

Advance Auto (AAP)

\$134.32 (As of 02/12/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Advance Auto Parts is undertaking several initiatives to strengthen and streamline the supply chain to meet the evolving need of customers. It continues to expand and optimize footprint by opening stores, widening online presence and collaborating. Further, the company is focused on improving retail traffic to accelerate growth. However, Increasing costs will likely dent margins if the company is not able to pass the price increases to customers. Comparable store sales continue to decline as the company loses market share, price pressures emerge and unfavorable weather in key markets. Moreover, the fact that consumers are opting for new vehicle purchases instead of maintaining old ones can adversely affect the demand for Advance Auto Parts' products. Hence, investors are recommended to wait for a better entry point.

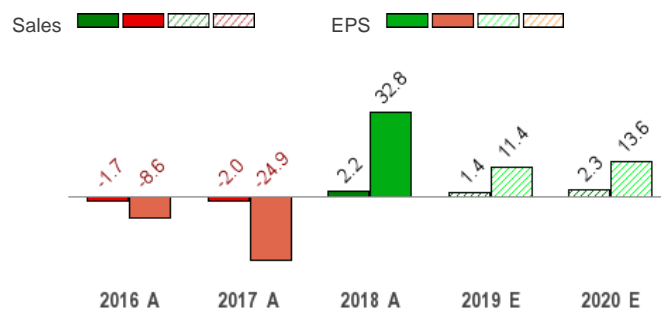
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$182.56 - \$129.94
20 Day Average Volume (sh)	894,889
Market Cap	\$9.3 B
YTD Price Change	-16.1%
Beta	0.88
Dividend / Div Yld	\$0.24 / 0.2%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 9% (231 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	17.4
P/E F1	14.9
PEG F1	1.3
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,981 E	2,366 E	2,341 E	2,171 E	9,943 E
2019	2,952 A	2,332 A	2,312 A	2,124 E	9,718 E
2018	2,874 A	2,327 A	2,275 A	2,105 A	9,581 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.67 E	\$2.26 E	\$2.35 E	\$1.72 E	\$9.02 E
2019	\$2.46 A	\$2.00 A	\$2.10 A	\$1.36 E	\$7.94 E
2018	\$2.10 A	\$1.97 A	\$1.89 A	\$1.17 A	\$7.13 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 02/12/2020. The reports text is as of 02/13/2020.

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:

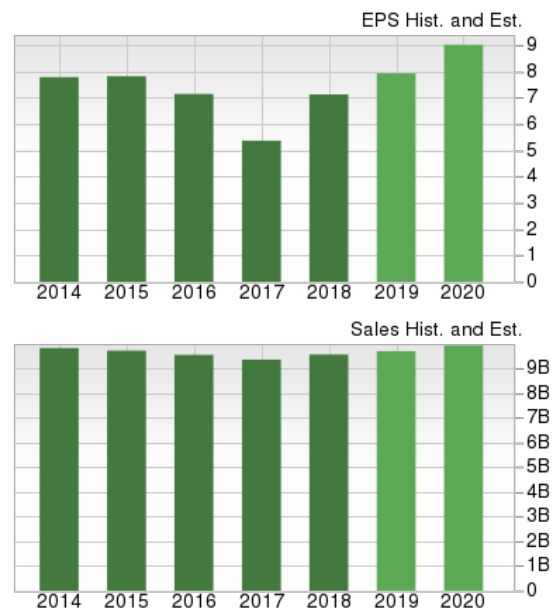
Advance Auto Parts – These stores focus on both Commercial and DIY customers. As of Dec 29, 2018, 4,380 stores, which are located in freestanding buildings, focus on Professional and DIY customers

Carquest – These stores focus on Commercial customers, but also serve DIY customers. As of Dec 29, 2018, 401 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 29, 2018, 143 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 29, 185 stores operate primarily in the Northeastern and Mid-Atlantic regions of the United States, with a focus on Professional customers.

As of Apr 20, 2019, the company operated 4,931 stores and 146 Worldpac branches, and served approximately 1,238 independently-owned Carquest stores.



