Aug 06, 2020

## Genuine Parts Company (GPC)

**$92.43** (As of 08/05/20)

Price Target (6-12 Months): **$97.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 06/25/20) Prior Recommendation: Underperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:A |
| | Value: A \| Growth: A \| Momentum: A | |

## Summary

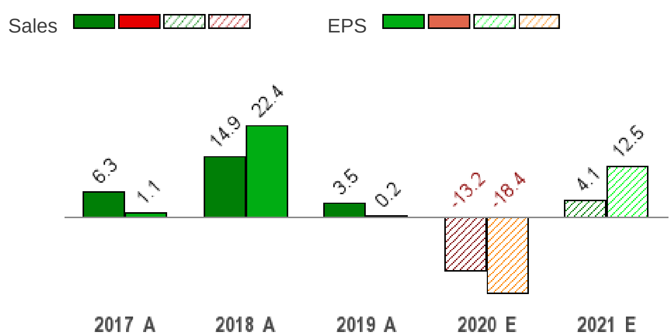
Genuine Parts' strategic acquisitions to improve product offerings and expand geographical footprint is commendable. Acquisition of PartsPoint and Alliance Automotive Group has bolstered the company's growth. Genuine Parts' investment in Sparesbox is likely to bolster the firm's digital sales capabilities in Australasia. Its aggressive e-commerce initiatives and cost cut efforts bode well. The company's dividend aristocrat status further boosts the investors' confidence. However, the firm refrains from 2020 guidance amid coronavirus-led low production and demand of vehicles. Declining sales in Europe, amid softer economic environment remains a headwind. Further, unfavorable foreign currency transactions and high debt levels also play spoilsports. Thus, the stock warrants a cautious stance.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | $108.58 - $49.68 |
| 20 Day Average Volume (sh) | 692,939 |
| Market Cap | $13.3 B |
| YTD Price Change | -13.0% |
| Beta | 1.10 |
| Dividend / Div Yld | $3.16 / 3.4% |
| Industry | Automotive - Replacement Parts |
| Zacks Industry Rank | Top 10% (25 out of 253) |
| Last EPS Surprise | 32.0% |
| Last Sales Surprise | -14.1% |
| EPS F1 Est- 4 week change | 10.6% |
| Expected Report Date | 10/15/2020 |
| Earnings ESP | 9.4% |
| P/E TTM | 18.2 |
| P/E F1 | 19.9 |
| PEG F1 | 3.8 |
| P/S TTM | 0.7 |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 4,207 E | 4,217 E | 4,583 E | 4,403 E | 17,525 E |
| 2020 | 4,560 A | 3,823 A | 4,348 E | 4,260 E | 16,840 E |
| 2019 | 4,737 A | 4,934 A | 5,015 A | 4,706 A | 19,392 A |

## EPS Estimates

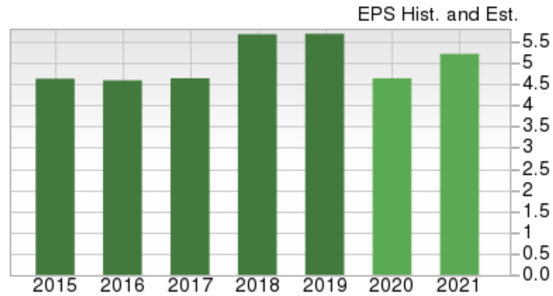
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $1.10 E | $1.44 E | $1.51 E | $1.36 E | $5.22 E |
| 2020 | $0.92 A | $1.32 A | $1.28 E | $1.23 E | $4.64 E |
| 2019 | $1.28 A | $1.57 A | $1.50 A | $1.35 A | $5.69 A |

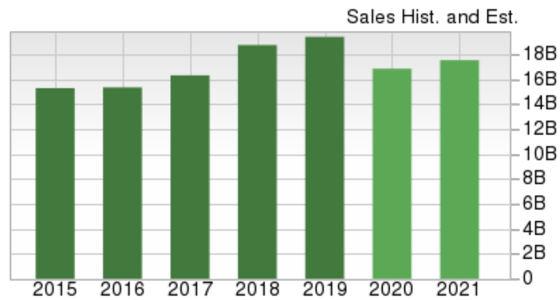
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

## Overview

Genuine Parts Company, based in Atlanta, GA, distributes automotive and industrial replacement parts and materials, and business products across the United States, Canada, Mexico, Australia, New Zealand, Singapore, Indonesia, France, the U.K., Germany and Poland. As of Dec 31, 2019, it employed approximately 55,000 people worldwide. Currently, the company operates through three segments:




