



Genuine Parts Co. (GPC)

Updated October 20th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$101	5 Year CAGR Estimate:	8.0%	Volatility Percentile:	46.3%
Fair Value Price:	\$97	5 Year Growth Estimate:	6.1%	Momentum Percentile:	57.8%
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Growth Percentile:	55.6%
Dividend Yield:	2.8%	5 Year Price Target	\$130	Valuation Percentile:	43.6%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	42.7%

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 under \$15 billion, with almost \$19 billion in annual revenue.

Genuine Parts reported Q3 earnings on 10/18/18 and while results beat expectations, guidance was revised slightly lower for the full year. Revenue in Q3 was up 15%, driven by the company's near-constant stream of acquisitions. However, comparable sales rose a strong 4.3% in Q3 as well, helping to drive the top line higher. The core Automotive business continues to lead the way with a 23% gain in Q3, as it is still digesting the enormous AAG acquisition from last year's Q3. Adjusted earnings-per-share rose 29% thanks to these factors and a lower tax rate. Guidance was reduced slightly, but our estimate of \$5.70 is still well within the new range, so it is unchanged for 2018.

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
Shares	159	159	158	156	155	154	153	150	148	147	145	140

Earnings-per-share growth has seen stops and starts but over the long term, Genuine Parts 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. The company's acquisitions have led the way in terms of growth and will continue to do so moving forward. 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. Indeed, although Genuine Parts was recently outbid for Essendant by Staples, it has acquired four smaller businesses for its Industrial, Motion and Automotive segments since mid-September. Margins have been somewhat weak over time as thus far in 2018, gross margins have risen but operating costs and interest expense have more than offset those gains. Genuine Parts' 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 at the expense of 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	17.8	17.0
Avg. Yld.	3.8%	4.6%	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	2.8%	3.1%

Genuine Parts' price-to-earnings ratio rose steadily in the period from 2009 to 2017, moving from 13.8 to 19.2 in that time frame. However, it has recently settled near our fair value estimate of 17 times earnings. With the price-to-earnings ratio being close to our long-term fair value estimate at 17.8, we see essentially no impact to total returns from the valuation, as it should produce a modest 0.9% headwind annually.

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.



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Genuine Parts is famous for its dividend (50+ consecutive years of rising dividends). The current yield of 2.8% is in line with historical norms, and 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%	31.0%	31.5%
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%

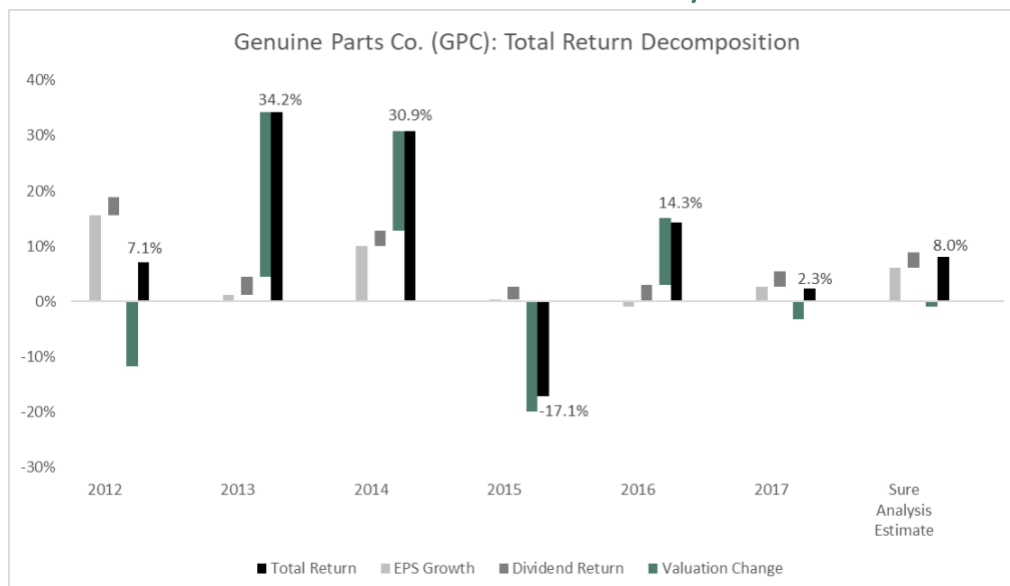
Genuine Parts has always been a conservatively-financed company and remains so today. Debt has risen recently to fund AAG, but interest coverage and debt-to-asset ratios are still very tame. In addition, its dividend only consumes about half of its earnings, so that is quite safe as well. It also affords the company the ability to raise the payout yearly without undue stress. We are forecasting improving margins going forward, although gains will be slight; after Q3 results, we've increased our forecast for gross margins for this year and beyond. Adding top line growth through acquisitions has afforded the company some leverage in purchasing and SG&A, which we see continuing.

