



Park Ohio (PKOH)

PE: N/A (Negative Earning)

Industry Forward PE: 22.2

Current Price 28.78

Price Target 28.67

Recommendation: Hold

Company Summary

ParkOhio is an industrial supply chain logistics and diversified manufacturing business operating in three segments: Supply Technologies, Assembly Components, and Engineered Products. S&P sees a continuous decline in revenue which could take leverage to 8x. Hence, removed it from CreditWatch to Negative Outlook. Other research shows that PKOH is using debt in a dangerous way with a current debt to equity ratio of almost 186% according to Standard and Poors. With all that being said, PKOH continued to reduce debt and interest payment even through the pandemic. Of course this was accompanied with a big reduction in capital expenditures. PKOH posted a surprising positive earning well above analysts expectations this past quarter which shows that the company has been on top of its operations even through challenging times.

Industry Outlook

With a positive vaccine outlook, the whole market has been lifted up, this includes the industrials sector which rose by 3.34% on Monday after the news. It is expected that the sector would have a revenue increase of 4.2% annually. While at the same time, the scene in the industry is expected to become even more competitive. An important characterization of the industry is that it is touched with the technological advances where companies are adopting more advanced technologies such as cloud computing. This will result in more productivity over the long run.

PKOH Earnings Forecast

Income Statement (Numbers in millions)	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sept. 30, 2020	E Q4 2020	E Q1 2021	E Q2 2021	E Q3 2021
Net sales	\$ 403.4	\$ 379.5	\$ 366.3	\$ 228.3	\$ 340.2	\$ 341.8	\$ 349.0	\$ 332.6	\$ 316.9
Cost of sales	336.9	317.2	312.4	214.1	290.5	294.0	296.6	279.4	267.8
Gross profit	66.5	62.3	53.9	14.2	49.7	47.9	52.3	53.2	49.1
Selling, general and administrative expenses	42.7	44.8	40.9	35.1	38.7	41.0	45.4	39.9	36.4
Operating income	23.8	17.5	13	(20.9)	11.0	6.8	7.0	13.3	12.7
Other components of pension income and other postretirement benefits expense, net	1.4	1.4	1.8	1.8	1.9	1.7	1.7	1.7	1.7
Interest expense, net	(8.6)	(8.3)	-8	(7.5)	(7.4)	(7.1)	(6.9)	(6.6)	(6.4)
Income before income taxes	16.6	10.6	6.8	(26.6)	5.5	1.4	1.8	8.4	7.9
Income tax expense	(4.2)	(2.9)	(5.5)	9.6	(0.3)	(0.3)	(0.4)	(1.8)	(1.7)
Net income	12.4	7.7	1.3	-17	5.2	1.1	1.4	6.6	6.3
Net income attributable to noncontrolling interests	(0.2)	(0.1)	(0.1)	0.4	0.1	0.0	0.0	0.0	0.0
Net income attributable to Park-Ohio Holdings Corp. common shareholders	\$ 12.2	\$ 7.6	\$ 1.2	\$ (16.6)	\$ 5.3	\$ 1.1	\$ 1.4	\$ 6.6	\$ 6.3
Growth rate of sales QoQ		-5.92%	-3.48%	-37.67%	49.01%	0.48%	2.09%	-4.70%	-4.70%
COGS as percentage of Sales	83.52%	83.58%	85.29%	93.78%	86.54%	86.00%	85.00%	84.00%	84.50%
SG & A as percentage of Sales	10.59%	11.81%	11.17%	15.37%	11.38%	12.00%	13.00%	12.00%	11.50%
		-3.49%	-3.61%	-6.25%	-1.33%	-3.67%	-3.72%	-3.74%	-3.12%
FCFE									
	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sept. 30, 2020	E Q4 2020	E Q1 2021	E Q2 2021	E Q3 2021
Net Income	\$ 12.2	\$ 7.6	\$ 1.2	\$ (16.6)	\$ 5.3	\$ 1.1	\$ 1.4	\$ 6.6	\$ 6.3
Depreciation	7.8	8.7	8.9	8.9	9.1	8.7	8.9	8.9	8.9
CapeEx	10.9	8.5	4.9	4.5	5.5	6.9	6.1	5.6	5.7
Current Assets	746.2	725.7	720.9	651.0	689.1	692.4	703.4	680.3	661.0
Current Liabilities	319.5	305.0	293.4	243.3	283.6	293.7	304.5	294.8	286.4
Debt	559.4	545.2	560.2	553.8	537.2	551.2	549.5	550.4	548.4
FCFE		\$ (0.4)	\$ 13.4	\$ 1.2	\$ (5.5)	\$ 23.6	\$ 2.4	\$ 24.2	\$ 18.4
					PV	23.19	2.33	22.80	17.00
					Terminal Value	390.55			

FCFE

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Net Income	\$ 12.2	\$ 7.6	\$ 1.2	\$ (16.6)	\$ 5.3	\$ 1.1	\$ 1.4	\$ 6.6	\$ 6.3
Depreciation	7.8	8.7	8.9	8.9	9.1	8.7	8.9	8.9	8.9
CapeEx	10.9	8.5	4.9	4.5	5.5	6.9	6.1	5.6	5.7
Current Assets	746.2	725.7	720.9	651.0	689.1	690.5	704.9	688.4	671.9
Current Liabilities	319.5	305.0	293.4	243.3	283.6	293.7	304.5	294.8	286.4
Debt	559.4	545.2	560.2	553.8	537.2	551.2	549.5	550.4	548.4
FCFE		\$ (0.4)	\$ 13.4	\$ 1.2	\$ (5.5)	\$ 25.5	\$ (1.0)	\$ 17.6	\$ 15.6
					PV	25.06	(0.99)	16.59	14.42
					Terminal Value	331.25			

Sensitivity Analysis

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growth rate	3.5%	\$28.67	3.00%	3.25%	3.50%	3.75%	4.00%
discount rate	8.0%	6.50%	\$36.41	\$38.96	\$41.93	\$45.44	\$49.65
Tax Rate	21.0%	7.00%	32.14	34.06	36.26	38.79	41.75
TV discount	306.70	7.50%	28.81	30.31	32.00	33.91	36.10
sum of cash flows	361,764,218.00	8.00%	26.15	27.36	28.69	30.19	31.87
outstanding shares	12,620,000	8.50%	23.98	24.96	26.05	27.24	28.57
Current Price	28.78	9.00%	22.17	22.99	23.88	24.86	25.94
Target Price	\$ 28.67	9.50%	20.63	21.33	22.08	22.89	23.79