The largest segment of Genuine Parts, **Automotive Parts Group** contributed 56.6% of net sales in 2019. The segment's distribution centers provide replacement parts (other than body parts) for motor vehicles. Additionally, it distributes replacement parts for small engines, farm equipment and heavy-duty equipment. The group comprises National Automotive Parts Association ("NAPA") automotive parts distribution centers and stores. In 2019, the company operated 56 domestic NAPA automotive parts distribution centers in 39 states and roughly 1,130 domestic company-owned NAPA auto parts stores in 44 states. The segment also operates Alliance Automotive Group ("AAG"), a European distributor of vehicle parts, tools and workshop equipment. In France, AAG operates 16 distribution centers and serves 1,057 stores, while in the United Kingdom, it has 36 distribution centers and serves 842 stores. In Germany and Poland, AAG owns 29 company stores and serves 210 affiliated outlets, respectively. Lastly, in the Netherlands and Belgium, AAG operates 195 stores.

Another segment, **Industrial Parts Group**, operates as Motion Industries, Inc. ("Motion") contributed 33.7% of net sales in 2019. The segment provides industrial replacement parts and related supplies such as bearings, mechanical and electrical power transmission products, industrial automation, hose, hydraulic and pneumatic components, industrial and safety supplies, and material handling products. The group operated 735 branches and 23 distribution centers as of Dec 31, 2019.

**Business Products Group** operates through the company's wholly-owned subsidiary, S.P. Richards Company ("SPR"). In 2019, it contributed 9.7% in net sales. The segment engages in the distribution of a broad line of office and other business-related products.

## Reasons To Buy:

▲ Genuine Parts' strategic acquisitions to improve product offerings and expand geographical footprint is commendable. Genuine Parts' acquisition of PartsPoint and Alliance Automotive Group will bolster the company's growth. Buyouts of Axis New England and Axis New York are also fueling Genuine Parts' Industrial Parts Group. The acquisition of remaining 65% stake of Inneco has expanded the industrial footprint of Genuine Parts into Australasia. The possession of full ownership in Inenco is a significant addition to the company's global industrial portfolio, and is likely to lead to various operational and commercial synergies going forward.

Genuine Parts' strategic acquisitions to improve product offerings and expand geographical footprint is commendable.

▲ Genuine Parts steady dividend growth is major positive for income investors. The company's dividend aristocrat status boosts the investors' confidence. Even amid the coronavirus pandemic, when many auto firms are suspending dividends, Genuine Parts intends to maintain payouts, preserving shareholders' values. The company displays a healthy dividend yield of 3.4%, higher than the industry's 1.4%. Genuine Parts' ROE of 21.7% is higher than the industry's 16.5%, demonstrating management's efficiency in rewarding shareholders.

▲ Genuine Parts has extended its $100-million cost savings plan unveiled last October to include a number of initiatives in a bid to preserve cash in the face of rising uncertainty due to the virus outbreak. Select cost cut actions put in place include delayed merit increases, headcount reductions, hiring freezes and compensation reductions. These actions may offer some respite to the firm from the coronavirus-led financial crisis.

▲ Genuine Parts' ramped up investment in Sparesbox, which is Australia's leading online auto parts and accessories business, is likely to bolster the firm's our digital sales capabilities in Australasia, and potentially across all of our global operations. E-commerce initiatives including buy-online, pickup-in-store, curbside pickup and expanded ship-to-home capabilities are aiding to generate sales amid coronavirus-led lockdown. Moreover, the firm's efforts to streamline its portfolio through sale of non-core business, including the divestment of Electrical Specialties Group, help it to invest in lucrative growth projects.

## Reasons To Sell:

Genuine Parts' elevated debts levels and unfavorable foreign currency translations are causes of concern.

