Genuine Parts Co. (GPC)

Updated April 8th, 2018 by Josh Arnold

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	10.9%	**Quality Percentile:**	N/A
Fair Value Price:	$97	**5 Year Growth Estimate:**	6.1%	**Momentum Percentile:**	N/A
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Total Return Percentile:**	N/A
Dividend Yield:	3.2%	**5 Year Price Target**	$130	**Valuation Percentile:**	N/A

Overview & Current Events

Genuine Parts Company was founded in 1928 and since that time, it has grown into a sprawling conglomerate that sells automotive and industrial parts, electrical materials and general business products. Its global span reaches throughout North America, Australia, New Zealand and Europe and is comprised of more than 3,100 locations. It has nearly 50,000 employees and the stock is worth just over $13B.

The company's recent Q4 report was strong as sales shot higher on some comparable gains as well as the company's fresh AAG acquisition. The Automotive group led the way thanks to AAG but each segment saw gains with the exception of Business Products. Gross margins improved markedly but operating margins saw only modest expansion. GPC's margins have been flat-to-down for years so that is the principal challenge going forward, as it was in Q4.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.92	$2.50	$3.00	$3.58	$4.14	$4.19	$4.61	$4.63	$4.59	$4.71	***$5.70***	***$7.65***
DPS	$1.56	$1.60	$1.64	$1.76	$1.98	$2.11	$2.30	$2.46	$2.63	$2.70	***$2.88***	***$4.00***

EPS growth has seen stops and starts but over the long term, GPC delivers. The company's businesses are all what could be considered staples as it serves businesses and consumers in areas where there are likely to be demand for the long run. GPC's acquisitions have led the way in terms of growth. We are forecasting 6.1% annualized EPS growth for the next five years in a continuation of this trend. The company's AAG acquisition is going to produce high single digit sales growth for the consolidated company this year and with GPC's penchant for doing nearly constant acquisitions, this should continue. Margins have been somewhat weak over time but Q4 was a bright spot and as AAG comes on board, SG&A costs should be leveraged down, providing a boost to margins.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.9	13.8	14.4	15.1	15.2	18.6	19.3	19.5	20.8	19.2	***15.7***	***17.0***
Avg. Yld.	3.8%	4.6%	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	***3.2%***	***3.1%***

GPC's PE rose steadily in the period from 2009 to 2017, moving from 13.8 to 19.2 in that time frame. That's a huge move and it led to strong performance from the stock, but as of now, its PE has come well off of its highs. That is the result of a significant selloff and rising earnings estimates for this year; the product of tax reform and sales growth related to AAG. We are forecasting a modest 1.6% annual tailwind for GPC going forward as we see the multiple drifting back towards its historical mean at 17 over time from its current multiple of 15.7 times expected 2018 EPS.

GPC is famous for its dividend (50+ consecutive years of rising dividends). The current yield is 3.2% against more recent yields in the 2.6% to 2.8% area as GPC has continued to boost its payout while the stock price has waned.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.7%	29.9%	29.0%	28.9%	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%	***30.2%***	***30.5%***
Debt/A	51%	48%	49%	56%	56%	56%	60%	61%	64%	73%	***72%***	***65%***
Int. Cov.	25.3	24.1	28.1	33.9	50.7	39.7	45.6	52.9	52.0	25.3	***25.0***	***35.0***
Payout	53%	63%	54%	49%	46%	50%	49%	52%	56%	57%	***51%***	***52%***
Std. Dev.	35.4%	31.1%	22.3%	27.4%	17.5%	17.3%	16.0%	18.6%	18.8%	19.8%	***21.0%***	***22.4%***

GPC has always been a conservatively-financed company and remains so today. Debt has risen recently to fund AAG but GPC's interest coverage and debt-to-asset ratios are still very tame. In addition, its dividend only consumes about half of its earnings, so that is quite safe as well. It also affords GPC the ability to raise the payout yearly without undue stress.

We are forecasting improving margins going forward, although gains will be slight. GPC sells tens of thousands of different products in different industries that are highly competitive, meaning margins are – and always will be – slim. However, adding top line growth through acquisitions has afforded GPC some leverage in purchasing and SG&A, and the sheer size of AAG should allow that to continue going forward. Keep in mind that the primary driver of EPS growth is revenue, however, and not margin growth.

GPC's competitive advantages include its wide array of industries and customers served, its geographic reach and the fact that it sells what amount to industrial staples. GPC is still prone to EPS declines during recessions but performs relatively well during them and comes out the other side stronger; this is a defensive stock for a retailer/wholesaler.

Final Thoughts & Recommendation

Overall, GPC looks undervalued based upon both its current PE and dividend yield. Both of these metrics are much more attractive than they have been in recent years and given that GPC is growing quickly through acquisitions, we are expecting total annual returns of 10.9% for the next five years. GPC should see tailwinds from a rising multiple, a strong and rising dividend as well as earnings growth from top line expansion. It is therefore a good investment for anyone looking for value, moderate growth, a strong and growing yield, as well as a defensive retail play.

Total Return Breakdown by Year