



# Genuine Parts Co. (GPC)

Updated February 21<sup>st</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$109	<b>5 Year CAGR Estimate:</b>	7.1%	<b>Volatility Percentile:</b>	31.2%
<b>Fair Value Price:</b>	\$100	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	75.9%
<b>% Fair Value:</b>	109%	<b>5 Year Valuation Multiple Estimate:</b>	-1.7%	<b>Growth Percentile:</b>	52.0%
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$134	<b>Valuation Percentile:</b>	35.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	34.5%

## 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 of \$16 billion, with more than \$19 billion in annual revenue.

Genuine Parts reported Q4 earnings on 2/19/19 and results showed strong top and bottom line growth. Total revenue was up more than 9% in Q4 thanks to a robust 4.6% gain in comparable sales, +6% from the impact of acquisitions, and a partially offsetting 1.2% decline from currency translation. The company's relatively recent AAG acquisition is doing its part to fuel top line growth, but Genuine Parts' legacy business performed extremely well in Q4 in its own right.

The Automotive business saw sales rise more than 11% in Q4 thanks in part to AAG. Industrial sales rose almost 9% while the smallest segment, Business Products, was the weakest of the bunch at +1.6%. Gross margins also improved 300bps in Q4 to 33.5% and operating margins rose 30bps to 7.7% of revenue. Genuine Parts' goal with any of its acquisitions is to integrate them and then remove redundant costs, and it is doing so on a sizable scale with its integration of AAG. We see long-term tailwinds to revenue and margins as a result.

In total, adjusted earnings-per-share rose 13% in Q4 and 21% for the full year, reflecting growth from acquisitions as well as higher operating margins. The result was a record year for revenue and earnings, and we believe new records will be set for both in 2019.

We're out with an initial estimate of \$5.88 in earnings-per-share for 2019, which is the midpoint of the guidance range provided by management in the Q4 report. Sales are guided to be up 3% to 4% in 2019.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.50	\$3.00	\$3.58	\$4.14	\$4.19	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	<b>\$5.88</b>	<b>\$7.87</b>
<b>DPS</b>	\$1.60	\$1.64	\$1.76	\$1.98	\$2.11	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	<b>\$3.05</b>	<b>\$4.10</b>
<b>Shares</b>	159	158	156	155	154	153	150	148	147	147	<b>146</b>	<b>140</b>

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% annualized earnings-per-share growth for the next five years in a continuation of this trend. The company's nearly constant acquisitions should help keep the top line moving, although acquisitions the size of AAG aren't as likely to reoccur in the future.

Although Genuine Parts was recently outbid for Essendant by Staples, it has acquired several smaller businesses for its Industrial, Motion and Automotive segments since mid-September of 2018. Gross margins were weak for much of 2018 but soared in Q4. Given that it has essentially fully integrated AAG, we expect this will continue. 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, in concert with a small amount of share repurchases.

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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.8	14.4	15.1	15.2	18.6	19.3	19.5	20.8	19.2	17.0	<b>18.6</b>	<b>17.0</b>
Avg. Yld.	4.6%	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	<b>2.8%</b>	<b>3.1%</b>

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. After a recent rally in the stock, it is back near its highs, trading for 18.6 times this year's earnings estimate of \$5.88. With the price-to-earnings ratio in excess of our long-term fair value estimate at 17, we see a modest 1.7% annual headwind to total returns from a valuation that could drift lower over time. Investors are bidding up the stock based upon future levels of growth we don't necessarily find achievable, and see the stock as slightly overvalued.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	63%	54%	49%	46%	50%	49%	52%	56%	57%	51%	<b>52%</b>	<b>52%</b>

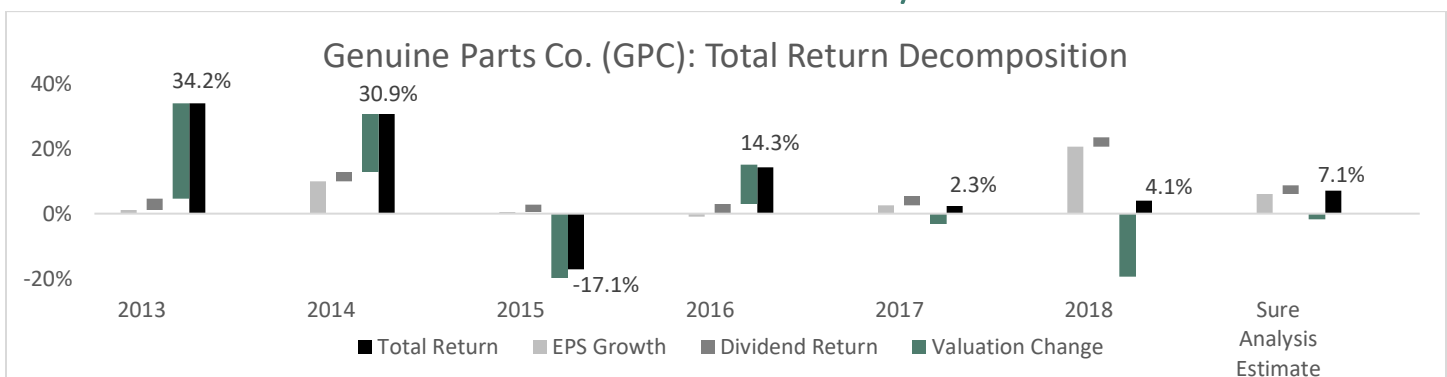
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, and we do not expect that to change anytime soon. We see the dividend rising at the same rate as earnings, keeping the payout ratio around half of earnings in the years to come.