- Coronavirus has rattled the auto sector with factory closure, low footfall in auto sales and supply-chain disruptions. Depressed demand of vehicles and weak consumer confidence amid COVID-19 are likely to impact the near-term earnings and sales of the auto parts supplier.Genuine Parts has withdrawn its 2020 guidance amid significant deterioration of the macro-economic environment triggered by the coronavirus pandemic and subsequent market uncertainties. The company has also suspended stock buybacks.
- Genuine Parts' rising debt levels are also a cause of concern. As of Jun 30, 2020, its long-term debt stood at around to $2.73 billion. Its total debt-to-capital ratio stands at 0.58, higher than its industry's 0.51. Elevated leverage restricts the financial flexibility of the firm.
- Genuine Parts' international business is exposed to fluctuations in foreign exchange rates since the last few quarters and the trend is likely to continue. Notably, the firm's second-quarter sales were negatively impacted by unfavorable foreign currency translation of 0.6%.
- Development of technically-enhanced components along with high tariff charges on aluminum and steel sourced from outside the United States has increased manufacturing costs of replacement parts and components. The company has been bearing the brunt of increasing selling, general and administrative expenses since the past several quarters and the trend is expected to continue. Even though the company is implementing cost-cut efforts, such initiatives are not likely to counter weak margins due to low revenues.

## Last Earnings Report

### Genuine Parts Q2 Earnngs & Sales Drop Y/Y

| Quarter Ending | 06/2020 |
| --- | --- |
| Report Date | Jul 30, 2020 |
| Sales Surprise | -14.09% |
| EPS Surprise | 32.00% |
| Quarterly EPS | 1.32 |
| Annual EPS (TTM) | 5.09 |

Genuine Parts reported adjusted earnings of $1.32 per share in second-quarter 2020 results, beating the Zacks Consensus Estimate of $1. The bottom line, however, declined from the year-ago profit of $1.47 a share. Weak contribution across both segments of the company induced this underperformance. High operating costs also dragged down profits.

Genuine Parts reported net sales of $3,823.2 million, missing the Zacks Consensus Estimate of $4,450 million. The top line also decreased 14% year over year. Net sales included contribution of 4.2% from prior-year acquisitions, offset by a 13.7% comparable sales decrease, a 0.6% negative impact from foreign-currency translation and a 4.1% impact of the divestiture of certain businesses.

### Key Takeaways

The Automotive segment's net sales came in at $2,495.8 million, down from $2776.2 million in the prior-year quarter. The segment's comparable sales declined 12.6% in the second quarter. The segment's operating profit decreased to $218.9 million in the reported quarter from the prior year's $228.7 million.

The Industrial Parts segment's net sales dropped 21.1% from the year-ago quarter to $1,327.4 million. The segment's comparable sales declined 16.7% in the period. Resultantly, operating profit fell to $108.9 million from the year-earlier quarter's $136.3 million.

Total operating expenses rose 32.3% during the quarter under review, primarily due to goodwill impairment charge and restructuring costs of $506.7 million and $25 million, respectively.

Genuine Parts had cash and cash equivalents worth$983.8 million as of Jun 30, 2020. Long-term debt decreased to $2,727.9 million from $2,871.1 million recorded in the year-ago period.

The company returned $114 million to its shareholders during the reported quarter in the form of quarterly dividends. However, it suspended its existing share-repurchase program until further notice amid the coronavirus crisis.

The auto parts maker also refrained from providing full-year guidance amid coronavirus-led uncertainty.

## Valuation

Genuine Parts' shares are down 13% in the year-to-date period and up 2.1% in the trailing 12-month period. Stocks in the Zacks Automotive-Replacement Parts industry and the Zacks Automotive sector are down 13.2% and up 19.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.4% and up 37.7%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 15% in the past year.

The stock is currently trading at 19.73X forward 12-month earnings, which compares to 17.14X for the Zacks sub-industry, 24.51X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.25X and as low as 8.57X, with a 5-year median of 17.39X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $97 price target reflects 20.72X F12M.

The table below shows summary valuation data for GPC:

| Valuation Multiples - GPC | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 19.73 | 17.14 | 24.51 | 22.58 |
| | 5-Year High | 21.25 | 19.45 | 25.33 | 22.58 |
| | 5-Year Low | 8.57 | 10.69 | 8.2 | 15.25 |
| | 5-Year Median | 17.39 | 17.1 | 9.87 | 17.55 |
| EV/EBITDA TTM | Current | 9.01 | 11.61 | 11.56 | 12.8 |
| | 5-Year High | 15.14 | 15.38 | 11.75 | 12.85 |
| | 5-Year Low | 7.87 | 7.61 | 6.8 | 8.24 |
| | 5-Year Median | 12.38 | 12.9 | 9.27 | 10.89 |
| P/S F12M | Current | 0.74 | 0.84 | 0.87 | 3.61 |
| | 5-Year High | 0.99 | 1.18 | 0.87 | 3.61 |
| | 5-Year Low | 0.37 | 0.56 | 0.49 | 2.53 |
| | 5-Year Median | 0.78 | 0.99 | 0.61 | 3.04 |

