

Pentair plc(PNR)

\$47.29 (As of 01/20/20)

Price Target (6-12 Months): **\$50.00**

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:C

Value: C

Growth: C

Momentum: A

Summary

Pentair's adjusted EPS guidance for 2019 is pegged at \$2.35, flat compared with 2018. Sales are projected to be flat on a reported basis and down 1% on a core basis compared with 2018. While the Aquatics systems segment continues to bear the brunt of weather and excess channel inventory, the Flow Technologies segment is grappling with weak agricultural sector. Inflated material costs are likely to hurt margins in the forthcoming quarters. Going forward, Pentair is likely to benefit from restructuring initiatives, productivity improvement, price hikes and efforts to lower debt level. Introduction of new products, investments in technology upgrades, and digital marketing campaigns will also drive growth. Plans to expand in the areas of pool and residential and commercial water treatment through acquisitions also remain a catalyst.

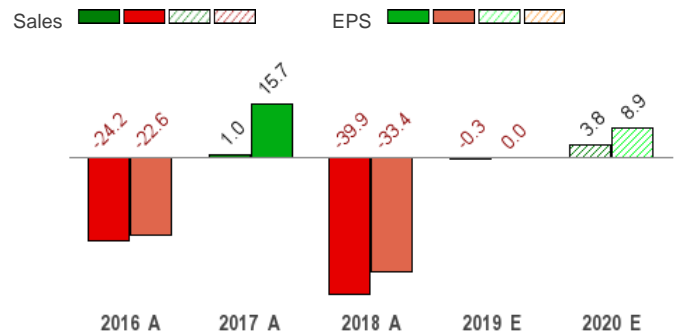
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.43 - \$34.50
20 Day Average Volume (sh)	728,123
Market Cap	\$7.9 B
YTD Price Change	3.1%
Beta	1.23
Dividend / Div Yld	\$0.76 / 1.5%
Industry	Manufacturing - Thermal Products
Zacks Industry Rank	Top 45% (114 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.5%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/28/2020
Earnings ESP	0.0%
P/E TTM	20.6
P/E F1	18.5
PEG F1	3.1
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	732 E	823 E	733 E	776 E	3,066 E
2019	689 A	800 A	714 A	752 E	2,955 E
2018	1,270 A	781 A	711 A	741 A	2,965 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.54 E	\$0.75 E	\$0.60 E	\$0.69 E	\$2.56 E
2019	\$0.43 A	\$0.69 A	\$0.58 A	\$0.65 E	\$2.35 E
2018	\$0.88 A	\$0.71 A	\$0.54 A	\$0.60 A	\$2.35 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 01/20/2020. The reports text is as of 01/21/2020.

Overview

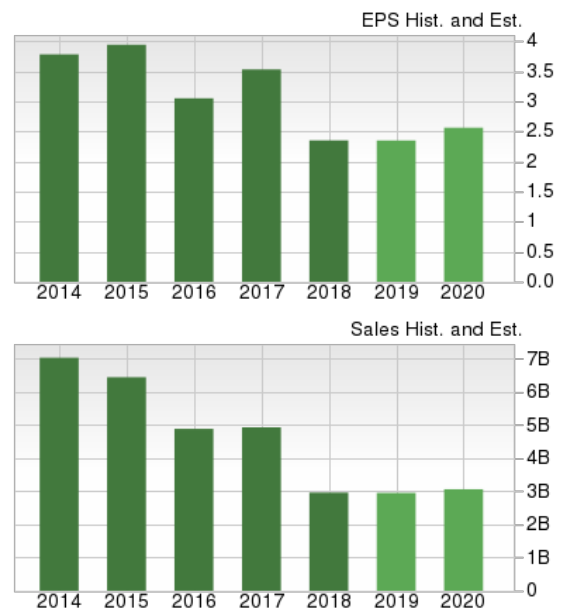
Manchester, U.K.-based Pentair delivers a comprehensive range of smart, sustainable water solutions to homes, business and industry globally. Its portfolio of solutions enables customers to access clean, safe water, reduce water consumption, as well as recovering and reusing it. Following the separation of the Electrical business in April 2018, which is now operating as nVent Electric plc, Pentair reorganized its business segments:

Aquatic Systems (generated 35% of 2018 revenues) — This segment manufactures and sells a complete line of energy-efficient residential and commercial pool equipment as well as accessories. The products are used in residential and commercial pool maintenance, pool repair, renovation, service and construction and aquaculture solutions. Brand names for Aquatic Systems include Kreepy Krauly, Pentair, Pentair Aquatic Eco-Systems, and Sta-Rite.