Reasons To Buy:

- ▲ The company continues to expand and optimise its footprint by opening new stores, widening online presence and strategic collaborations. The company is also capitalizing on strategic growth opportunities, which includes opening of new stores and forming alliance with the companies. Early this year, Advance Auto announced an alliance with the Midwest Auto Care to provide automotive parts and training support to its member facilities. In addition to driving growth across professional business, the firm continues to make progress on its DIY omnichannel e-commerce platform.
- ▲ Advance Auto Parts 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.
- ▲ Advance Auto Parts has outlined a five-year strategy that is currently being implemented. As part of this strategy, the company constructed a productivity pipeline for the future, which will include the removal of \$750 million of unnecessary costs, up from the prior goal of \$500 million. The company also aims to focus on sustainable savings, not short-term cost reduction, and most importantly, remove costs thoughtfully without impacting customers.
- ▲ Advance Auto Parts launched a new Speed Perks 2.0 program that provides its employees with data insights. This program led to 45% growth in the number of Speed Perks transactions along with new member sign-ups increasing around 80%. With regard to margins, the company is investing in its supply chain capabilities. The cross-banner replenishment initiative is likely be completed by mid-2021 and deliver significant cost savings and product availability.

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:

- ▼ 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.
- ▼ Comparable store sales continue to decline as the company loses market share, price pressures emerge and unfavorable weather in key markets. The company updated its full-year 2019 comparable store sales guidance to 1-1.5%, down from 2.3% recorded in 2018.
- ▼ 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. In addition, the fact that consumers are opting for new vehicle purchases instead of maintaining old ones can adversely affect the demand for Advance Auto Parts' products.
- ▼ 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.

Declining comparable store sales and high capex are likely to weigh on company's performance.

Last Earnings Report

Advance AutoParts' Q3 Earnings & Revenues Beat Estimates

Advance Auto Parts reported adjusted earnings of \$2.10 per share in third-quarter 2019 (ended Oct 5, 2019), up 11.1% from the prior-year quarter's level. The figure surpassed the Zacks Consensus Estimate of \$2.07. Adjusted operating income increased 5.9% year over year to \$205.1 million.

Advance Auto Parts generated net revenues of \$2,312 million, which surpassed the Zacks Consensus Estimate of \$2,298 million. Revenues improved 1.6% from the year-ago quarter's tally. During the quarter under review, comparable store sales increased 1.2% year over year.

Adjusted selling, general and administrative (SG&A) expenses totaled \$810 million compared with \$814 million in the year-ago quarter, mainly aided by improvement in labor costs, occupancy expenses and insurance claims.

Financial Position

Advance Auto Parts had cash and cash equivalents of \$573.7 million as of Oct 5, 2019, compared with \$896.5 million as of Dec 29, 2018. Total long-term debt was \$747 million as of Sep 30, 2019, compared with \$1.05 billion as of Dec 29, 2018. The debt-to-capital ratio stands at 17.7%, as of Oct 5, 2019.

In third-quarter 2019, operating cash flow was \$708.5 million, up from \$681.5 million in the prior-year quarter.

Dividend & Share Repurchase

On Nov 8, 2019, Advance Auto Parts' board approved cash dividend of 6 cents per share to be paid on Jan 3, 2020, to all common shareholders of record as of Dec 20, 2019. The company also authorized \$700 million as an addition to the existing share repurchase program.

Store Update

As of Oct 5 2019, the company operated 4,891 stores and 152 Worldpac branches as well as served approximately 1,260 independently-owned Carquest branched stores across Mexico, the Bahamas, Turks and Caicos, and British Virgin Islands.

Guidance

The company reiterated its guidance for 2019. For the year, it anticipates consolidated revenues in the range of \$9,650-\$9,750 million. Further, adjusted operating income margin projection is maintained at the band of 8-8.2% and capital expenditure is estimated at \$250-\$300 million.

Quarter Ending **09/2019**

Report Date	Nov 12, 2019
Sales Surprise	0.63%
EPS Surprise	1.45%
Quarterly EPS	2.10
Annual EPS (TTM)	7.73

Valuation

Advance Auto Parts' shares are down 16.1% in the year-to-date period and down 20.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Auto sector are down 8.1% and up 5.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 9.9% and 19%, respectively.

The S&P 500 index is up 4.4% in the year-to-date period and up 24% in the past year.

