

Advance Auto (AAP)

\$146.35 (As of 06/08/20)

Price Target (6-12 Months): **\$154.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Advance Auto continues to expand and optimize footprint by opening stores, widening online presence and collaborating. It is laser-focused on improving retail traffic to accelerate growth. The firm's low leverage compared to the industry and high cash balance underscores financial strength. The firm also continues to make progress on its DIY omnichannel e-commerce platform. However, increasing costs will likely dent margins if it is not able to pass the price increases to customers. Funding of its plans — including acquisition, store openings and investments to develop supply chain — are leading to increased expenses. Further, the coronavirus pandemic will lead to decline in the near-term sales and earnings of the firm. Hence, investors are recommended to wait for a better entry point.

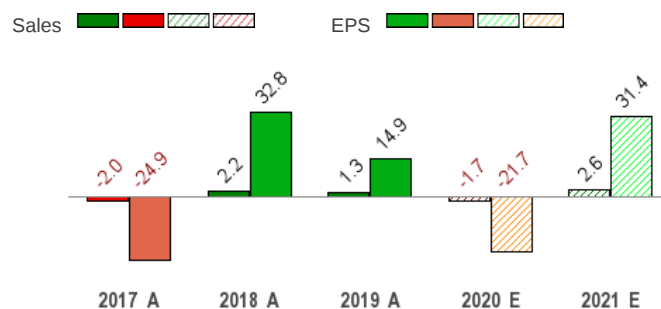
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.43 - \$71.33
20 Day Average Volume (sh)	1,107,078
Market Cap	\$10.1 B
YTD Price Change	-8.6%
Beta	1.30
Dividend / Div Yld	\$1.00 / 0.7%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Top 35% (88 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-43.5%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	08/11/2020
Earnings ESP	0.0%
P/E TTM	22.0
P/E F1	22.8
PEG F1	2.0
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,939 E	2,308 E	2,330 E	2,147 E	9,792 E
2020	2,698 A	2,284 E	2,293 E	2,243 E	9,540 E
2019	2,952 A	2,332 A	2,312 A	2,113 A	9,709 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.41 E	\$2.03 E	\$2.12 E	\$1.68 E	\$8.42 E
2020	\$0.91 A	\$1.73 E	\$1.94 E	\$1.68 E	\$6.41 E
2019	\$2.46 A	\$2.00 A	\$2.10 A	\$1.64 A	\$8.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/08/2020. The reports text is as of 06/09/2020.

Overview

Advance Auto Parts, Inc. operates in the U.S. automotive aftermarket industry and is primarily engaged in selling replacement parts (excluding tires), accessories, batteries and maintenance items for domestic and imported cars, vans, sport utility vehicles, light and heavy-duty trucks. It is a leading automotive parts provider in North America, serving the "do-it-yourself" or "DIY", and "do-it-for-me" or "DIFM" (or Commercial) customers.

Advance Auto Parts operates through a single reportable segment comprising stores and distribution branch operations.

The company was founded in 1929 as Advance Stores Company. In the 1980s, it started selling automotive parts and accessories to DIY customers. The Professional delivery program was initiated in 1996. The company significantly increased sales to Professional customers since 2000.

The company operates under four store names:

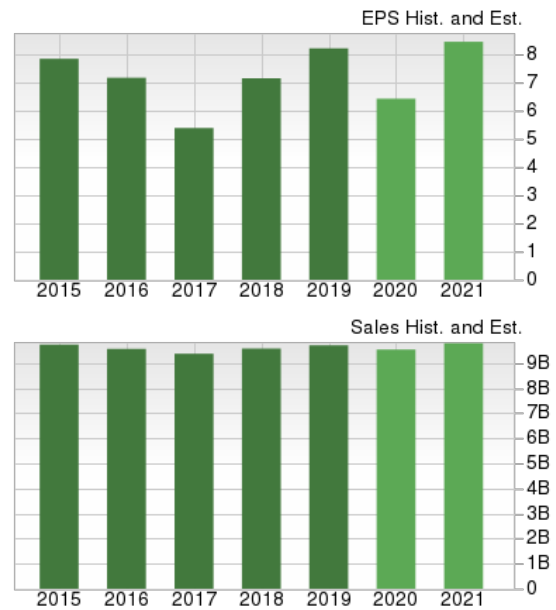
Advance Auto Parts – These stores focus on both Commercial and DIY customers. As of Dec 28, 2019, 4,313 stores, which are located in freestanding buildings, focus on Professional and DIY customers

Carquest – These stores focus on Commercial customers, but also serve DIY customers. As of Dec 28, 2019, 384 stores put primary focus on Professional customers but also served DIY customers.

Worldpac – These branches principally serve Commercial customers, utilizing an efficient and sophisticated delivery process. As of Dec 28, 2019, 160 branches principally served Professional customers.

Autopart International – These stores primarily operate in the Northeastern, Mid-Atlantic and Southeastern regions of the United States. The stores specialize in imported aftermarket and private-label branded auto parts, and focus on Commercial customers. As of Dec 28, 2019, 180 stores operate primarily in the Northeastern and Mid-Atlantic regions of the United States, with a focus on Professional customers.