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 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 about fairly valued based upon both its current valuation and dividend yield. Both of these metrics are in line with historical norms, and we are expecting total annual returns of 8.0% for the next five years. Returns will accrue from the current 2.8% yield, 6.1% earnings growth and a slight 0.9% headwind from the valuation. 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. We rate the company a buy due to revenue growth and its strong dividend history.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	11015	10058	11208	12459	13014	14078	15342	15280	15340	16309
Gross Profit	3272	3010	3253	3606	3778	4220	4594	4556	4600	4906
Gross Margin	29.7%	29.9%	29.0%	28.9%	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%
SG&A Exp.	2360	2220	2367	2594	2657	3028	3314	3277	3371	3705
D&A Exp.	89	90	89	89	98	134	148	142	147	168
Operating Profit	800	671	786	909	1015	1049	1124	1124	1070	1020
Op. Margin	7.3%	6.7%	7.0%	7.3%	7.8%	7.5%	7.3%	7.4%	7.0%	6.3%
Net Profit	475	400	476	565	648	685	711	706	687	617
Net Margin	4.3%	4.0%	4.2%	4.5%	5.0%	4.9%	4.6%	4.6%	4.5%	3.8%
Free Cash Flow	425	703	593	521	804	933	682	1050	785	658
Income Tax	293	245	286	326	371	359	406	418	387	393

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4786	5005	5465	6203	6807	7680	8246	8145	8859	12412
Cash & Equivalents	68	337	530	525	403	197	138	212	243	315
Accounts Receivable	1225	1187	1364	1461	1490	1665	1872	1822	1939	2422
Inventories	2317	2214	2225	2440	2603	2946	3044	3000	3210	3771
Goodwill & Int. Ass.	159	172	210	280	498	1289	1387	1362	1575	3554
Total Liabilities	2393	2375	2662	3449	3799	4322	4934	4986	5652	8948
Accounts Payable	1009	1094	1375	1441	1682	2270	2555	2822	3081	3635
Long-Term Debt	500	500	500	500	500	765	765	625	875	3245
Shareholder's Equity	2324	2621	2794	2744	2998	3349	3301	3147	3194	3412
D/E Ratio	0.22	0.19	0.18	0.18	0.17	0.23	0.23	0.20	0.27	0.95

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.9%	8.2%	9.1%	9.7%	10.0%	9.5%	8.9%	8.6%	8.1%	5.8%
Return on Equity	18.9%	16.2%	17.6%	20.4%	22.6%	21.6%	21.4%	21.9%	21.7%	18.7%
ROIC	15.4%	13.3%	14.8%	17.2%	19.2%	18.0%	17.3%	18.0%	17.5%	11.4%
Shares Out.	159	159	158	156	155	154	153	150	148	147
Revenue/Share	67.58	62.97	70.73	79.02	83.20	90.41	99.38	100.20	102.40	110.42
FCF/Share	2.61	4.40	3.74	3.31	5.14	5.99	4.42	6.88	5.24	4.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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