The stock is currently trading at 14.69X forward 12-month earnings, which compares to 16.86X for the Zacks sub-industry, 25.9X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.75X and as low as 12.17X, with a 5-year median of 18.13X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$142 price target reflects 15.5X 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	14.69	16.86	25.9	19.3
	5-Year High	23.75	21.41	26.2	19.34
	5-Year Low	12.17	14.08	19.7	15.18
	5-Year Median	18.13	17.79	23	17.47
EV/EBITDA TTM	Current	11.61	21.73	15.71	11.36
	5-Year High	16.86	23.85	15.71	12.85
	5-Year Low	7.4	15.23	10.79	8.47
	5-Year Median	11.49	20.39	12.39	10.7
P/S F12M	Current	0.93	1.64	1.08	3.56
	5-Year High	1.46	1.96	1.1	3.56
	5-Year Low	0.61	1.23	0.8	2.54
	5-Year Median	1.13	1.7	0.92	3

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Retail And Wholesale - Parts				Industry Peers		
	AAP Neutral	X Industry	S&P 500	AZO Neutral	GPC Neutral	PRTS Neutral
VGM Score	A	-	-	C	A	B
Market Cap	9.30 B	16.05 B	24.53 B	25.34 B	14.03 B	96.00 M
# of Analysts	10	8	13	9	6	1
Dividend Yield	0.18%	0.00%	1.75%	0.00%	3.16%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.06	0.01	0.04	0.01	0.03	0.01
EV/EBITDA	13.50	15.96	13.98	12.71	12.10	45.65
PEG Ratio	1.29	1.43	2.09	1.43	3.05	NA
Price/Book (P/B)	2.78	3.58	3.29	NA	3.83	2.68
Price/Cash Flow (P/CF)	12.78	16.31	13.69	13.07	13.15	84.77
P/E (F1)	14.95	17.59	19.19	16.08	16.15	NA
Price/Sales (P/S)	0.96	0.96	2.68	2.11	0.73	0.34
Earnings Yield	6.72%	5.23%	5.21%	6.22%	6.19%	-3.75%
Debt/Equity	0.79	0.79	0.71	-4.39	0.98	0.37
Cash Flow (\$/share)	10.51	10.51	6.92	81.35	7.34	0.03
Growth Score	A	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	-3.47%	14.89%	10.85%	14.35%	4.99%	NA
Proj. EPS Growth (F1/F0)	13.69%	9.07%	7.30%	4.28%	5.72%	54.55%
Curr. Cash Flow Growth	18.30%	15.07%	8.56%	15.07%	26.30%	-89.32%
Hist. Cash Flow Growth (3-5 yrs)	4.14%	8.49%	8.36%	8.49%	5.65%	-19.09%
Current Ratio	1.31	1.06	1.23	0.88	1.26	1.06
Debt/Capital	44.27%	62.27%	42.91%	NA	49.51%	27.26%
Net Margin	4.58%	4.58%	11.81%	13.45%	4.14%	-3.88%
Return on Equity	15.61%	15.61%	16.92%	-96.87%	23.20%	-29.60%
Sales/Assets	0.91	1.00	0.54	1.14	1.38	2.69
Proj. Sales Growth (F1/F0)	2.32%	2.84%	3.96%	2.84%	1.78%	1.81%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	1.67%	0.94%	0.64%	1.17%	0.88%	5.53%
1 Week Price Chg	0.90%	0.09%	2.47%	0.09%	1.93%	3.92%
4 Week Price Chg	-10.58%	-6.23%	1.87%	-6.23%	-2.77%	-0.37%
12 Week Price Chg	-16.95%	-8.29%	6.69%	-8.29%	-6.54%	13.14%
52 Week Price Chg	-19.31%	19.32%	16.42%	19.32%	-8.88%	144.95%
20 Day Average Volume	894,889	842,108	2,019,212	233,119	616,679	88,954
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.02%	-0.04%	-0.06%	-0.04%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.70%	-0.70%	-0.19%	1.08%	-0.19%	0.00%
(Q1) EPS Est Mthly Chg	0.34%	0.00%	-0.16%	-0.07%	0.00%	0.00%

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	A
Momentum Score	C
VGM Score	A

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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