Filtration Solutions (34%) — This segment manufactures and sells water and fluid treatment products as well as systems for the global residential, industrial and commercial markets. These products are utilized in a range of applications, including use in fluid filtration, ion exchange, desalination, food and beverage, food service and separation technologies for the oil and gas industry.

Flow Technologies (31%) — This segment manufactures and sells products ranging from light duty diaphragm pumps to high-flow turbine pumps and solid handling pumps while serving the global residential, commercial and industrial markets. These pumps are used in applications, including residential and municipal wells, water treatment, wastewater solids handling, pressure boosting, fluid delivery, circulation and transfer, fire suppression, flood control, agricultural irrigation and crop spray. Brand names for Flow Technologies include Aurora, Berkeley, Fairbanks-Nijhuis, Hydromatic, Hypro, Jung Pumpen, Pentair, Myers, Sta-Rite, and Shurflo.

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:

- ▲ Pentair has undergone certain business restructuring initiatives aimed at reducing fixed cost structure and commenced business realignment. These actions will contribute to margin growth in 2019. Further, productivity improvement and price hikes implemented to combat higher input costs will continue to aid results
- ▲ Pentair intends to reduce debt levels as cash flow improves through the year. Pentair targets free cash flow to approximate adjusted net income in 2019. With strong free cash flow and low-debt levels, the company is well positioned to invest in the business along with strategically exploring tuck-in or bolt-on acquisition targets, while also continuing to return cash to shareholders. The company anticipates capital expenditure of \$60 million in 2019.
- ▲ In order to improve growth rate, Pentair plans to make some incremental investments in the Aquatic Systems business. The company continues to increase product introductions, inclusive of smart technologies. Less than 10% of the 5 million installed in-ground pools currently have some form of automation system, representing ample opportunities for growth. Further, with around 50% of pools over a decade old, the need to upgrade will drive Pentair's top line. Aftermarket and upgrade market continues to make up nearly 80-85% of all pool product equipment sold and used by pool owners, making it a lucrative market.
- ▲ Pentair plans to expand particularly in the areas of pool and residential and commercial water treatment through acquisitions, and focus on China and Southeast Asia. In sync with this, 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.

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.

Reasons To Sell:

- ▼ Pentair's adjusted EPS guidance for 2019 is pegged at \$2.35, flat compared with fiscal 2018. Sales in the ongoing year are projected be flat on a reported basis and down roughly 1% on a core basis compared with 2018. Unfavorable foreign currency impact will be a negative 1% for the year while acquisitions and divestitures will contribute 2%. For the year, Aquatic Systems core sales is anticipated to be down 4% to 5%, while Filtration Solutions core sales are expected to be flat. The Flow Technologies segment's core sales are projected to remain flat from the prior year. Segment income is anticipated to be down 3%.

Pentair's near-term results will be affected by material and other cost inflation, impact of inventory build-up, weather and fluctuations in foreign currency exchange rates.
 - ▼ Wet and cold weather delayed pool construction activity in several of Pentair's key markets. As a result of slower sell-through, inventory levels have not gone down as expected. Results in the fourth quarter for the Aquatic Systems segment are likely to be impacted. The Flow Technologies segment manufactures and sells pumps used in agricultural irrigation and crop spray. The current weakness in the agricultural sector will continue to impact the Flow Technologies segment's revenues.
 - ▼ 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.
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Last Earnings Report

Pentair Beats on Q3 Earnings, Misses Revenue Estimates

Pentair delivered third-quarter 2019 adjusted earnings per share of 58 cents, beating the Zacks Consensus Estimate of 55 cents. The reported figure also came in higher than the prior-year quarter's 54 cents.

