



# Genuine Parts Co. (GPC)

Updated August 6<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

|                             |       |  |       |                                  |          |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$151 | <b>5 Year CAGR Estimate:</b>               | 7.0%  | <b>Market Cap:</b>               | \$21 B   |
| <b>Fair Value Price:</b>    | \$135 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 09/02/22 |
| <b>% Fair Value:</b>        | 112%  | <b>5 Year Valuation Multiple Estimate:</b> | -2.2% | <b>Dividend Payment Date:</b>    | 10/01/22 |
| <b>Dividend Yield:</b>      | 2.4%  | <b>5 Year Price Target</b>                 | \$190 | <b>Years Of Dividend Growth:</b> | 66       |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Hold     |

## 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 52,000 employees and trades with a market capitalization of \$21 billion, with about \$21.5 billion in annual revenue. Genuine Parts is also a Dividend King, having raised its dividend for an incredible 66 consecutive years.

Genuine Parts reported second quarter earnings on July 27<sup>th</sup>, 2022, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.20, which was 17 cents better than expected, while revenue soared 17% to \$5.6 billion. That was \$300 million better than estimates.

Sales growth reflected an 11.5% increase in comparable sales and an 8.8 benefit from acquisitions. These were partially offset by a 3.2% net unfavorable impact of forex translation.

Management offered guidance of ~13% sales growth for the year, up from ~11% prior guidance. Adjusted earnings-per-share was raised as well, and we boosted our estimate by a dime, accordingly.

Free cash flow was reaffirmed at ~\$1.3 billion for the full year.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|----------------|
| <b>EPS</b>                | \$4.14 | \$4.19 | \$4.61 | \$4.63 | \$4.59 | \$4.71 | \$5.68 | \$5.69 | \$5.27 | \$6.91 | <b>\$7.95</b> | <b>\$11.15</b> |
| <b>DPS</b>                | \$1.98 | \$2.11 | \$2.30 | \$2.46 | \$2.63 | \$2.70 | \$2.88 | \$3.05 | \$3.16 | \$3.28 | <b>\$3.58</b> | <b>\$5.02</b>  |
| <b>Shares<sup>1</sup></b> | 155    | 154    | 153    | 150    | 148    | 147    | 147    | 146    | 144    | 142    | <b>138</b>    | <b>124</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 7% 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, and we note margins have improved of late. 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 2021. We note improving sales and margins are set to power earnings higher for 2022, and recent guidance was very bullish.

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. Gross margins continued to gradually improve in 2021 and operating margins were strong as a result. We note very strong Q2 results and guidance have us more bullish on the company's earnings.

<sup>1</sup> Share count in millions

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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 15.2 | 18.6 | 19.3 | 19.5 | 20.8 | 19.2 | 17.0 | 17.8 | 17.1 | 17.7 | 19.0 | 17.0 |
| Avg. Yld. | 3.2% | 2.7% | 2.6% | 2.7% | 2.8% | 3.0% | 3.0% | 3.0% | 3.5% | 2.7% | 2.4% | 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 times our earnings estimate for this year as the stock has come down while earnings estimates have risen. With the price-to-earnings ratio now ahead of 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 65+ consecutive years of increases makes it a Dividend King. The current yield of 2.4% is low by historical norms, and we expect the yield to remain near or under 3% for the foreseeable future.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 46%  | 50%  | 49%  | 52%  | 56%  | 57%  | 51%  | 54%  | 60%  | 47%  | 45%  | 45%  |

