

Pentair plc

Pool & Spa Show: 2024 new pools down y/y, restock & maintenance should help

Reiterate Rating: NEUTRAL | PO: 76.00 USD | Price: 70.69 USD

Takeaways from the 2024 Pool & Spa Show

We attended the 2024 Pool & Spa Show in Atlantic City, NJ yesterday with investors. We met with David Kraft, Group Sales Leader for Pool, and Aaron Grimes, Sales Director for Pool, at Pentair. We also met with private pool contractors. Our meetings with the company largely focused on tech innovation & upsells to higher income pools, particularly automation. Key takeaways: New pool construction is down y/y in '24. Maintenance and non-discretionary spending should still be up y/y, but a key question for investors is what qualifies as non-discretionary. The 3-4% of price increases for 2024 seems to have held. While early buying picked up again in 4Q, it seems some elements of the 2021-2023 inflationary cycle (e.g., having dealers purchase at the new price for early buy) held. Investor feedback is that the show was more negative than expected. Maintain Neutral.

New pool construction down y/y again next year

Consensus at the show is that new construction will be down y/y again next year. Historically in new pool downturns, the industry will lean in harder on remodel. New construction is impacted by higher rates and weaker consumer sentiment. Our sense is the broader consumer still has cash, but is impacted by interest rates and weak sentiment. See report: [This was more constructive than what we heard at AHR on Monday](#).

Thoughts on Pentair 2024 guide

We would argue that Pentair's Pool margins have shown surprising resilience in a year of volume deleveraging. It seems based on our conversations that the company's pricing could surprise to the upside in 2024 in Pool, with volume a source of risk. Pentair has indicated that it will maintain the actions it took to keep its margins at 2023 levels (e.g., halting reinvestment) until pool volumes return. We estimate aftermarket/maintenance is accretive to margins. Another year of faster MRO growth and negative new pool could help with the company's surprising margin performance. We believe guide will bracket consensus, but moving pieces different in Pool vs. our model (more price; less volume).

Note on heat pumps: technology not there yet in the pool

The Big three pool manufacturers (PNR, Hayward, and Fluidra) have technology for heat pumps in the pool and spa. It seems from our meetings that the heat pump technology, has not yet gotten advanced enough for colder climates.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.40	3.68	3.74	4.21	4.62
GAAP EPS	3.34	2.72	3.28	3.93	4.35
EPS Change (YoY)	36.0%	8.2%	1.6%	12.6%	9.7%
Consensus EPS (Bloomberg)			3.75	4.19	4.67
DPS	0.80	0.84	0.88	0.93	0.98
Valuation (Dec)					
P/E	20.8x	19.2x	18.9x	16.8x	15.3x
GAAP P/E	21.2x	26.0x	21.6x	18.0x	16.3x
Dividend Yield	1.1%	1.2%	1.2%	1.3%	1.4%
EV / EBITDA*	20.8x	18.6x	16.7x	15.3x	14.2x
Free Cash Flow Yield*	4.4%	2.2%	4.8%	5.4%	5.9%

* For full definitions of *IQmethod*SM measures, see page 4.

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Equity

Andrew Obin
Research Analyst
BoFA
+1 646 855 1817
andrew.obin@bofa.com

David Ridley-Lane, CFA
Research Analyst
BoFA
+1 646 855 2907
david.ridleylane@bofa.com

Sabrina Abrams
Research Analyst
BoFA
+1 646 556 3520
sabrina.abrams@bofa.com

Devin Leonard
Research Analyst
BoFA
devin.leonard@bofa.com

Stock Data

Price	70.69 USD
Price Objective	76.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-2-7
52-Week Range	49.52 USD - 73.27 USD
Mkt Val (mn) / Shares Out (mn)	12,625 USD / 178.6
Free Float	99.5%
Average Daily Value (mn)	101.63 USD
BoFA Ticker / Exchange	PNR / NYS
Bloomberg / Reuters	PNR US / PNR.N
ROE (2023E)	21.6%
Net Dbt to Eqty (Dec-2022A)	81.5%
ESGMeter™	High

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MRO – maintenance, repair & overhaul

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Timestamp: 25 January 2024 09:52AM EST

iQprofileSM Pentair plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.4%	14.5%	13.5%	14.1%	13.8%
Return on Equity	25.2%	23.8%	21.6%	21.0%	19.8%
Operating Margin	18.2%	18.6%	20.9%	22.4%	23.2%
Free Cash Flow	553	279	602	686	748