As of Dec 28, 2019, the company operated a total of 5,037 stores and branches, compared to 5,109 stores and branches in 2018.



Reasons To Buy:

- ▲ Advance Auto is undertaking several initiatives to strengthen and streamline its supply chain to meet the evolving need of customers. Except for supply chain initiatives, it is also looking into store transformation and inventory positioning. Further, the company is laser-focused on improving retail traffic to accelerate growth. These initiatives are likely to help the company unlock its long-term margin expansion. The company continues to expand and optimise its footprint by opening new stores, widening online presence and strategic collaborations.
- ▲ Increasing member sign-ups for the Speed Perks 2.0 program, that provides its employees with data insights, bode well. The cross-banner replenishment initiative is likely be completed by mid-2021 and deliver significant cost savings and product availability. In addition to driving growth across professional business, the firm continues to make progress on its DIY omnichannel e-commerce platform. The acquisition of the DieHard brand from Transformco in December 2019 allows the company to sell DieHard batteries and extend the brand into other automotive and vehicular categories.
- ▲ As of Apr 18, total long-term debt was \$1.24 billion while cash and cash equivalents stood at \$1.3 billion, depicting the firm's financial strength and low default risk. Its total debt-to-capital ratio stands at 0.51, lower than its industry's 0.81. Low leverage of the firm increases its financial flexibility to tap onto growth opportunities. Moreover, the company's times interest earned ratio of 14.6 is also favorable to the industry ratio of 13.2.

Advance Auto Parts remains focused on expanding its footprint and strengthening its supply chain to access customers. Also, it expects to acquire customers through its online store.

Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive parts seller. Advance Auto withdrew the 2020 guidance and suspended its share buyback program in response to disruptions to the company's supply chain due to the pandemic-led crisis. Weak consumer sentiment amid the pandemic is likely to hurt its sales and earnings in the near future.
- ▼ Price competition remains a concern for Advance Auto Parts, as it competes with national and regional automotive retailers such as AutoZone, O'Reilly Automotive, Pep Boys and CSK Auto Corporation. It is facing incursion from online competition, shifting driving habits and increasing part quality/complexity. The improvement in the quality of new vehicles leads to reduced need for maintenance and repair of parts. This, in turn, impedes demand in the automotive maintenance market.
- ▼ Increasing costs will dent margins if the company is not able to pass the price increases to customers. Moreover, the company has huge capital expenditure. Funding of its plans — including acquisition, store openings and investments to develop supply chain — are leading to increased expenses.

Weak consumer sentiment and depressed demand of vehicles amid the COVID-19 pandemic is likely to hurt Advance Auto Parts' near-term sales and earnings.

Last Earnings Report

Advance Auto Parts' Q1 Earnings & Sales Drop Y/Y

Advance Auto Parts reported adjusted earnings of 91 cents per share in first-quarter 2020 (ended Apr 18, 2020), significantly down 63% from the prior-year number. The earnings figure also missed the Zacks Consensus Estimate of \$1.61.

Advance Auto Parts generated net revenues of \$2,698 million, beating the Zacks Consensus Estimate of \$2,664 million. However, the revenues dropped 8.6% from the year-ago quarter reported figure. During the first quarter, comparable store sales decreased 9.3% year on year.

Adjusted operating income slumped 57.2% year over year to \$104.3 million. Adjusted selling, general and administrative (SG&A) expenses totaled \$1,094 million compared with the \$1,097 million witnessed in the year-ago quarter.

Financial Position

Advance Auto Parts had cash and cash equivalents of \$1.3 billion as of Apr 18, 2020, compared with \$418.7 million as of Dec 28, 2019. Total long-term debt was \$1.24 billion as of Apr 18, 2020, compared with \$747.32 million as of Dec 28, 2019.

Operating cash flow was \$10.9 million as of Apr 18, 2020, down from the prior-year quarter's \$204.5 million.

Dividend & Share Repurchase

On May 15, Advance Auto Parts' board approved a cash dividend of 25 cents per share to be paid on Jul 3, to all common shareholders of record as of Jun 13, 2020.

On Nov 8, 2019, the company authorized \$700 million as an addition to the existing \$400-million share-repurchase program. Under this program, the company repurchased 0.2 million shares of its common stock, at an aggregate amount of \$29 million, for an average price of \$128.36 per share. At the end of the first quarter, the company had \$861.7 million remaining under the share-repurchase program. However, during the quarter, the company suspended its existing share-repurchase program on the coronavirus scare.

Store Update

As of Apr 18, 2020, the company operated 4,843 stores and 168 Worldpac branches in the United States, Canada, Puerto Rico and the U.S. Virgin Islands. It also serves 1,258 independently-owned Carquest branded stores across these locations in addition to Mexico, the Bahamas, Turks and Caicos and British Virgin Islands.

Guidance

Advance Auto Parts scrapped the 2020 guidance as it expects the coronavirus pandemic's impact to strain its operations in the days to come.

