



Genuine Parts Co. (GPC)

Updated February 25th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$179	5 Year CAGR Estimate:	5.9%	Market Cap:	\$25 B
Fair Value Price:	\$161	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/02/23
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	04/03/23
Dividend Yield:	2.1%	5 Year Price Target	\$216	Years Of Dividend Growth:	67
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$25 billion, with about \$21.8 billion in annual revenue. Genuine Parts is also a Dividend King, having raised its dividend for an incredible 66 consecutive years.

Genuine Parts reported fourth quarter earnings on February 23rd, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.05, which was 17 cents better than expected. Revenue was up 15% year-over-year to \$5.5 billion, beating estimates by \$170 million.

The company noted 2023 was a record year, and that a gain of 30 basis points in operating profit to 8.6% helped the company beat analyst expectations.

Management said its guidance for this year is 4% to 6% better sales, which is ahead of the estimate of 3.4% from analysts. In addition, it expects just under \$9 in earnings-per-share, and we've initiated our forecast accordingly, at \$8.95 to start 2023.

Genuine Parts boosted its dividend by 6.1%, it's 67th consecutive year of dividend increases.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.19	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.27	\$6.91	\$8.34	\$8.95	\$11.98
DPS	\$2.11	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$3.28	\$3.58	\$3.80	\$5.33
Shares¹	154	153	150	148	147	147	146	144	142	142	142	142

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, 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 powered earnings higher for 2022, and recent guidance was very bullish for that to continue in 2023.

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. Margins were quite strong in 2022 as well.

¹ Share count in millions

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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.6	19.3	19.5	20.8	19.2	17.0	17.8	17.1	17.7	20.8	20.0	18.0
Avg. Yld.	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.5%	2.7%	2.0%	2.1%	2.5%

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 20 times our earnings estimate for this year as the stock has risen more quickly than earnings. With the price-to-earnings ratio now well ahead of our long-term fair value estimate at 18, we see an annual headwind to total returns from the valuation.

Genuine Parts is famous for its dividend, as its 67 consecutive years of increases makes it a Dividend King. The current yield of 2.1% is low by historical norms, and we expect the yield to remain near or under 2.5% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	50%	49%	52%	56%	57%	51%	54%	60%	47%	43%	43%	45%

