



Genuine Parts Co. (GPC)

Updated October 30th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	5.4%	Market Cap:	\$19 B
Fair Value Price:	\$114	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/03/21 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	12/31/21
Dividend Yield:	2.5%	5 Year Price Target	\$152	Years Of Dividend Growth:	65
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	3.2%

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 3,000 locations. It has about 50,000 employees and trades with a market capitalization of \$18 billion, with about \$19 billion in annual revenue.

Genuine Parts reported third quarter earnings on October 21st, 2021, and results were better than expected for both revenue and adjusted earnings. Total sales were up 10.3% for the quarter, which was due to a 7.6% increase in comparable sales, a 1.8% gain from acquisitions, and a 0.9% net favorable impact of foreign exchange. Automotive group net sales were +8.2% to \$3.2 billion, and Industrial net sales soared 14.5% to \$1.6 billion.

Gross margin was up 50bps to 35.5% of revenue, which was due to supplier incentives and rebates on increased purchase volumes, category management initiatives, pricing initiatives, and sourcing efficiencies. That led to segment margin expanding to 9.3% of revenue, up 30bps and the best operating margin the company has produced at any point in the past 20 years.

Genuine Parts raised its revenue outlook for the year to a gain of 12% to 13%, up from 10% to 12%. Adjusted earnings-per-share estimates are now for \$6.70 for this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.58	\$4.14	\$4.19	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.27	\$6.70	\$8.97
DPS	\$1.76	\$1.98	\$2.11	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$3.26	\$3.97
Shares²	156	155	154	153	150	148	147	147	146	144	143	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% annualized earnings-per-share growth for the next five years in a continuation of this trend, in addition to positive organic sales in the Automotive segment. 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. In addition, the company's Industrial segment continues to struggle with COVID-related issues, but those seem to be abating somewhat, and results were outstanding in Q3. We note improving sales and margins are helping earnings to rebound in 2021.

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

¹ Estimated date

² Share count in millions

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the right direction, but thus far, it has been able to overcome this with share repurchases and revenue growth. Gross margins continue to gradually improve in 2021 and operating margins nearly set a record in Q3.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.1	15.2	18.6	19.3	19.5	20.8	19.2	17.0	17.8	17.1	19.6	17.0
Avg. Yld.	3.3%	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.5%	2.5%	2.6%

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 now trades for 19.6 times our earnings estimate for this year. With the price-to-earnings ratio still above our long-term fair value estimate at 17, we see an annual headwind to total returns from the valuation.

Genuine Parts is famous for its dividend, as its 60+ consecutive years of increases makes it a Dividend King. The current yield of 2.5% is low by historical norms, and we expect the yield to remain under 3% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49%	46%	50%	49%	52%	56%	57%	51%	54%	60%	49%	44%