Net sales inched up 0.3% year over year to \$714 million. The figure, however, missed the Zacks Consensus Estimate of \$718 million. Excluding the impact of acquisitions, divestitures and currency translation, core sales declined 2% in the reported quarter.

Gross profit in the reported quarter came in at \$255 million, up 4.6% from the prior-year quarter. Selling, general and administrative expenses totaled \$126.4 million, up from the \$116.3 million witnessed in the year-earlier quarter. Research and development expenses flared up 3.7% year over year to \$19.8 million. Adjusted segmental operating income increased 1% year on year to \$123 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-0.66%
EPS Surprise	5.45%
Quarterly EPS	0.58
Annual EPS (TTM)	2.30

Segmental Performance

Net sales in the Aquatic Systems segment declined around 6% year over year to \$218.7 million. Operating earnings decreased 8.5% to \$54.8 million.

Net sales in the Filtration Solutions segment totaled \$273.5 million, up 13.8% from the prior-year quarter. Operating earnings increased 17.4% year over year to \$45.1 million.

Net sales in the Flow Technologies segment totaled \$221 million, down 7.1% year on year. Segmental operating earnings climbed 3.6% year over year to \$37.9 million.

Financial Update

Pentair had cash and cash equivalents of \$113.2 million as of Sep 30, 2019, up from \$74.3 million as of Dec 31, 2018. The company generated \$266.1 million of cash from operations during the nine-month period ended Sep 30, 2019 compared with the \$299.2 million reported in the comparable period last year.

Guidance

Pentair has reaffirmed its adjusted EPS guidance at \$2.35 for 2019. Sales in the ongoing year are projected be flat on a reported basis and down roughly 1% on a core basis compared with 2018.

Pentair also provided the fourth-quarter 2019 adjusted EPS guidance of 64-66 cents. Sales in the quarter are projected to be up roughly 2% on a reported basis and flat on a core basis compared with the prior-year quarter.

Recent News

Pentair Shuts Down Aquaculture Business, Divests Vaki Unit - Dec 18, 2019

Pentair has divested its Vaki business unit, a maker of fish farming and wild fish conservation monitoring equipment, to Merck's Animal Health division.

Vaki falls under Pentair's Aquatic Eco-Systems Division, which is specialized in aquaculture-related products and services. Vaki is the provider of fish handling, counting and grading solutions.

Following the divestiture, Vaki will be a leading brand under the Biomark business within Merck Animal Health, dedicated to provide equipment, technology and products for fish counting and size estimation from freshwater to saltwater rearing, while also collecting data for each stage of fish production. Vaki has significant potential for development in the aquaculture industry and partnering with Merck Animal Health will support its further growth.

In May, the water treatment company agreed to sell its Vaki unit, thus exiting the aquaculture business and selling related units in an effort to focus on the residential and commercial pool segments. The aquaculture business provides service, equipment and technology for the aquaculture industry. The company also stated that though its aquaculture business offers attractive long-term opportunities, the short-term business model does not meet the company's expectations.

Pentair Hikes Quarterly Dividend - Dec 10, 2019

Pentair's board has increased quarterly cash dividend by 6% to 19 cents per share. This marks the 44th consecutive year of dividend increase. The dividend will be paid on Feb 7, 2020 to shareholders of record at the close of business on Jan 24, 2020.

Valuation

Pentair's shares are up 17.8% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Thermal Products industry and the Zacks Industrial Products sector are up 36.5% and 18.2% over the past year, respectively.

The S&P 500 index has gained 25.6% in the past year.