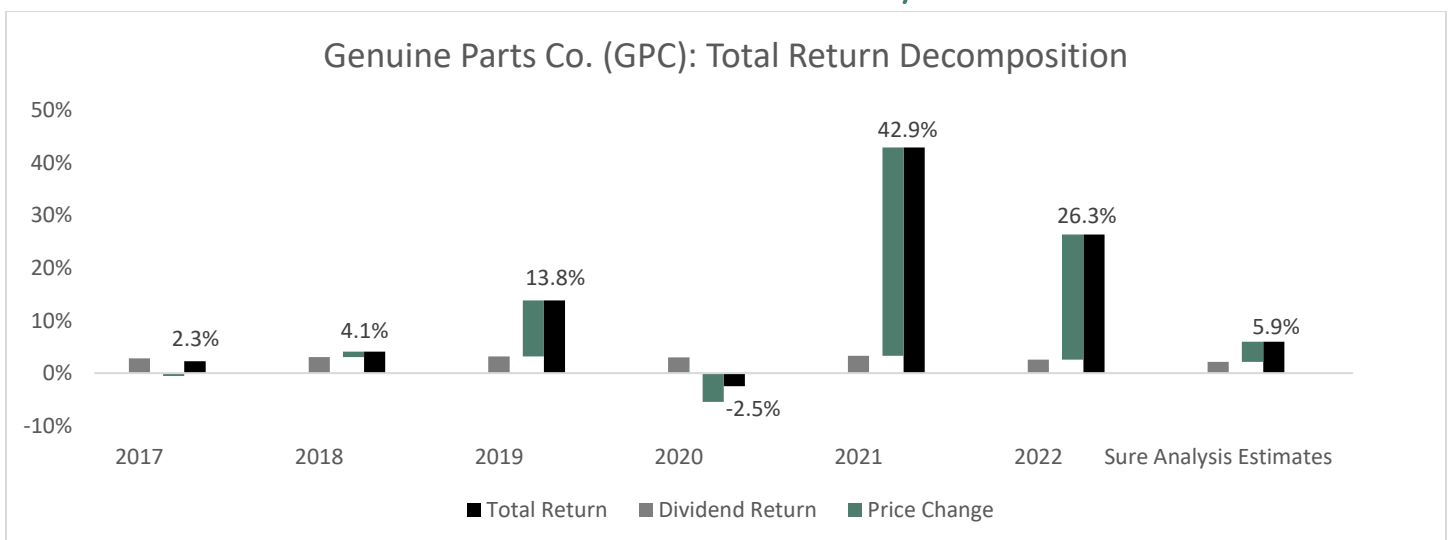
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years, but is below that today. We see the dividend rising at roughly the pace of earnings growth, keeping the payout ratio at around half of earnings in the years to come, or slightly lower, consistent with the 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 5.9% for the next five years. Returns could accrue from the current 2.1% yield and 6% earnings growth, as well as a 2.1% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14,078	15,342	15,280	15,340	16,309	16,832	17,522	16,537	18,871	22,096
Gross Profit	4,220	4,594	4,556	4,600	4,906	5,520	5,860	5,655	6,634	7,740
Gross Margin	30.0%	29.9%	29.8%	30.0%	30.1%	32.8%	33.4%	34.2%	35.2%	35.0%
SG&A Exp.	3,028	3,314	3,277	3,392	3,726	4,241	4,578	4,387	5,163	5,758
D&A Exp.	134	148	142	147	168	228	257	273	291	348
Operating Profit	1,049	1,124	1,124	1,049	999	1,035	1,011	972	1,163	1,614
Op. Margin	7.5%	7.3%	7.4%	6.8%	6.1%	6.1%	5.8%	5.9%	6.2%	7.3%
Net Profit	685	711	706	687	617	810	621	(29)	899	1,183
Net Margin	4.9%	4.6%	4.6%	4.5%	3.8%	4.8%	3.5%	-0.2%	4.8%	5.4%
Free Cash Flow	933	682	1,050	785	658	919	614	1,866	992	1,127
Income Tax	359	406	418	387	393	245	213	216	302	390

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,680	8,246	8,145	8,859	12,412	12,683	14,646	13,440	14,352	16,495
Cash & Equivalents	197	138	212	243	315	334	277	990	715	653
Accounts Receivable	1,665	1,872	1,822	1,939	2,422	2,494	2,440	1,557	1,798	2,189
Inventories	2,946	3,044	3,000	3,210	3,771	3,609	3,444	3,506	3,890	4,442
Goodwill & Int. Ass.	1,289	1,387	1,362	1,575	3,554	3,540	3,786	3,416	3,322	4,401
Total Liabilities	4,322	4,934	4,986	5,652	8,948	9,211	10,950	10,222	10,849	12,691
Accounts Payable	2,270	2,555	2,822	3,081	3,635	3,996	3,948	4,128	4,805	5,457
Long-Term Debt	765	765	625	875	3,245	3,143	3,426	2,677	2,409	3,329
Shareholder's Equity	3,349	3,301	3,147	3,194	3,412	3,450	3,675	3,205	3,491	3,790
LTD/E Ratio	0.23	0.23	0.20	0.27	0.95	0.91	0.93	0.84	0.69	0.88

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.5%	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%	-0.2%	6.5%	7.7%
Return on Equity	21.6%	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%	-0.8%	26.8%	32.5%
ROIC	18.0%	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%	-0.4%	15.2%	18.1%
Shares Out.	154	153	150	148	147	147	146	144	142	142
Revenue/Share	90.41	99.38	100.20	102.40	110.42	114.31	119.67	113.96	130.84	155.25
FCF/Share	5.99	4.42	6.88	5.24	4.46	6.24	4.19	12.86	6.88	7.92

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

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