

Pentair plc

Reconciling HAYW sales guide; calibrating investor day expectations

Maintain Rating: NEUTRAL | PO: 80.00 USD | Price: 78.33 USD

HAYW's pool sales guide comes below PNR

Hayward Holdings (ticker: HAYW; covered by our colleague Rafe Jadrosich) reported 4Q23 earnings on 2/29. HAYW reported earnings a month after PNR. The company's 2024 guidance of +2-7% y/y growth comes in below PNR's Pool sales guidance of ~7%. We think the lower guide reflects different views on volumes. HAYW's commentary on distributor inventories was more conservative, but the net benefit to the top line in the guide is greater. We will look for clarity on the variance in guidance at PNR's investor day on March 6. Given share losses attributable to COVID/supply chain issues, there could be share gains contemplated in PNR's guidance. HAYW's outlook might be more up to date given it incorporates an extra month of trends. We maintain our Neutral rating on Pentair, \$80 PO.

Key pieces in HAYW vs. PNR sales guides

The midpoint of HAYW's sales guide is ~4.5% y/y growth. This reflects pool volumes, with PNR's (4)% compared to HAYW down (6-7%). While PNR did not specifically guide to new pools/remodels, we assume new pool/remodel volumes are down (5)% and MRO (maintenance, repair & operations) is down (2.7)% to get to (4)% volume declines (our forecasts are slightly lower). Pricing of ~2% is in line with PNR commentary. HAYW lowered its destocking benefit from \$160mn in 3Q to \$100mn. Per HAYW, while destocking has trended according to plan, distributors are being more active on inventory management. Some intend to reduce days inventory below historical levels. It is unclear whether that is in PNR's guide for \$120mn destocking benefit across 2Q-4Q, ~9% uplift to '24 Pool sales. Our PNR Pool sales forecast of +6.4% y/y is below guide, offering ~\$8mn of cushion.

Exhibit 1: PNR vs. HAYW embedded guide, midpoint

Our new pool/remodel/ MRO assumptions for PNR are our interpretation of company guide

	PNR	HAYW
New Pool/Remodel	-5.0%	-12.0%
Aftermarket/MRO	-2.7%	-5.0%
Total demand (volumes)	-4.0%	-6.5%
Destocking lift	9.0%	10.0%
Price	2.0%	2.0%
Total	7.0%	4.5%

Source: BofA Global Research

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Investor day expectations: higher margin targets in '28

We expect PNR to issue new long-term margin targets at its 2024 investor day. The company initiated its 2025 targets at its 2021 investor day; we would expect targets out to ~2028. We think there is opportunity for the company to issue margin targets above consensus, particularly in Pool and Flow. Margins have expanded (340bps from 2019-2023) on less organic volume. The M&A line contributed \$206mn in 2022 and \$183mn in 2023 at accretive margins. Remaining activity in PNR's transformation program is more complex with higher execution risk (e.g., footprint consolidation, organizational changes). We think the sell-side has not incorporated later stages in forecasts. We think the company will provide more clarity and margin roadmaps. We expect management to maintain revenue targets (MSD+ in Pool, MSD in Water Solutions, and LSD in Flow).

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Stock Data

Price	78.33 USD
Price Objective	80.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-2-7
52-Week Range	50.15 USD - 78.51 USD
Mrkt Val (mn) / Shares Out (mn)	13,990 USD / 178.6
Free Float	99.3%
Average Daily Value (mn)	132.12 USD
BofA Ticker / Exchange	PNR / NYS
Bloomberg / Reuters	PNR US / PNR.N
ROE (2023E)	21.1%
Net Dbt to Eqty (Dec-2022A)	81.5%
ESGMeter™	High

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MSD: mid-single digit

LSD: low-single digit

MRO: maintenance, repair & overhaul
MRO

Valuation

We base our \$80 price objective on a 13.5x multiple on our 2025E estimates. This is at a discount to the peer average at 15x 2024E. We think a slight discount is warranted given better EBITDA margins, offset by more cyclical businesses.

Exhibit 2: PNR comparable valuation analysis

Our \$80 price objective is based on 13.5x 2025E

Company	Ticker	Stock Price 3/1/2024	P/E		EV/EBITDA		EBITDA Margin		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Dover	DOV	\$167.55	18.5 x	16.7 x	14.2 x	13.1 x	21.8%	22.5%	3.2%	10.6%
Hayward Holdings	HAYW	\$14.25	1.4 x	1.3 x	19.0 x	17.8 x	27.2%	27.8%	1.3%	9.3%
Mueller Water*	MWA	\$15.41	23.0 x	19.5 x	12.2 x	10.3 x	18.0%	19.2%	19.4%	13.1%
Thermon*	THR	\$27.63	15.4 x	14.1 x	10.4 x	8.8 x	19.7%	19.3%	10.6%	2.1%
Watts Water*	WTS	\$205.15	24.0 x	22.6 x	15.3 x	14.5 x	19.9%	20.2%	6.1%	6.1%
Xylem*	XYL	\$127.71	31.0 x	28.1 x	16.9 x	15.1 x	19.8%	20.6%	10.5%	10.0%
Zurn Water Solutions*	ZWS	\$31.95	<u>27.9 x</u>	<u>25.2 x</u>	<u>17.7 x</u>	<u>14.3 x</u>	<u>23.9%</u>	<u>24.5%</u>	<u>20.6%</u>	<u>10.6%</u>
AVERAGE			20.2 x	18.2 x	15.1 x	13.4 x	21.5%	22.0%	10.2%	8.8%
Pentair	PNR	\$78.12	18.6 x	17.0 x	14.2 x	13.3 x	23.8%	24.6%	12.2%	9.1%
Pentair at PO	PNR	\$80.00	19.0 x	17.4 x	14.5 x	13.6 x				

Source: BofA Global Research, company files

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Price objective basis & risk

Pentair plc (PNR)

We base our \$80 price objective on a 13.5x EV/EBITDA multiple of our 2025 estimates. This slightly below the peer group trading at 15x 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.

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Pentair plc (PNR) Price Chart



PNR — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

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