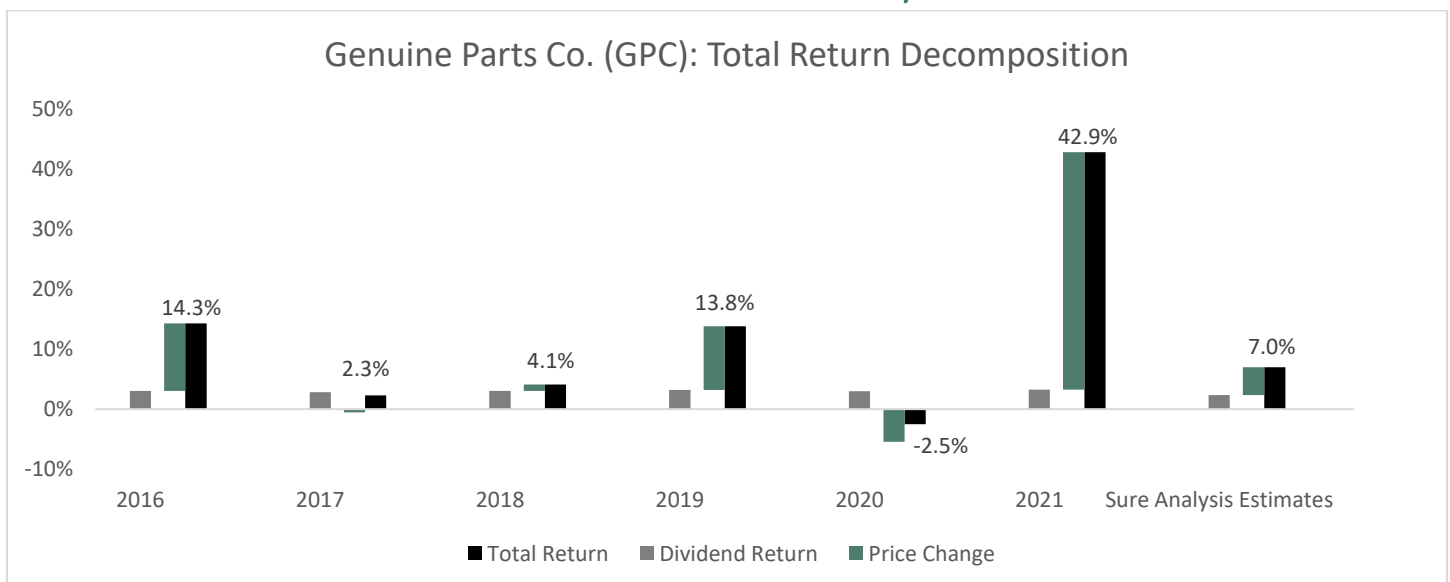
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, but is below that today. We see the dividend rising at roughly the pace of earnings growth, keeping the payout ratio at around half of earnings in the years to come, consistent with the past decade.

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 slightly overvalued based upon both its current valuation and dividend yield. Given this, we are expecting total annual returns of 7% for the next five years. Returns could accrue from the current 2.4% yield and 7% earnings growth, as well as a headwind from the valuation. Given this total return outlook, we're reiterating the stock at a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 13,014 | 14,078 | 15,342 | 15,280 | 15,340 | 16,309 | 16,832 | 17,522 | 16,537 | 18,871 |
| <b>Gross Profit</b>     | 3,778  | 4,220  | 4,594  | 4,556  | 4,600  | 4,906  | 5,520  | 5,860  | 5,655  | 6,634  |
| <b>Gross Margin</b>     | 29.0%  | 30.0%  | 29.9%  | 29.8%  | 30.0%  | 30.1%  | 32.8%  | 33.4%  | 34.2%  | 35.2%  |
| <b>SG&amp;A Exp.</b>    | 2,657  | 3,028  | 3,314  | 3,277  | 3,392  | 3,726  | 4,241  | 4,578  | 4,387  | 5,163  |
| <b>D&amp;A Exp.</b>     | 98     | 134    | 148    | 142    | 147    | 168    | 228    | 257    | 273    | 291    |
| <b>Operating Profit</b> | 1,015  | 1,049  | 1,124  | 1,124  | 1,049  | 999    | 1,035  | 1,011  | 972    | 1,163  |
| <b>Op. Margin</b>       | 7.8%   | 7.5%   | 7.3%   | 7.4%   | 6.8%   | 6.1%   | 6.1%   | 5.8%   | 5.9%   | 6.2%   |
| <b>Net Profit</b>       | 648    | 685    | 711    | 706    | 687    | 617    | 810    | 621    | (29)   | 899    |
| <b>Net Margin</b>       | 5.0%   | 4.9%   | 4.6%   | 4.6%   | 4.5%   | 3.8%   | 4.8%   | 3.5%   | -0.2%  | 4.8%   |
| <b>Free Cash Flow</b>   | 804    | 933    | 682    | 1,050  | 785    | 658    | 919    | 614    | 1,866  | 992    |
| <b>Income Tax</b>       | 371    | 359    | 406    | 418    | 387    | 393    | 245    | 213    | 216    | 302    |

