

Advance Auto (AAP)

\$126.06 (As of 05/15/20)

Price Target (6-12 Months): **\$132.00**

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:A

Value: B

Growth: A

Momentum: A

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. Further, it is investing in its supply chain capabilities which is expected to accelerate growth. 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. The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the firm. Moreover, the fact that consumers are opting for new vehicle purchases instead of maintaining old ones can adversely affect the demand of the company. Hence, investors are recommended to wait for a better entry point.

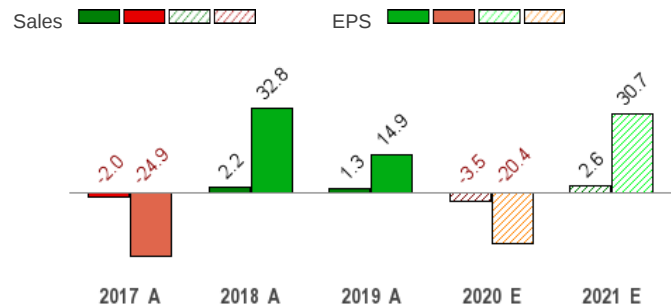
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$171.43 - \$71.33
20 Day Average Volume (sh)	844,714
Market Cap	\$8.7 B
YTD Price Change	-21.3%
Beta	1.27
Dividend / Div Yld	\$1.00 / 0.8%
Industry	Automotive - Retail and Wholesale - Parts
Zacks Industry Rank	Bottom 12% (224 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.6%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	05/19/2020
Earnings ESP	14.0%
P/E TTM	15.4
P/E F1	19.3
PEG F1	1.7
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,845 E	2,203 E	2,246 E	2,091 E	9,615 E
2020	2,776 E	2,141 E	2,228 E	2,206 E	9,368 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	\$2.52 E	\$1.98 E	\$2.15 E	\$1.78 E	\$8.52 E
2020	\$1.65 E	\$1.48 E	\$1.92 E	\$1.70 E	\$6.52 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 05/15/2020. The reports text is as of 05/18/2020.

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:

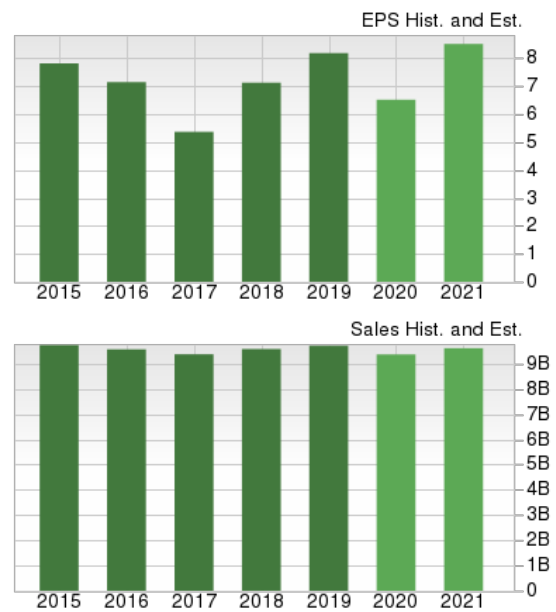
Advance Auto Parts – These stores focus on both Commercial and DIY customers. As of Dec 28, 2019, 4,313 stores, which are located in freestanding buildings, focus on Professional and DIY customers

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. Moreover, the company had total long-term debt of \$747 million as of Dec 28, 2019, down from \$1.05 billion as of Dec 29, 2018. Its total debt-to-capital ratio stands at 0.44, lower than its industry's 0.84. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 16.98 is also favorable to the industry ratio of 13.98.

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.

▲ The company continues to expand and optimise its footprint by opening new stores, widening online presence and strategic collaborations. In addition to driving growth across professional business, the firm continues to make progress on its DIY omnichannel e-commerce platform. It acquired the DieHard brand from Transformco in December, 2019, which will allow the company to sell DieHard batteries and extend the brand into other automotive and vehicular categories. As a part of the company's five-year strategic plan, it has constructed a productivity pipeline for the future, which will include the removal of at least \$500 million of unnecessary costs over the next five years.