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.6x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.8x	0.8x	0.8x	0.8x	0.8x
Tax Rate	15.0%	14.5%	15.0%	16.5%	17.5%
Net Debt-to-Equity Ratio	33.0%	81.5%	59.7%	36.2%	17.1%
Interest Cover	NM	14.6x	6.9x	8.8x	11.9x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,765	4,122	4,098	4,217	4,378
% Change	24.8%	9.5%	-0.6%	2.9%	3.8%
Gross Profit	1,319	1,388	1,507	1,551	1,610
% Change	24.7%	5.2%	8.6%	2.9%	3.8%
EBITDA	735	820	911	1,000	1,071
% Change	30.8%	11.6%	11.1%	9.7%	7.1%
Net Interest & Other Income	(14)	(54)	(125)	(107)	(86)
Net Income (Adjusted)	571	610	622	700	768
% Change	36.1%	6.9%	2.0%	12.4%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	571	610	622	700	768
Depreciation & Amortization	78	107	110	109	109
Change in Working Capital	(32)	(215)	3	(14)	(17)
Deferred Taxation Charge	(9)	(45)	0	0	0
Other Adjustments, Net	7	(93)	(46)	(21)	(20)
Capital Expenditure	(60)	(85)	(86)	(89)	(92)
Free Cash Flow	553	279	602	686	748
% Change	8.1%	-49.6%	115.9%	13.8%	9.1%
Share / Issue Repurchase	(150)	(50)	(86)	0	0
Cost of Dividends Paid	(133)	(139)	(147)	(154)	(162)
Change in Debt	55	1,412	(320)	(200)	(19)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	95	109	169	500	1,067
Trade Receivables	534	532	506	521	540
Other Current Assets	675	918	884	903	931
Property, Plant & Equipment	310	345	375	409	446
Other Non-Current Assets	3,140	4,545	4,545	4,491	4,437
Total Assets	4,754	6,448	6,479	6,824	7,421
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,052	1,063	1,036	1,054	1,083
Long-Term Debt	894	2,317	1,997	1,797	1,778
Other Non-Current Liabilities	386	359	384	386	389
Total Liabilities	2,332	3,739	3,418	3,238	3,250
Total Equity	2,422	2,708	3,061	3,586	4,172
Total Equity & Liabilities	4,754	6,448	6,479	6,824	7,421

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Industrials/Multi-Industry

Company Description

Pentair is a residential and commercial pure-play water treatment company. Pentair generated \$4.1bn of revenue in 2022 from its three segments, Pool (40% of revenue, residential pool), Water Solutions (24% of revenue, water filtration and ice), and Industrial and Flow Technologies (36% of revenue, industrial filtration, irrigation, and commercial pumps).

Investment Rationale

Pentair's execution outperformed our expectations in 2023 and we see strong visibility on margins in 2024, largely on the back of its Transformation Initiatives. Our Neutral rating balances upside to consensus on margins in 1H24 with our more bearish topline outlook.

Stock Data

Average Daily Volume 1,408,174

Quarterly Earnings Estimates

	2022	2023
Q1	0.85A	0.91A
Q2	1.02A	1.03A
Q3	0.99A	0.94A
Q4	0.82A	0.86E

Price objective basis & risk

Pentair plc (PNR)

We base our \$76 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. This slightly below the peer group trading at 14x on 2024 estimates. We think the below-peer valuation is fair given above average EBITDA margins offset by more cyclical topline.

Upside risks are: 1) better-than-expected revenue growth in pools, 2) success on incremental productivity actions. Downside risks are: 1) Reinvestment in most profitable (Pool) segment, 2) execution risk on sourcing & consolidation activities.

Analyst Certification

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US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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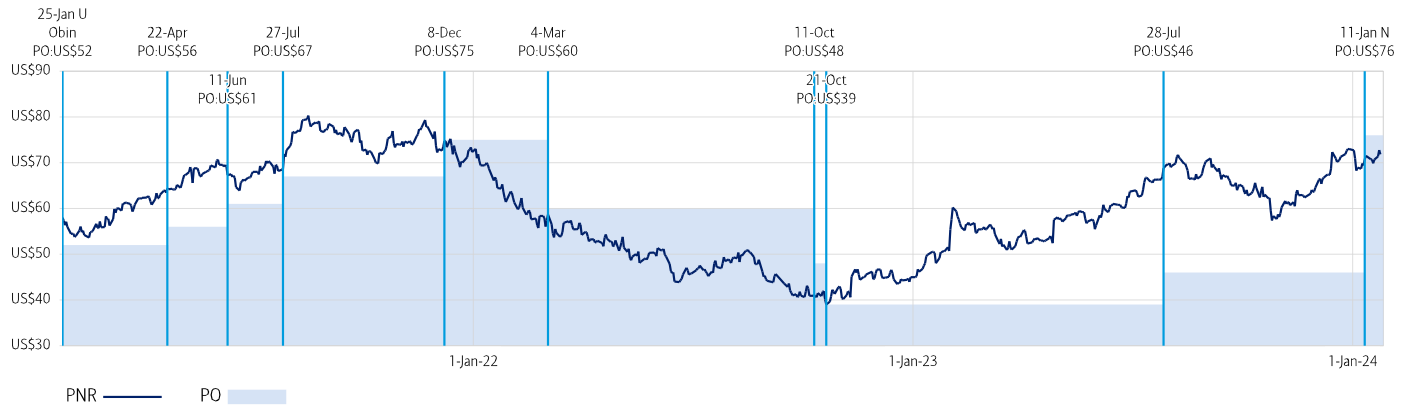
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Pentair plc (PNR) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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