Genuine Parts' 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 slightly overvalued based upon both its current valuation and dividend yield. Both of these metrics are in excess of historical norms, and we are expecting total annual returns of 7.1% for the next five years. Returns will accrue from the current 2.8% yield, 6% earnings growth and a 1.7% headwind from the valuation. It is a good investment for anyone looking for moderate growth, a strong and growing yield, as well as a defensive retail play. However, given the recent rally in the stock and the lower projected returns as a result, we are taking Genuine Parts from a buy to a hold. We still like the company's long-term fundamentals and in particular, its Dividend King status. However, the stock is pricing in more growth than we think the company can deliver, and advise investors to wait for a better price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	10058	11208	12459	13014	14078	15342	15280	15340	16309	18735
<b>Gross Profit</b>	3010	3253	3606	3778	4220	4594	4556	4600	4906	5984
<b>Gross Margin</b>	29.9%	29.0%	28.9%	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%	31.9%
<b>SG&amp;A Exp.</b>	2220	2367	2594	2657	3028	3314	3277	3371	3705	4615
<b>D&amp;A Exp.</b>	90	89	89	98	134	148	142	147	168	242
<b>Operating Profit</b>	671	786	909	1015	1049	1124	1124	1070	1020	1110
<b>Op. Margin</b>	6.7%	7.0%	7.3%	7.8%	7.5%	7.3%	7.4%	7.0%	6.3%	5.9%
<b>Net Profit</b>	400	476	565	648	685	711	706	687	617	810
<b>Net Margin</b>	4.0%	4.2%	4.5%	5.0%	4.9%	4.6%	4.6%	4.5%	3.8%	4.3%
<b>Free Cash Flow</b>	703	593	521	804	933	682	1050	785	658	913
<b>Income Tax</b>	245	286	326	371	359	406	418	387	393	265

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	5005	5465	6203	6807	7680	8246	8145	8859	12412	12683
<b>Cash &amp; Equivalents</b>	337	530	525	403	197	138	212	243	315	334
<b>Accounts Receivable</b>	1187	1364	1461	1490	1665	1872	1822	1939	2422	2494
<b>Inventories</b>	2214	2225	2440	2603	2946	3044	3000	3210	3771	3609
<b>Goodwill &amp; Int. Ass.</b>	172	210	280	498	1289	1387	1362	1575	3554	3540
<b>Total Liabilities</b>	2375	2662	3449	3799	4322	4934	4986	5652	8948	9211
<b>Accounts Payable</b>	1094	1375	1441	1682	2270	2555	2822	3081	3635	3996
<b>Long-Term Debt</b>	500	500	500	500	765	765	625	875	3245	3143
<b>Shareholder's Equity</b>	2621	2794	2744	2998	3349	3301	3147	3194	3412	3450
<b>D/E Ratio</b>	0.19	0.18	0.18	0.17	0.23	0.23	0.20	0.27	0.95	0.91

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	8.2%	9.1%	9.7%	10.0%	9.5%	8.9%	8.6%	8.1%	5.8%	6.5%
<b>Return on Equity</b>	16.2%	17.6%	20.4%	22.6%	21.6%	21.4%	21.9%	21.7%	18.7%	23.6%
<b>ROIC</b>	13.3%	14.8%	17.2%	19.2%	18.0%	17.3%	18.0%	17.5%	11.4%	12.2%
<b>Shares Out.</b>	159	158	156	155	154	153	150	148	147	147
<b>Revenue/Share</b>	62.97	70.73	79.02	83.20	90.41	99.38	100.20	102.40	110.42	127.24
<b>FCF/Share</b>	4.40	3.74	3.31	5.14	5.99	4.42	6.88	5.24	4.46	6.20

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

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