## Balance Sheet Metrics

| Year                            | 2012  | 2013  | 2014  | 2015  | 2016  | 2017   | 2018   | 2019   | 2020   | 2021   |
|---------------------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>             | 6,807 | 7,680 | 8,246 | 8,145 | 8,859 | 12,412 | 12,683 | 14,646 | 13,440 | 14,352 |
| <b>Cash &amp; Equivalents</b>   | 403   | 197   | 138   | 212   | 243   | 315    | 334    | 277    | 990    | 715    |
| <b>Accounts Receivable</b>      | 1,490 | 1,665 | 1,872 | 1,822 | 1,939 | 2,422  | 2,494  | 2,440  | 1,557  | 1,798  |
| <b>Inventories</b>              | 2,603 | 2,946 | 3,044 | 3,000 | 3,210 | 3,771  | 3,609  | 3,444  | 3,506  | 3,890  |
| <b>Goodwill &amp; Int. Ass.</b> | 498   | 1,289 | 1,387 | 1,362 | 1,575 | 3,554  | 3,540  | 3,786  | 3,416  | 3,322  |
| <b>Total Liabilities</b>        | 3,799 | 4,322 | 4,934 | 4,986 | 5,652 | 8,948  | 9,211  | 10,950 | 10,222 | 10,849 |
| <b>Accounts Payable</b>         | 1,682 | 2,270 | 2,555 | 2,822 | 3,081 | 3,635  | 3,996  | 3,948  | 4,128  | 4,805  |
| <b>Long-Term Debt</b>           | 500   | 765   | 765   | 625   | 875   | 3,245  | 3,143  | 3,426  | 2,677  | 2,409  |
| <b>Shareholder's Equity</b>     | 2,998 | 3,349 | 3,301 | 3,147 | 3,194 | 3,412  | 3,450  | 3,675  | 3,205  | 3,491  |
| <b>LTD/E Ratio</b>              | 0.17  | 0.23  | 0.23  | 0.20  | 0.27  | 0.95   | 0.91   | 0.93   | 0.84   | 0.69   |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| <b>Return on Assets</b> | 10.0% | 9.5%  | 8.9%  | 8.6%   | 8.1%   | 5.8%   | 6.5%   | 4.5%   | -0.2%  | 6.5%   |
| <b>Return on Equity</b> | 22.6% | 21.6% | 21.4% | 21.9%  | 21.7%  | 18.7%  | 23.6%  | 17.4%  | -0.8%  | 26.8%  |
| <b>ROIC</b>             | 19.2% | 18.0% | 17.3% | 18.0%  | 17.5%  | 11.4%  | 12.2%  | 9.0%   | -0.4%  | 15.2%  |
| <b>Shares Out.</b>      | 155   | 154   | 153   | 150    | 148    | 147    | 147    | 146    | 144    | 142    |
| <b>Revenue/Share</b>    | 83.20 | 90.41 | 99.38 | 100.20 | 102.40 | 110.42 | 114.31 | 119.67 | 113.96 | 130.84 |
| <b>FCF/Share</b>        | 5.14  | 5.99  | 4.42  | 6.88   | 5.24   | 4.46   | 6.24   | 4.19   | 12.86  | 6.88   |

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

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