▲ 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 to be completed by mid-2021 and deliver significant cost savings and product availability.

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. The pandemic has affected the firm's customers worldwide, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the 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. 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.

Increasing costs will dent margins if the company is not able to pass the price increases to customers.

Last Earnings Report

Advance Auto Parts' Q4 Earnings Miss Estimates, Up Y/Y

Advance Auto Parts reported adjusted earnings of \$1.64 per share in fourth-quarter 2019 (ended Dec 28, 2019), up 40.2% from the prior-year number. The earnings figure, however, missed the Zacks Consensus Estimate of \$1.36. Adjusted operating income increased 18% year over year to \$149.9 million.

Advance Auto Parts generated net revenues of \$2,113 million, missing the Zacks Consensus Estimate of \$2,124 million. Revenues also edged down 0.4% from the year-ago quarter reported figure. During the fourth quarter, comparable store sales inched up 0.1% year on year.

Adjusted selling, general and administrative (SG&A) expenses totaled \$779 million compared with the \$802 million witnessed in the year-ago quarter, amid lower labor costs.

Financial Position

Advance Auto Parts had cash and cash equivalents of \$418.7 million as of Dec 28, 2019, compared with \$896.5 million as of Dec 29, 2018. Total long-term debt was \$747 million as of Dec 28, 2019, compared with \$1.05 billion as of Dec 29, 2018. The debt-to-capital ratio stands at 17.29%, as of Dec 28, 2019.

Operating cash flow was \$867 million as of Dec 28, 2019, up from the prior-year quarter's \$811 million.

Dividend & Share Repurchase

On Feb 12, Advance Auto Parts' board approved a cash dividend of 25 cents per share to be paid on Apr 3, to all common shareholders of record as of Mar 20, 2020.

The company also authorized \$700 million as an addition to the existing \$400-million share-repurchase program in fourth-quarter 2019. Under this program, the company repurchased 3.4 million shares of its common stock, at an aggregate amount of \$487.4 million, for an average price of \$144.23 per share. At the end of the fourth quarter, the company had \$890.8 million remaining under the share-repurchase program.

Store Update

As of Dec 28, 2019, the company operated 4,877 stores and 160 Worldpac branches in the United States, Canada, Puerto Rico and the U.S. Virgin Islands. It also serves 1,253 independently-owned Carquest branded stores across these locations in addition to Mexico, the Bahamas, Turks and Caicos and British Virgin Islands.

Guidance

For full-year 2020, the company anticipates consolidated revenues of \$9,880-\$10,100 million. Further, adjusted operating income margin is estimated in the band of 8.4-8.7% and capital expenditure is projected at \$275-\$325 million.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-0.51%
EPS Surprise	20.59%
Quarterly EPS	1.64
Annual EPS (TTM)	8.20

Valuation

Advance Auto Parts' shares are down 21.3% in the year-to-date period and down 20.5% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Wholesale - Parts industry and the Zacks Auto sector are down 12% and 12.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down up 3.3% and 1.2%, respectively.

The S&P 500 index is down 11% in the year-to-date period and up 0.8% in the past year.

The stock is currently trading at 17.35X forward 12-month earnings, which compares to 19.51X for the Zacks sub-industry, 18.58X for the Zacks sector and 20.84X 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 18.13X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$132 price target reflects 18.18X 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	17.35	19.51	18.58	20.84
	5-Year High	23.75	21.41	18.58	20.87
	5-Year Low	8.34	12.62	8.23	15.23
	5-Year Median	18.13	17.76	9.93	17.49
EV/EBITDA TTM	Current	10.94	22.08	10.21	10.37
	5-Year High	17.38	24.03	11.37	12.86
	5-Year Low	7.25	15.21	6.97	8.28
	5-Year Median	11.54	20.34	9.29	10.77
P/S F12M	Current	0.94	1.79	0.66	3.23
	5-Year High	1.46	1.96	0.76	3.44
	5-Year Low	0.52	1.15	0.5	2.54
	5-Year Median	1.13	1.7	0.62	3.02