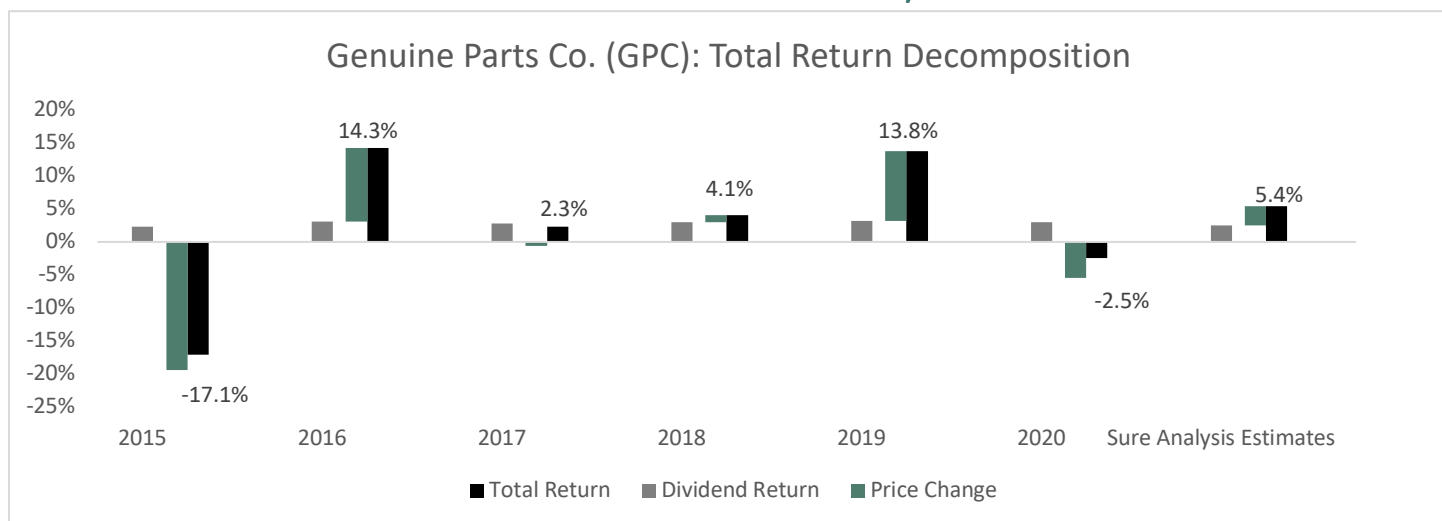
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, and we do not expect that to change anytime soon. We see the dividend rising slightly slower than earnings, keeping the payout ratio at around half of earnings in the years to come, consistent with the past 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 overvalued based upon both its current valuation and dividend yield. Given this, we are expecting total annual returns of 5.4% for the next five years. Returns could accrue from the current 2.5% yield and 6% earnings growth offset by a headwind from the valuation. Given this total return outlook, shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12459	13014	14078	15342	15280	15340	16309	18735	19392	16,537
Gross Profit	3606	3778	4220	4594	4556	4600	4906	5984	6316	5,655
Gross Margin	28.9%	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%	31.9%	32.6%	34.2%
SG&A Exp.	2594	2657	3028	3314	3277	3371	3705	4615	4934	4,387
D&A Exp.	89	98	134	148	142	147	168	242	270	273
Operating Profit	909	1015	1049	1124	1124	1070	1020	1110	1097	972
Op. Margin	7.3%	7.8%	7.5%	7.3%	7.4%	7.0%	6.3%	5.9%	5.7%	5.9%
Net Profit	565	648	685	711	706	687	617	810	621	(29)
Net Margin	4.5%	5.0%	4.9%	4.6%	4.6%	4.5%	3.8%	4.3%	3.2%	-0.2%
Free Cash Flow	521	804	933	682	1050	785	658	913	594	1,866
Income Tax	326	371	359	406	418	387	393	265	209	216

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6203	6807	7680	8246	8145	8859	12412	12683	14645	13,440
Cash & Equivalents	525	403	197	138	212	243	315	334	277	990
Accounts Receivable	1461	1490	1665	1872	1822	1939	2422	2494	2635	1,557
Inventories	2440	2603	2946	3044	3000	3210	3771	3609	3831	3,506
Goodwill & Int. Ass.	280	498	1289	1387	1362	1575	3554	3540	3862	3,416
Total Liabilities	3449	3799	4322	4934	4986	5652	8948	9211	10950	10,222
Accounts Payable	1441	1682	2270	2555	2822	3081	3635	3996	4106	4,128
Long-Term Debt	500	500	765	765	625	875	3245	3143	3426	2,677
Shareholder's Equity	2744	2998	3349	3301	3147	3194	3412	3450	3675	3,205
D/E Ratio	0.18	0.17	0.23	0.23	0.20	0.27	0.95	0.91	0.93	0.84

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.7%	10.0%	9.5%	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%	-0.2%
Return on Equity	20.4%	22.6%	21.6%	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%	-0.8%
ROIC	17.2%	19.2%	18.0%	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%	-0.4%
Shares Out.	156	155	154	153	150	148	147	147	146	144
Revenue/Share	79.02	83.20	90.41	99.38	100.20	102.40	110.42	127.24	132.45	113.96
FCF/Share	3.31	5.14	5.99	4.42	6.88	5.24	4.46	6.20	4.06	12.86

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

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