

Pentair plc(PNR)

\$38.30 (As of 07/09/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

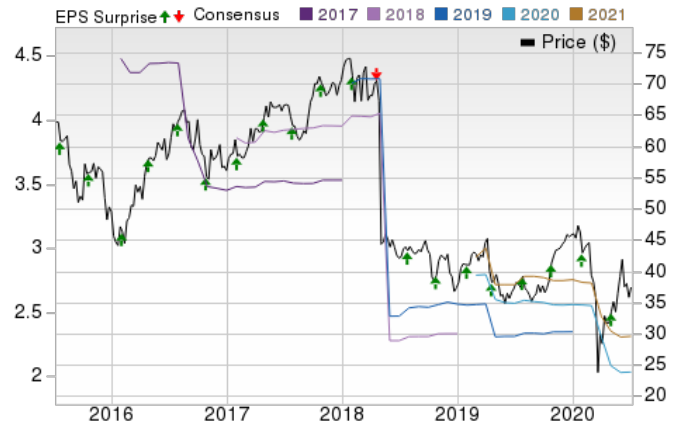
Growth: D

Momentum: A

Summary

Pentair's earnings estimates for the second quarter and current year have been stable of late. The company has withdrawn financial guidance for the current year on uncertainty of the coronavirus pandemic. Pentair expects significant demand softness across most of its businesses in the current year. Moreover, inflated material costs are likely to hurt margins in the forthcoming quarters. Nevertheless, the company is likely to benefit from restructuring initiatives, innovations, productivity improvement, price hikes and efforts to reduce debt level. Plans to expand in the areas of pool and residential and commercial water treatment through investments and acquisitions will act as a catalyst. Cost-reduction initiatives, introduction of products, investments in technology upgrades, and digital-marketing campaigns will also drive growth.

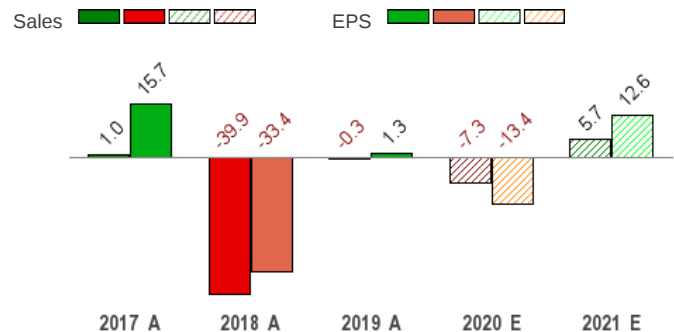
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.43 - \$22.01
20 Day Average Volume (sh)	1,271,132
Market Cap	\$6.3 B
YTD Price Change	-16.5%
Beta	1.37
Dividend / Div Yld	\$0.76 / 2.0%
Industry	Manufacturing - Thermal Products
Zacks Industry Rank	Top 9% (23 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.2%
Last Sales Surprise	4.3%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	18.6
PEG F1	3.2
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	746 E	731 E	701 E	776 E	2,895 E
2020	710 A	674 E	641 E	711 E	2,740 E
2019	689 A	800 A	714 A	755 A	2,957 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.53 E	\$0.60 E	\$0.54 E	\$0.64 E	\$2.32 E
2020	\$0.52 A	\$0.48 E	\$0.46 E	\$0.59 E	\$2.06 E
2019	\$0.43 A	\$0.69 A	\$0.58 A	\$0.68 A	\$2.38 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 07/09/2020. The reports text is as of 07/10/2020.

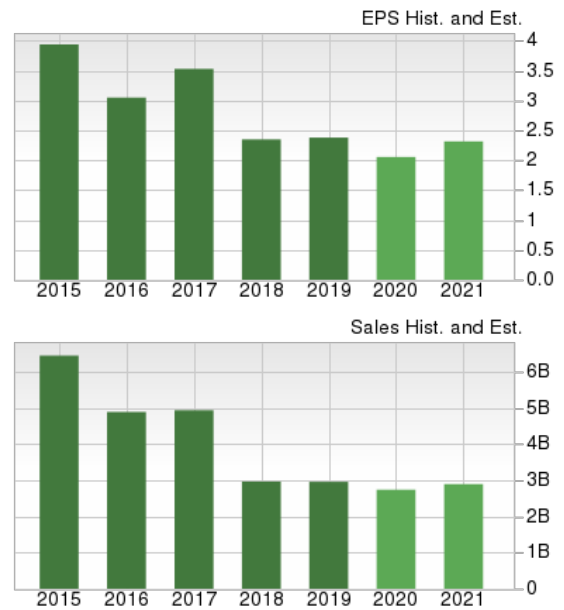
Overview

Manchester, U.K.-based Pentair delivers a comprehensive range of smart, sustainable water solutions to homes, business and industry globally. Its portfolio of solutions enables customers to access clean, safe water, reduce water consumption, as well as recovering and reusing it. In order to better position its portfolio to align with strategies and customer base, Pentair has reorganized its business segments.

