Genuine Parts Co. (GPC)

Updated July 20th, 2018 by Josh Arnold

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	9.0%	**Volatility Percentile:**	45.4%
Fair Value Price:	$96	**5 Year Growth Estimate:**	6.1%	**Momentum Percentile:**	70.7%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Valuation Percentile:**	57.9%
Dividend Yield:	3.0%	**5 Year Price Target**	$130	**Total Return Percentile:**	57.6%

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 trades with a market capitalization just over $14 billion.

The company reported Q2 earnings on 7/19/18 and results were very strong. Organic growth was 3% and acquisitions added a further 14%. In total, automotive sales were up 28%, industrial sales were up 9% and business products were flat. Gross margins rose 140bps, but acquisition expenditures drove operating earnings lower. Despite this, adjusted earnings-per-share rose 23%, a record for Q2. In addition, the company continued its practice of acquiring growth, agreeing to acquire Essendant as well as Hennig Fahrzeugteile, a German manufacturer of commercial vehicle parts.

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***

Earnings-per-share growth has seen stops and starts but over the long term, Genuine Parts Company delivers. The company's businesses are all what could be considered staples as it serves businesses and consumers in areas where there is likely to be demand for the long run. Genuine Parts Company's acquisitions have led the way in terms of growth. We are forecasting 6.1% annualized earnings-per-share 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 its penchant for doing nearly constant acquisitions, this should continue. Margins have been somewhat weak over time but Q2 showed some stabilization and as AAG continues to be integrated, SG&A costs should be leveraged down, providing a boost to margins. GPC's pipeline of new acquisitions should keep this trend in place for the foreseeable future as well, with sales growth being the primary driver of earnings-per-share growth moving forward.

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	***17.1***	***17.0***
Avg. Yld.	3.8%	4.6%	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	***3.0%***	***3.1%***

Genuine Parts Company's price-to-earnings ratio rose steadily in the period from 2009 to 2017, moving from 13.8 to 19.2 in that time frame. That's a tremendous move and it led to strong performance from the stock, but it 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. With the price-to-earnings ratio being virtually equal with our long term fair value estimate at 17.1, we see essentially no impact to total returns from the valuation.

Genuine Parts Company is famous for its dividend (50+ consecutive years of rising dividends). The current yield is 3.0% against more recent yields in the 2.6% to 2.8% area as the company has continued to boost its payout while the stock price has waned. We expect the yield to remain around 3% for the foreseeable future.

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%***

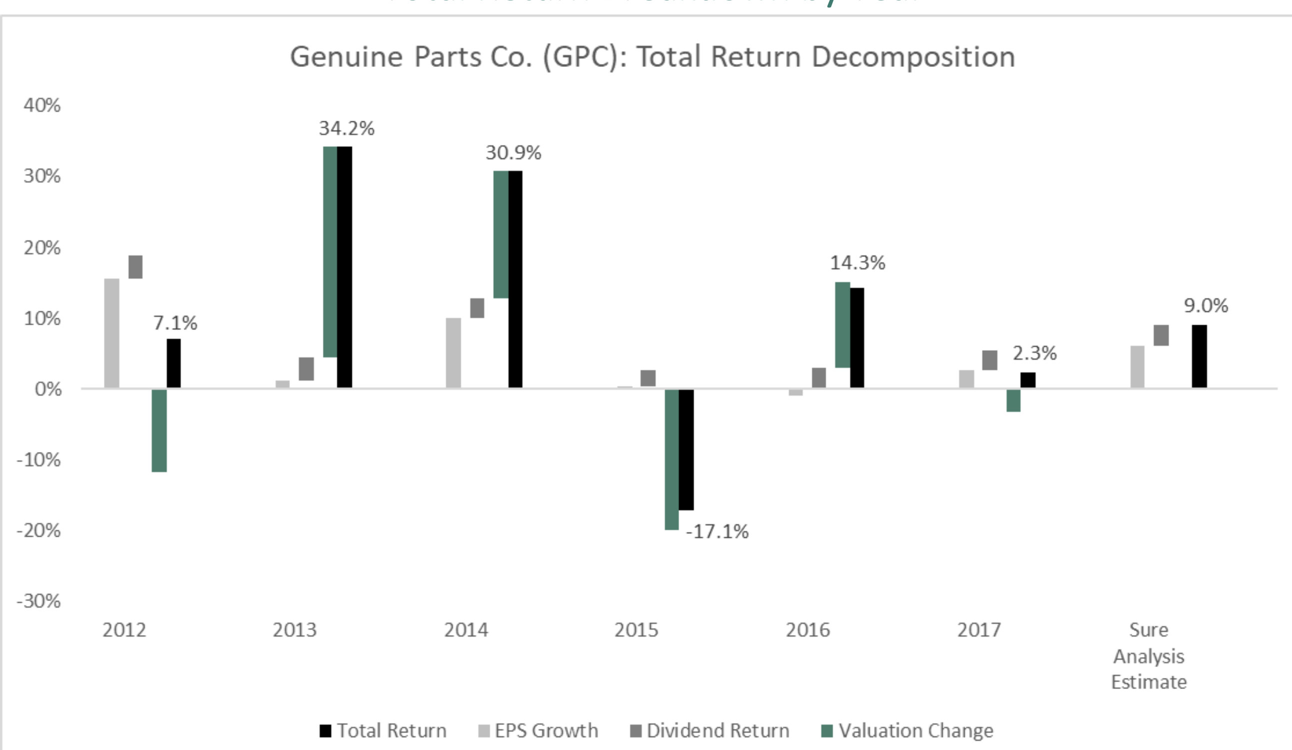
Genuine Parts Company has always been a conservatively-financed company and remains so today. Debt has risen recently to fund AAG, but GPC's interest coverage and debt-to-asset ratios are still very tame. In addition, its dividend only consumes about half of its earnings, so that is quite safe as well. It also affords Genuine Parts Company the ability to raise the payout yearly without undue stress. We are forecasting improving margins going forward, although gains will be slight. The company 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 it 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 earnings-per-share growth is revenue, however, not margin growth.

Its competitive advantages include its wide array of industries and customers served, geographic reach and the fact that it sells what amount to industrial staples. Genuine Parts Company is still prone to earnings declines during recessions but performs relatively well; this is a defensive stock for a retailer/wholesaler.

Final Thoughts & Recommendation

Overall, Genuine Parts Company looks undervalued based upon both its current valuation and dividend yield. Both of these metrics are more attractive than they have been in recent years and given that Genuine Parts Company is growing quickly through acquisitions, we are expecting total annual returns of 9.0% for the next five years. GPC should see tailwinds from a rising price-to-earnings 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



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.