Quarter Ending 03/2020

Report Date	May 19, 2020
Sales Surprise	1.28%
EPS Surprise	-43.48%
Quarterly EPS	0.91
Annual EPS (TTM)	6.65

Valuation

Advance Auto Parts' shares are down 8.7% in the year-to-date period and 4.6% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Auto sector are down 3% and up 7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down up 5% and 21.6%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and up 11.9% in the past year.

The stock is currently trading at 20.09X forward 12-month earnings, which compares to 21.21X for the Zacks sub-industry, 25.83X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.75X and as low as 8.34X, with a 5-year median of 18.18X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$154 price target reflects 21.15X forward 12-month earnings per share.

The table below shows summary valuation data for AAP:

Valuation Multiples - AAP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.09	21.21	25.83	23.35
	5-Year High	23.75	21.41	25.83	23.35
	5-Year Low	8.34	12.62	8.2	15.23
	5-Year Median	18.18	17.76	9.9	17.49
EV/EBITDA TTM	Current	14.35	23.13	11.1	11.97
	5-Year High	17.38	24.03	11.3	12.85
	5-Year Low	7.25	15.21	6.94	8.25
	5-Year Median	11.67	20.3	9.25	10.81
P/S F12M	Current	1.05	1.92	0.8	3.63
	5-Year High	1.46	1.96	0.8	3.63
	5-Year Low	0.52	1.15	0.49	2.53
	5-Year Median	1.13	1.7	0.61	3.02

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Autoliv, Inc. (ALV)	Neutral	3
AutoZone, Inc. (AZO)	Neutral	3
O'Reilly Automotive, Inc. (ORLY)	Neutral	3
U.S. Auto Parts Network, Inc. (PRTS)	Neutral	3
Dorman Products, Inc. (DORM)	Underperform	3
Genuine Parts Company (GPC)	Underperform	3
LKQ Corporation (LKQ)	Underperform	3
Standard Motor Products, Inc. (SMP)	Underperform	4

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AAP	X Industry	S&P 500	AZO	GPC	PRTS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	B	B
Market Cap	10.11 B	15.99 B	23.56 B	26.71 B	13.49 B	344.19 M
# of Analysts	9	8	14	10	6	1
Dividend Yield	0.68%	0.00%	1.8%	0.00%	3.38%	0.00%
Value Score	B	-	-	B	B	C
Cash/Price	0.13	0.03	0.06	0.01	0.03	0.05
EV/EBITDA	13.18	13.30	13.19	13.30	13.04	-186.34
PEG Ratio	1.95	2.04	3.18	1.95	15.75	NA
Price/Book (P/B)	2.86	13.43	3.19	NA	3.97	22.60
Price/Cash Flow (P/CF)	12.34	14.31	12.52	14.06	11.46	NA
P/E (F1)	22.57	24.26	23.31	18.33	23.63	NA
Price/Sales (P/S)	1.07	1.17	2.51	2.21	0.70	1.17
Earnings Yield	4.38%	3.89%	4.15%	5.45%	4.23%	-1.36%
Debt/Equity	0.92	1.10	0.76	-4.64	1.03	1.10
Cash Flow (\$/share)	11.86	11.86	7.01	81.35	8.16	-0.70
Growth Score	F	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-1.61%	15.02%	10.87%	14.38%	5.53%	NA
Proj. EPS Growth (F1/F0)	-21.75%	-8.68%	-10.76%	-1.63%	-30.43%	86.52%
Curr. Cash Flow Growth	7.27%	7.27%	5.48%	15.07%	10.00%	-2,386.30%
Hist. Cash Flow Growth (3-5 yrs)	-0.81%	9.09%	8.55%	8.49%	6.64%	NA
Current Ratio	1.36	1.05	1.29	0.92	1.21	1.05
Debt/Capital	47.79%	66.39%	44.75%	NA	50.77%	52.47%
Net Margin	4.10%	4.37%	10.59%	12.90%	3.11%	-9.86%
Return on Equity	13.20%	13.20%	16.26%	-89.85%	21.54%	-116.39%
Sales/Assets	0.83	1.00	0.55	1.02	1.32	2.83
Proj. Sales Growth (F1/F0)	-1.74%	-1.35%	-2.62%	0.59%	-8.17%	6.61%
Momentum Score	B	-	-	A	A	F
Daily Price Chg	0.17%	0.09%	1.55%	-0.88%	1.34%	14.94%
1 Week Price Chg	4.87%	4.87%	7.51%	0.53%	10.63%	10.47%
4 Week Price Chg	16.21%	16.21%	15.61%	8.53%	23.07%	78.79%
12 Week Price Chg	53.65%	53.65%	38.10%	34.35%	31.81%	321.43%
52 Week Price Chg	-4.67%	5.97%	3.66%	2.93%	-8.29%	697.37%
20 Day Average Volume	1,107,078	827,427	2,648,536	263,412	874,120	1,083,790
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	0.00%	0.55%	0.00%
(F1) EPS Est 4 week change	-0.06%	-0.06%	0.00%	2.31%	-0.84%	-20.00%
(F1) EPS Est 12 week change	-29.18%	-22.53%	-15.97%	-6.12%	-32.47%	NA
(Q1) EPS Est Mthly Chg	24.08%	7.58%	0.00%	7.58%	2.70%	50.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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