

Precision Castparts Corporation (NYSE:PCP)

Sector: Industrials

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$261.79	226.05	275.09	215.09	.92	17.6	\$32.1B	0.05%

Industry Trends

An important trend occurring is the increase in air travel as a growing middle-class in developing countries and increased globalization will result in an increase in revenue passenger miles. As people fly more, the airline manufacturing industry will need to make more engines and will require more fans, blades, and other engine parts from suppliers. There is also an increase in the demand and production of more fuel efficient engines, which require the production of strong, lightweight alloys that can retain their composition in extreme heat.

Investment Thesis

PCP is a major producer of investment casting, forged and fastener products made from metal and metal alloys. They are able to create, large and complex products through their investment casting expertise. These products, alongside, the forged and fastener products are then sold to the aerospace and power industries as well as to other industrial markets. PCP produces technologically advanced alloys and super alloys for aerospace and power applications and also produces titanium which is used in many of its alloys.

Business Summary

PCP is broken up into 3 segments, Investment Cast Products, Forged Products, and Airframe Products. These products are sold primarily to the Aerospace market which makes up 68% of PCP's sales. These products are sold to jet engine manufacturers such as GE, Pratt & Whitney, and Rolls-Royce. All jet engines made by these three companies, either in production or under development, use investment casting products made by PCP. In the future, these customers will use more PCP parts in their engines, increasing PCP's revenue per engine. Also, the power industry serves as an important buyer of PCP products and makes up 18% of PCP's sales as blades made by the Airframe segment are used in Industrial Gas Turbines. PCP also makes artificial hips and knees, tail flaps, and fasteners such as nuts and bolts and sells products in the automotive and farm industry. PCP has innovative titanium alloys which are capable of being put in the hottest parts of jet engines. These alloys are lightweight and result in more fuel efficient engines.

PCP 5-year stock performance vs. S&P 500:



(Yahoo Finance)

Competition:

PCP faces competition from rivals such as Allegheny Technologies and Alcoa, as well as small domestic and foreign casting and forging companies.

Pros:

- Has provided products to large Jet Engine manufacturers for several decades
- Acquires companies that provide products to PCP's key aerospace customers in order to increase relationships with key customers
- Strong cash flow that will be returned to shareholders in the form of share buybacks in the next several years

Cons:

- Reliant on price of inputs in order to make a profit
- Sells most of its products in cyclical markets
- Reliant on key customers for sales of product

Value Estimate:

\$254.35-261.79 (2017-2018)

Estimated Real Annual Return:

3%-4%

Overall Rating:

Expected inflation	2%
Current EPS	\$12.78
Forecasted EPS Growth	7.3%
Credit Quality	A-
ROE	16.86%
ROA	10.16%
Price/Book	2.78
Debt/Equity	.37
Debt/Capital	.27
Current Ratio	2.99
Price/Cash Flow	19.15
10 yr. Risk Free Rate	2.36%
WACC	9.5%

Three Stars

Report Prepared By:

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Corporate Social Responsibility:

ESG Disclosure Rating	19.42 (Ind. Avg. 22.06)
Environmental Disclosure Score	5.43 (Ind. Avg. 19.86)
Business Ethics Policy	1 (Ind. Avg. 1)
Social Disclosure Score	19.30 (Ind. Avg. 28.39)
Governance Disclosure Score	51.79 (Ind. Avg. 52.26)

Sources: Bloomberg, CNBC, Yahoo Finance