The stock is currently trading at 18.38X forward 12-month earnings, which compares with 18.21X for the Zacks sub-industry, 18.42X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 10.45X, with a 5-year median of 16.35X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 19.43X 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	18.38	18.21	18.42	19.19
	5-Year High	20.53	18.21	19.91	19.34
	5-Year Low	10.45	11.11	12.6	15.17
	5-Year Median	16.35	16.26	16.54	17.44
P/S F12M	Current	2.59	3.46	2.8	3.57
	5-Year High	2.76	3.46	2.8	3.57
	5-Year Low	1.17	1.13	1.51	2.54
	5-Year Median	2.19	2.27	1.97	3
EV/EBITDA TTM	Current	16.42	21.44	17.25	12.38
	5-Year High	17.6	21.46	17.44	12.86
	5-Year Low	8.34	10.13	10.89	8.48
	5-Year Median	12.96	13.31	14.72	10.67

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



Top Peers

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

Industry Comparison Industry: Manufacturing - Thermal Products				Industry Peers		
	PNR Neutral	X Industry	S&P 500	FLS Neutral	IEX Neutral	ROP Neutral
VGM Score	C	-	-	B	D	D
Market Cap	7.95 B	3.67 B	24.65 B	6.61 B	13.38 B	39.51 B
# of Analysts	11	6	13	7	6	7
Dividend Yield	1.52%	0.00%	1.73%	1.51%	1.14%	0.54%
Value Score	C	-	-	C	D	D
Cash/Price	0.01	0.01	0.04	0.08	0.04	0.01
EV/EBITDA	18.02	18.33	14.11	21.78	21.03	25.88
PEG Ratio	3.08	2.84	2.08	1.83	2.93	2.54
Price/Book (P/B)	4.25	4.25	3.39	3.73	6.18	4.61
Price/Cash Flow (P/CF)	16.18	16.18	13.81	19.30	27.06	24.46
P/E (F1)	18.23	18.20	19.19	20.78	29.26	27.99
Price/Sales (P/S)	2.70	2.35	2.69	1.71	5.34	7.39
Earnings Yield	5.41%	5.50%	5.21%	4.81%	3.42%	3.57%
Debt/Equity	0.60	0.60	0.72	0.85	0.39	0.72
Cash Flow (\$/share)	2.92	2.92	6.94	2.62	6.50	15.53
Growth Score	C	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	-9.39%	28.15%	10.56%	-17.72%	12.58%	18.71%
Proj. EPS Growth (F1/F0)	9.06%	8.15%	7.57%	10.96%	3.26%	4.35%
Curr. Cash Flow Growth	-31.83%	0.11%	14.73%	15.24%	18.92%	21.01%
Hist. Cash Flow Growth (3-5 yrs)	-11.68%	23.66%	9.00%	-10.76%	8.19%	16.17%
Current Ratio	1.44	1.44	1.24	2.29	3.21	1.08
Debt/Capital	37.45%	37.45%	42.99%	45.83%	28.18%	41.95%
Net Margin	11.92%	11.49%	11.14%	6.39%	17.05%	21.58%
Return on Equity	21.35%	27.44%	17.16%	16.21%	21.28%	16.46%
Sales/Assets	0.72	0.84	0.55	0.81	0.70	0.33
Proj. Sales Growth (F1/F0)	3.73%	4.20%	4.16%	3.36%	1.58%	7.06%
Momentum Score	A	-	-	D	D	B
Daily Price Chg	1.24%	0.00%	0.27%	0.26%	0.10%	1.08%
1 Week Price Chg	-1.57%	-2.62%	0.39%	-0.14%	-0.40%	2.02%
4 Week Price Chg	4.05%	2.96%	2.95%	2.91%	4.67%	7.89%
12 Week Price Chg	13.68%	13.68%	7.76%	5.67%	11.42%	14.27%
52 Week Price Chg	17.17%	19.52%	22.29%	19.84%	27.58%	37.88%
20 Day Average Volume	728,123	136,070	1,536,375	518,811	297,347	371,135
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.12%	0.02%	0.00%
(F1) EPS Est 4 week change	0.07%	0.04%	0.00%	-0.82%	0.06%	0.25%
(F1) EPS Est 12 week change	0.46%	0.55%	-0.40%	-1.12%	-0.95%	1.51%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	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	C
Growth Score	C
Momentum Score	A
VGM Score	C

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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