



Genuine Parts Co. (GPC)

Updated February 26th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$92	5 Year CAGR Estimate:	6.7%	Market Cap:	\$13.4B
Fair Value Price:	\$94	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/05/20
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	04/01/20
Dividend Yield:	3.4%	5 Year Price Target	\$109	Years Of Dividend Growth:	63
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	3.6%

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 of \$13.4 billion, with nearly \$20 billion in annual revenue.

Genuine Parts reported Q4 and full-year earnings on February 19th and results were better than expected on the top and bottom lines. Sales for 2019 came to \$19.4 billion, up 3.5% from 2018's level of \$18.7 billion. The full-year period represented the third consecutive year of record sales for the company as Genuine Parts continues to try and optimize its broad portfolio with acquisitions and divestitures.

Net income was \$833 million on an adjusted basis. Adjusted earnings-per-share came to \$5.69, essentially flat with 2018's level of \$5.68.

The company guided for full-year 2020 sales of flat to up 1%, or up 3% to 4% on an adjusted basis, which excludes the impact of certain divestitures. Earnings-per-share guidance is for \$5.80 to \$5.90, and we've set our initial estimate at the midpoint of \$5.85.

Genuine Parts also announced the divestiture of its wholly-owned subsidiary of S.P. Richards Canada to Novexco, Inc., the proceeds of which it plans to use within its overall capital allocation strategy, including dividends and buybacks. This is the latest move in the company's effort to optimize its diverse portfolio.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.00	\$3.58	\$4.14	\$4.19	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.85	\$6.78
DPS	\$1.64	\$1.76	\$1.98	\$2.11	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$4.23
Shares¹	158	156	155	154	153	150	148	147	147	146	145	141

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 3% 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, but we note that margins have been less than stellar of late, which we believe will keep a lid on future growth.

Genuine Parts' pipeline of new acquisitions should keep the trend of higher revenue in place for the foreseeable future, 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.

¹ Share count in millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.4	15.1	15.2	18.6	19.3	19.5	20.8	19.2	17.0	17.8	15.7	16.0
Avg. Yld.	3.8%	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.4%	3.9%

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 off of its highs recently, trading for 15.7 times this year's earnings estimate of \$5.85. With the price-to-earnings ratio in excess of our long-term fair value estimate at 16, we see a very small annual tailwind to total returns from a valuation that could drift lower over time.

Genuine Parts is famous for its dividend, as its 60+ consecutive years of increases makes it a Dividend King. The current yield of 3.4% is slightly elevated compared to historical norms, and we expect the yield to remain in excess of 3% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	54%	49%	46%	50%	49%	52%	56%	57%	51%	54%	54%	62%

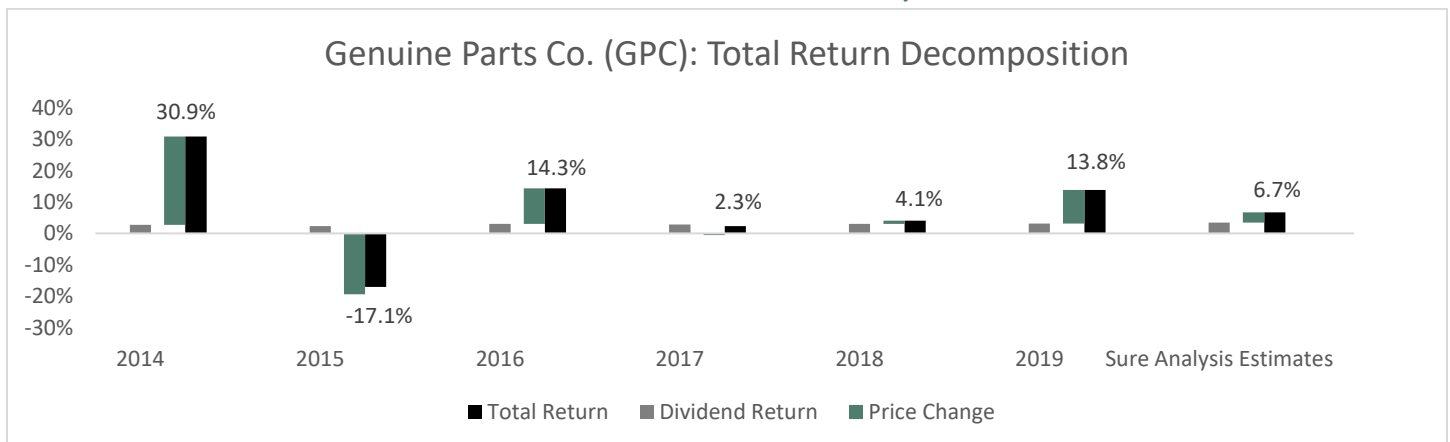
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, and we do not expect that to change anytime soon. We see the dividend rising slightly more quickly than earnings, keeping the payout ratio at less than two-thirds of earnings in the years to come, consistent 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 slightly overvalued based upon both its current valuation and dividend yield. Given this, we are expecting total annual returns of 6.6% for the next five years. Returns could accrue from the current 3.4% yield, 3% earnings growth and essentially no impact 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, we note that the company's growth outlook is relatively weak at this point given where it is in its portfolio transformation, and we continue to rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	11208	12459	13014	14078	15342	15280	15340	16309	18735	19392
Gross Profit	3253	3606	3778	4220	4594	4556	4600	4906	5984	6316
Gross Margin	29.0%	28.9%	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%	31.9%	
SG&A Exp.	2367	2594	2657	3028	3314	3277	3371	3705	4615	4934
D&A Exp.	89	89	98	134	148	142	147	168	242	270
Operating Profit	786	909	1015	1049	1124	1124	1070	1020	1110	1097
Op. Margin	7.0%	7.3%	7.8%	7.5%	7.3%	7.4%	7.0%	6.3%	5.9%	
Net Profit	476	565	648	685	711	706	687	617	810	621
Net Margin	4.2%	4.5%	5.0%	4.9%	4.6%	4.6%	4.5%	3.8%	4.3%	
Free Cash Flow	593	521	804	933	682	1050	785	658	913	594
Income Tax	286	326	371	359	406	418	387	393	265	209

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5465	6203	6807	7680	8246	8145	8859	12412	12683	14645
Cash & Equivalents	530	525	403	197	138	212	243	315	334	277
Accounts Receivable	1364	1461	1490	1665	1872	1822	1939	2422	2494	2635
Inventories	2225	2440	2603	2946	3044	3000	3210	3771	3609	3831
Goodwill & Int. Ass.	210	280	498	1289	1387	1362	1575	3554	3540	3862
Total Liabilities	2662	3449	3799	4322	4934	4986	5652	8948	9211	10950
Accounts Payable	1375	1441	1682	2270	2555	2822	3081	3635	3996	4106
Long-Term Debt	500	500	500	765	765	625	875	3245	3143	3426
Shareholder's Equity	2794	2744	2998	3349	3301	3147	3194	3412	3450	3675
D/E Ratio	0.18	0.18	0.17	0.23	0.23	0.20	0.27	0.95	0.91	0.93

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.1%	9.7%	10.0%	9.5%	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%
Return on Equity	17.6%	20.4%	22.6%	21.6%	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%
ROIC	14.8%	17.2%	19.2%	18.0%	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%
Shares Out.	158	156	155	154	153	150	148	147	147	146
Revenue/Share	70.73	79.02	83.20	90.41	99.38	100.20	102.40	110.42	127.24	132.45
FCF/Share	3.74	3.31	5.14	5.99	4.42	6.88	5.24	4.46	6.20	4.06

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

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