Consumer Solutions: The segment is made up of pool and water solutions. Historically, pool comprised the majority of prior aquatic solutions segment, while water solutions is comprised of residential and commercial filtration that was part of the Filtration Solutions segment. Water solutions consists of components, systems, end-to-end services and focus on the China, Southeast Asia region. The objectives for the Consumer Solutions team are to accelerate revenue growth and income, enhance consumer branding and experiences, and build an expanded services capability.

Industrial & Flow Technologies (IFT): The segment is made up of three businesses. The first piece of IFT is the remainder of previous Filtration Solutions segment. These businesses are focused on industrial filtration, including a strong niche in food and beverage filtration. The other two parts of IFT come from the previous Flow Technologies segment. The two businesses are residential irrigation flow, think small pumps, and commercial and infrastructure flow, which is primarily larger engineered pumps. This segment is primarily focused on B2B customers. Combining these businesses in this new structure can realize incremental value in the areas of engineering, solutions, sourcing, technology, IoT, innovation and regional support.

In February 2019, Pentair acquired Aquion and Pelican for \$160 million and \$120 million in cash, respectively. Aquion offers a diverse line of water conditioners, water filters, drinking-water purifiers and other products for the residential and commercial water treatment industry. Pelican provides residential whole home water treatment systems.



Reasons To Buy:

▲ The company is implementing actions to reduce its cost structure in the wake of the current demand environment and economic uncertainty on account of the coronavirus outbreak. The company is taking necessary actions to mitigate the expected top-line decline. Further, productivity improvement and price hikes implemented to combat higher input costs will continue to aid results. In order to improve customer's purchasing decision, the company has re-organized its business into two reporting segments, Consumer Solutions and Industrial & Flow Technologies (IFT). The segment restructuring is focused on better alignment of customer products and service offerings to boost customer experience while also driving growth.

Pentair will gain from introduction of products, acquisitions and investments in sync with its growth initiatives in the areas of pool and residential and commercial water treatment.

▲ Pentair is focused on optimizing free cash flow and liquidity. The company has taken measures to enhance liquidity, including implementing cost-saving initiatives and temporarily suspending share repurchases. Its strong balance sheet places it well to navigate through the current turbulent situation. Pentair intends to reduce debt levels and expects to generate strong free cash flow in the current year. At the end of the first quarter, the company had cash balance of \$169 million, higher than \$79 million in the year-ago quarter. The company also had \$326 million available under revolving credit facility. Its total debt to total capital stands at 43.4% at the end of first-quarter, lower than its industry's 44.6%. Further, Pentair's times interest earned ratio is pegged at 15.7X higher than the industry's 10.5X. This further underscores Pentair's potential to meet debt obligations. The company has lowered capital expenditures forecast by more than 10% for the year.

▲ In order to improve growth rate, Pentair plans to make some incremental investments in the Aquatic Systems business. The company is focused on expanding digital transformation, innovation, technology and brand building. The launch of salesforce.com has enabled the company's businesses to better share information. Pentair expects to introduce ample water treatment solutions over the next year. Moreover, Pentair Home app and Pentair Pro app for consumers and dealers will connect an entire suite of soon-to-be-launched residential products, including a smart water softening valve, two pool automation systems, and a host of residential flow control products. These solutions will enable the company to generate higher revenues.

▲ Pentair continues to expand particularly in the areas of pool and residential and commercial water treatment through acquisitions. The company expects strong pool performance in the current year boosting its Consumer Solutions business. Pentair acquired Aquion, which will help Pentair expand scope and customer offerings in the residential and commercial water treatment arena. Pentair has also acquired Pelican Water Systems which provides residential whole home water treatment systems. Pelican Water Systems adds new and complementary products and services to the Pentair portfolio enabling it to meet its consumers' residential water needs. These investments bode well for attractive growth opportunities in the current year.