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (224 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
AutoZone, Inc. (AZO)	Neutral	4
Dorman Products, Inc. (DORM)	Neutral	4
Genuine Parts Company (GPC)	Neutral	4
LKQ Corporation (LKQ)	Neutral	4
O'Reilly Automotive, Inc. (ORLY)	Neutral	3
U.S. Auto Parts Network, Inc. (PRTS)	Neutral	3
Standard Motor Products, Inc. (SMP)	Neutral	4
Autoliv, Inc. (ALV)	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	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	A	-	-	B	C	A
Market Cap	8.71 B	12.32 B	18.98 B	25.10 B	10.55 B	197.57 M
# of Analysts	7	7	14	10	6	1
Dividend Yield	0.79%	0.00%	2.21%	0.00%	4.32%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.05	0.04	0.06	0.01	0.03	0.08
EV/EBITDA	12.07	12.68	11.60	12.68	10.74	-107.56
PEG Ratio	1.72	1.95	2.58	2.01	12.21	NA
Price/Book (P/B)	2.46	8.16	2.59	NA	3.08	13.03
Price/Cash Flow (P/CF)	10.63	12.22	10.28	13.21	8.96	NA
P/E (F1)	19.87	22.19	19.01	17.64	18.32	NA
Price/Sales (P/S)	0.90	0.90	1.92	2.08	0.55	0.67
Earnings Yield	5.17%	3.99%	5.06%	5.67%	5.46%	-2.36%
Debt/Equity	0.78	1.10	0.75	-4.64	1.03	1.10
Cash Flow (\$/share)	11.86	11.86	7.01	81.35	8.16	-0.70
Growth Score	A	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-2.00%	15.11%	10.82%	14.56%	5.53%	NA
Proj. EPS Growth (F1/F0)	-20.39%	-9.11%	-10.48%	-3.92%	-29.85%	86.52%
Curr. Cash Flow Growth	7.27%	7.27%	5.68%	15.07%	10.00%	-2,386.30%
Hist. Cash Flow Growth (3-5 yrs)	-0.81%	9.09%	8.52%	8.49%	6.64%	NA
Current Ratio	1.27	1.05	1.27	0.92	1.21	1.05
Debt/Capital	43.79%	66.39%	44.25%	NA	50.77%	52.47%
Net Margin	5.01%	5.01%	10.54%	13.42%	3.11%	-9.86%
Return on Equity	16.41%	16.41%	16.29%	-95.47%	21.54%	-116.39%
Sales/Assets	0.87	1.00	0.54	1.07	1.32	2.83
Proj. Sales Growth (F1/F0)	-3.52%	-1.50%	-2.55%	-1.50%	-8.17%	2.23%
Momentum Score	A	-	-	D	D	F
Daily Price Chg	4.07%	1.34%	0.20%	1.84%	2.99%	0.20%
1 Week Price Chg	7.08%	7.08%	3.23%	6.38%	1.66%	40.66%
4 Week Price Chg	7.26%	10.73%	0.88%	9.86%	-0.49%	131.96%
12 Week Price Chg	-11.52%	-0.70%	-23.26%	-0.70%	-26.59%	82.73%
52 Week Price Chg	-19.85%	9.54%	-12.56%	9.54%	-25.04%	422.96%
20 Day Average Volume	844,714	790,316	2,553,422	244,188	915,189	620,398
(F1) EPS Est 1 week change	1.39%	0.00%	0.00%	-0.07%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.33%	-4.50%	-5.57%	-2.00%	-22.99%	0.00%
(F1) EPS Est 12 week change	-24.24%	-16.48%	-16.22%	-7.86%	-33.29%	0.00%
(Q1) EPS Est Mthly Chg	2.88%	-1.58%	-11.63%	-1.58%	-39.92%	0.00%

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	A
Momentum Score	A
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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