



# Genuine Parts Co. (GPC)

Updated July 20<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$95	<b>5 Year CAGR Estimate:</b>	9.6%	<b>Volatility Percentile:</b>	40.5%
<b>Fair Value Price:</b>	\$97	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	41.8%
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Growth Percentile:</b>	52.6%
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$130	<b>Valuation Percentile:</b>	59.3%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	57.8%

## 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 \$14 billion, with nearly \$20 billion in annual revenue.

Genuine Parts reported Q2 earnings on 7/18/19 and results were somewhat weaker than expected, causing a cut in guidance for the rest of the year.

Revenue was \$4.9 billion in Q2, which is a record, and represents a 2.3% increase to the year-ago period. This included a 1.6% comparable sales gain and 2.7% from acquisitions. However, these gains were partially offset by 1.5% in forex translation losses as well as a 0.5% decline from the disposition of the Grupo Auto Todo business in Q1.

Gross margin was up nicely in Q2, adding 80bps to 32.4% of revenue. However, higher expenses led to operating margins declining 30bps to 7.8% of revenue as Genuine Parts continues to struggle with profitability growth.

Net income came to \$224.4 million and diluted earnings-per-share were \$1.53. Adjusting for acquisitions and divestitures, earnings-per-share were \$1.57.

Genuine Parts updated its guidance for ~5% sales growth this year and adjusted earnings-per-share of \$5.65 to \$5.75. As a result, we've cut our estimate to \$5.70 from \$5.88.

## 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>\$5.70</b>	<b>\$7.63</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. Given that it has essentially fully integrated AAG, we expect margins to continue to move in the right direction, adding some fuel to the company's earnings growth potential. 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. We are concerned by the company's inability to grow margins while revenue is moving in the right direction, but thus far, it has been able to overcome this with share repurchases and revenue growth.

*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.*



# Genuine Parts Co. (GPC)

Updated July 20<sup>th</sup>, 2019 by Josh Arnold

## 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	16.7	17.0
Avg. Yld.	4.6%	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	3.2%	3.2%

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. The stock, however, has come well off of its highs recently, trading for 16.7 times this year's earnings estimate of \$5.70. With the price-to-earnings ratio just under our long-term fair value estimate at 17, we see a modest 0.4% annual tailwind to total returns from a valuation that could drift higher over time.

Genuine Parts is famous for its dividend (50+ consecutive years of rising dividends). The current yield of 3.2% is slightly high compared to 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%	54%	54%

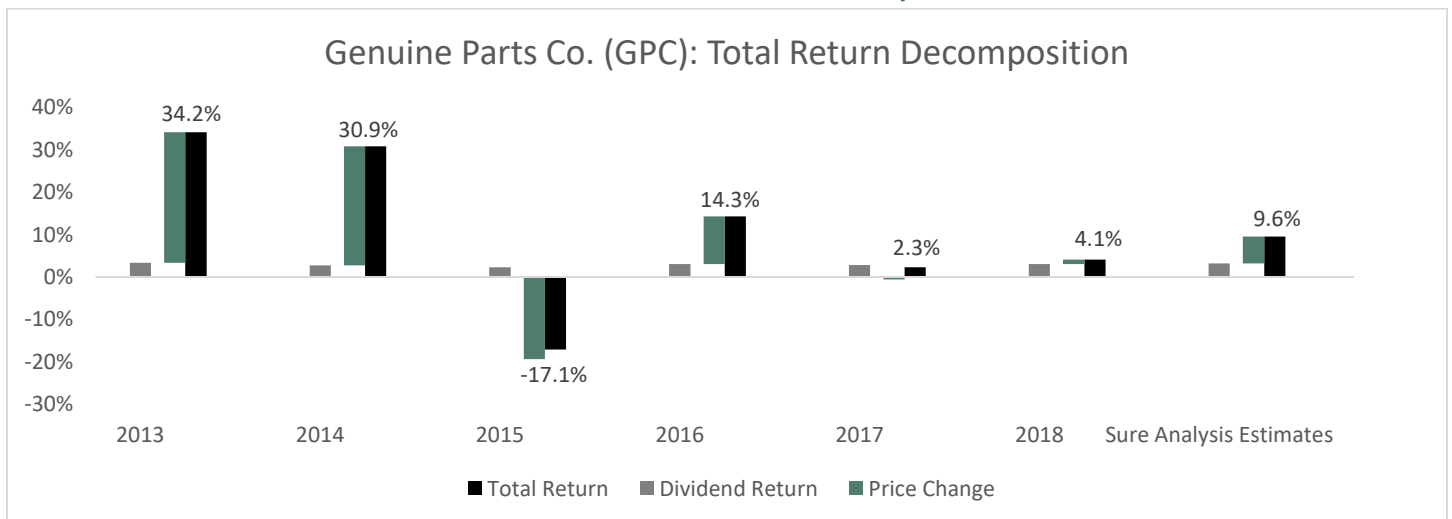
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, and we do not expect that to change anytime soon. We see the dividend rising at the same rate as earnings, keeping the payout ratio around half of earnings in the years to come, consistent with the past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

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 fairly valued based upon both its current valuation and dividend yield. Given this, we are expecting total annual returns of 9.6% for the next five years. Returns can accrue from the current 3.2% yield, 6% earnings growth and a 0.4% tailwind from the valuation. In our view, it is a good investment for anyone looking for moderate growth, a strong and growing yield, as well as a defensive retail play. However, recent weak guidance has us more cautious than we were before, and we're moving Genuine Parts back to hold.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Genuine Parts Co. (GPC)

Updated July 20<sup>th</sup>, 2019 by Josh Arnold

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.