Reasons To Sell:

- ▼ Pentair has suspended operations in many of its major facilities due to lower production amid the coronavirus outbreak. Consequently, the company has withdrawn its guidance for the current quarter and the year on account of the uncertainty of the duration and extent of the pandemic. Pentair's production was interrupted by the stay-at-home orders, as a result of which, it has been forced to reduce operations in several facilities. It expects significant demand softness across most of its businesses in 2020.
- ▼ Pentair's Consumer Solutions segment is made up of pool and water solutions. The segment's 75% of revenues serve the installed aftermarket base. Its aftermarket business, which represents 80% of pool business, is expected to see short-term softness, while new pool construction and remodeling parts of the business is likely to be adversely impacted in the near term. The company's Water Solutions business comprises residential systems and commercial systems components. Within the component business, while wholesale demand remains healthy, residential system is likely to see slower growth due to less retail traffic. Pentair's commercial systems business has large exposure to restaurants and hospitality, which is likely to be impacted by muted demand due to temporary shutdowns across hospitality and restaurant industries.
- ▼ Pentair's IFT segment comprises residential and irrigation flow, commercial and infrastructure flow and industrial filtration businesses. The segment sales are mostly tied to various industrial markets. Hence, lower industry sales are expected to be a headwind for the segment. It's residential and irrigation flow business has some exposure to agriculture. The current weakness in the agricultural sector will continue to impact its revenues. The backlog-driven Commercial & Infrastructure Flow business manufactures larger engineered pumps for fire suppression and flood control. This business have been affected by slowing orders due to the coronavirus pandemic-related delays.
- ▼ Pentair continues to witness inflation in material and other costs which includes the impact of tariffs. This is likely to dent Pentair's margins in the near term. Though the company continues to implement price hikes to counter the impact of higher input costs, it might not always be feasible, considering the competitive environment.

Pentair's near-term results will be affected by coronavirus outbreak, material cost inflation, weak demand and fluctuations in foreign currency exchange rates.

Last Earnings Report

Pentair Q1 Earnings & Revenues Beat Estimates, Up Y/Y

Pentair reported first-quarter 2020 adjusted earnings per share (EPS) of 52 cents, beating the Zacks Consensus Estimate of 44 cents. The figure also came in higher than 43 cents reported in the prior-year quarter.

Including one-time items, the bottom line came in at 43 cents compared with 30 cents in the prior-year quarter.

Net sales rose 3% year over year to \$710 million. The top line surpassed the Zacks Consensus Estimate of \$680 million. Excluding the impact of acquisitions, divestitures and currency translation, core sales grew 3% in the reported quarter.

Cost of sales inched up 1% year over year to \$458 million. Gross profit in the reported quarter came in at \$252 million, up 7% from the prior-year quarter.

Selling, general and administrative expenses totaled \$132 million compared with \$147 million in the prior-year quarter. Research and development expenses declined 8% year over year to \$19 million. Adjusted segmental operating income improved 13% year over year to \$112 million.

Segmental Performance

Net sales in the Consumer Solutions segment increased 9% year over year to \$389 million. Operating earnings improved 13% year over year to \$84.8 million.

Net sales in the Industrial and Flow Technologies segment totaled \$321 million, down 3% from the prior-year quarter. Operating earnings decreased 3.6% year over year to \$42.5 million.

Financial Update

Pentair had cash and cash equivalents of \$169.3 million as of Mar 31, 2020, up from \$82.5 million as of Dec 31, 2019. The company utilized \$162 million of cash from operations during first-quarter 2020 compared with the \$257 million reported in the prior-year quarter.

Guidance Withdrawn

Pentair has withdrawn guidance for 2020 due to the uncertainty of the duration and extent of the COVID-19 pandemic impact.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	4.34%
EPS Surprise	18.18%
Quarterly EPS	0.52
Annual EPS (TTM)	2.47

Recent News

Pentair Halts Operations, Pulls Guidance on Coronavirus Scare - Mar 25, 2020

Pentair has suspended operations in many of its major facilities due to lower production amid the coronavirus outbreak. The company has also withdrawn its guidance for the current quarter and for the year as well. The company's previous earnings guidance did not reflect any negative impact of the coronavirus.

Pentair's production was interrupted by the stay-at-home orders, as a result of which, it has been forced to reduce operations in several facilities. Additional disruption in the company's production facilities and possible demand impact on Pentair's products is difficult to predict at the moment due to the uncertain global economic environment.

Pentair is taking precautionary measures to ensure health and safety of its employees, while also taking actions to lower costs and expenses, reduce capital expenditure and managing working capital. Although the scale and magnitude of the outbreak is uncertain, the company's robust balance sheet and sufficient liquidity poise it well to navigate through the turbulent situation.

Valuation

Pentair's shares are down 16.5% in the year-to-date period and up 3.4% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Thermal Products industry and the Industrial Products sector are down 7.7% and 12.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 11.8% while the sector is down 4.6%.

The S&P 500 index is down 1.4% in the year-to-date period while up 6.2% in the past year.

The stock is currently trading at 17.58X forward 12-month earnings, which compares with 20.27X for the Zacks sub-industry, 20.77X for the Zacks sector and 22.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 8.90X, with a 5-year median of 16.48X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 18.36X Forward 12-month earnings.

