.99%	41.92%	33.25%	34.42%
Net Margin	10.41%	6.47%	11.08%	9.17%	12.13%	11.06%
Return on Equity	25.74%	13.11%	17.16%	30.87%	11.42%	15.15%
Sales/Assets	0.83	0.82	0.55	1.28	0.38	0.68
Proj. Sales Growth (F1/F0)	0.77%	1.94%	4.23%	-0.34%	14.39%	-4.28%
Momentum Score	B	-	-	C	F	D
Daily Price Chg	1.35%	0.59%	0.73%	1.14%	0.92%	-0.13%
1 Week Price Chg	-0.73%	-0.27%	0.39%	-3.53%	2.58%	-0.19%
4 Week Price Chg	0.24%	0.00%	1.84%	-1.25%	5.37%	0.83%
12 Week Price Chg	13.46%	6.80%	6.48%	6.92%	15.44%	13.60%
52 Week Price Chg	33.24%	14.41%	23.15%	21.60%	53.30%	34.78%
20 Day Average Volume	722,743	53,417	1,578,594	349,288	7,931,040	1,966,925
(F1) EPS Est 1 week change	0.13%	0.00%	0.00%	0.00%	-0.94%	0.00%
(F1) EPS Est 4 week change	0.83%	0.00%	0.00%	0.00%	-1.19%	-1.80%
(F1) EPS Est 12 week change	-8.54%	-1.04%	-0.48%	-0.88%	-3.61%	-4.94%
(Q1) EPS Est Mthly Chg	0.16%	0.00%	0.00%	0.00%	-0.59%	-0.14%

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.

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	B
Momentum Score	B
VGM Score	B

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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