The table below shows summary valuation data for PNR:

Valuation Multiples - PNR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.58	20.27	20.77	22.52
	5-Year High	20.53	20.91	21.55	22.52
	5-Year Low	8.9	11.11	12.56	15.27
	5-Year Median	16.48	16.36	16.8	17.59
P/S F12M	Current	2.25	3.41	2.65	3.51
	5-Year High	2.76	3.46	2.72	3.51
	5-Year Low	1.17	1.13	1.52	2.52
	5-Year Median	2.23	2.41	2.01	3.04
EV/EBITDA TTM	Current	13.13	19.99	16.56	12.04
	5-Year High	17.72	21.47	18.14	12.45
	5-Year Low	8.29	10.02	11.24	8.04
	5-Year Median	12.98	13.4	14.95	10.76

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Crane Company (CR)	Neutral	3
Carlisle Companies Incorporated (CSL)	Neutral	4
Dover Corporation (DOV)	Neutral	3
Flowserve Corporation (FLS)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Lennox International, Inc. (LII)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Timken Company The (TKR)	Underperform	3

Industry Comparison Industry: Manufacturing - Thermal Products				Industry Peers		
	PNR	X Industry	S&P 500	FLS	IEX	ROP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	B	C	C
Market Cap	6.35 B	2.57 B	21.19 B	3.55 B	11.85 B	41.23 B
# of Analysts	11	6	14	8	7	6
Dividend Yield	1.98%	0.00%	1.96%	2.93%	1.27%	0.52%
Value Score	D	-	-	B	D	D
Cash/Price	0.03	0.03	0.07	0.17	0.05	0.02
EV/EBITDA	14.74	13.80	12.56	8.85	18.74	15.83
PEG Ratio	3.18	3.43	2.85	2.75	3.37	3.09
Price/Book (P/B)	3.35	3.35	3.00	2.11	5.31	4.30
Price/Cash Flow (P/CF)	13.29	13.29	11.41	9.07	22.89	22.89
P/E (F1)	18.79	21.67	20.79	19.06	33.72	32.48
Price/Sales (P/S)	2.13	2.20	2.19	0.90	4.80	7.59
Earnings Yield	5.38%	4.60%	4.52%	5.24%	2.96%	3.08%
Debt/Equity	0.77	0.75	0.76	0.89	0.45	0.49
Cash Flow (\$/share)	2.88	2.88	6.94	3.01	6.87	17.25
Growth Score	D	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	-10.73%	28.39%	10.90%	-11.93%	13.62%	20.17%
Proj. EPS Growth (F1/F0)	-13.60%	-23.34%	-9.99%	-34.89%	-19.63%	-6.84%
Curr. Cash Flow Growth	-3.19%	4.67%	5.51%	15.12%	4.80%	11.79%
Hist. Cash Flow Growth (3-5 yrs)	-11.06%	23.62%	8.55%	-8.93%	7.29%	16.15%
Current Ratio	1.96	1.84	1.30	2.19	3.51	0.96
Debt/Capital	43.39%	42.80%	44.46%	47.16%	30.94%	32.77%
Net Margin	12.66%	9.28%	10.62%	4.96%	16.92%	30.17%
Return on Equity	22.25%	26.54%	15.75%	14.99%	19.89%	14.94%
Sales/Assets	0.71	0.83	0.55	0.82	0.65	0.31
Proj. Sales Growth (F1/F0)	-7.35%	-7.70%	-2.52%	-7.63%	-10.97%	0.76%
Momentum Score	A	-	-	A	D	B
Daily Price Chg	4.59%	0.00%	-1.52%	-0.98%	-0.39%	-0.62%
1 Week Price Chg	4.53%	4.53%	3.66%	4.92%	2.02%	1.02%
4 Week Price Chg	3.91%	4.72%	0.36%	1.11%	4.02%	0.67%
12 Week Price Chg	25.66%	21.60%	10.41%	18.18%	7.06%	27.36%
52 Week Price Chg	3.40%	-12.92%	-8.70%	-47.14%	-7.07%	3.83%
20 Day Average Volume	1,271,132	241,092	2,339,510	1,116,842	436,086	519,470
(F1) EPS Est 1 week change	1.12%	0.00%	0.00%	1.33%	0.00%	0.00%
(F1) EPS Est 4 week change	1.25%	0.96%	0.00%	1.33%	0.00%	0.00%
(F1) EPS Est 12 week change	-6.34%	-11.24%	-7.77%	-21.42%	-6.63%	-5.17%
(Q1) EPS Est Mthly Chg	0.28%	0.31%	0.00%	0.00%	0.00%	0.00%

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	D
Growth Score	D
Momentum Score	A
VGM Score	D

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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