As of 08/05/2020

## Industry Analysis Zacks Industry Rank: Top 10% (25 out of 253)


## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Cooper TireRubber Company **(CTB)** | Outperform | 1 |
| Johnson Controls International plc **(JCI)** | Outperform | 1 |
| OReilly Automotive, Inc. **(ORLY)** | Outperform | 2 |
| Standard Motor Products, Inc. **(SMP)** | Outperform | 1 |
| Advance Auto Parts, Inc. **(AAP)** | Neutral | 3 |
| AutoZone, Inc. **(AZO)** | Neutral | 3 |
| Dorman Products, Inc. **(DORM)** | Neutral | 2 |
| Douglas Dynamics, Inc. **(PLOW)** | Neutral | 3 |

## Industry Comparison Industry: Automotive - Replacement Parts

| | GPC | X Industry | S&P 500 | Industry Peers AAP | AZO | CTB |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Neutral | Neutral | Outperform |
| **Zacks Rank (Short Term)** | 3 | - | - | 3 | 3 | 1 |
| **VGM Score** | A | - | - | C | A | F |
| Market Cap | 13.33 B | 1.05 B | 22.93 B | 10.48 B | 27.85 B | 1.77 B |
| # of Analysts | 5 | 2.5 | 14 | 9 | 8 | 3 |
| Dividend Yield | 3.42% | 0.00% | 1.76% | 0.66% | 0.00% | 1.20% |
| **Value Score** | A | - | - | B | A | D |
| Cash/Price | 0.08 | 0.07 | 0.07 | 0.12 | 0.02 | 0.28 |
| EV/EBITDA | 12.39 | 11.31 | 13.16 | 13.58 | 13.58 | 5.27 |
| PEG Ratio | 3.82 | 2.48 | 2.99 | 2.19 | 1.99 | NA |
| Price/Book (P/B) | 4.64 | 3.41 | 3.20 | 2.96 | NA | 1.47 |
| Price/Cash Flow (P/CF) | 11.33 | 11.79 | 12.45 | 12.79 | 14.66 | 6.27 |
| P/E (F1) | 19.80 | 19.11 | 21.78 | 23.51 | 18.74 | 42.82 |
| Price/Sales (P/S) | 0.74 | 1.00 | 2.47 | 1.11 | 2.31 | 0.71 |
| Earnings Yield | 5.02% | 5.25% | 4.33% | 4.25% | 5.34% | 2.34% |
| Debt/Equity | 1.21 | 0.31 | 0.77 | 0.92 | -4.84 | 0.32 |
| Cash Flow ($/share) | 8.16 | 3.34 | 6.94 | 11.86 | 81.35 | 5.60 |
| **Growth Score** | A | - | - | F | B | F |
| Hist. EPS Growth (3-5 yrs) | 5.17% | 3.84% | 10.46% | -1.61% | 14.38% | -16.98% |
| Proj. EPS Growth (F1/F0) | -18.49% | -16.23% | -7.14% | -21.22% | 0.35% | -57.07% |
| Curr. Cash Flow Growth | 10.00% | 8.33% | 5.47% | 7.27% | 15.07% | -14.37% |
| Hist. Cash Flow Growth (3-5 yrs) | 6.64% | 5.86% | 8.55% | -0.81% | 8.49% | -3.32% |
| Current Ratio | 1.22 | 1.52 | 1.32 | 1.36 | 0.94 | 2.09 |
| Debt/Capital | 54.83% | 24.24% | 44.59% | 47.79% | NA | 24.13% |
| Net Margin | -1.06% | 4.36% | 10.15% | 4.10% | 12.90% | 2.53% |
| Return on Equity | 21.67% | 12.73% | 14.46% | 13.20% | -91.18% | 5.73% |
| Sales/Assets | 1.27 | 0.90 | 0.51 | 0.83 | 1.00 | 0.89 |
| Proj. Sales Growth (F1/F0) | -13.16% | -4.06% | -1.68% | -1.02% | 1.04% | -13.02% |
| **Momentum Score** | A | - | - | C | B | D |
| Daily Price Chg | 1.36% | 1.36% | 0.59% | -0.70% | -1.11% | -0.57% |
| 1 Week Price Chg | 1.70% | 2.16% | 0.14% | 1.95% | 3.32% | 0.58% |
| 4 Week Price Chg | 7.30% | 11.47% | 5.31% | 11.19% | 6.68% | 26.98% |
| 12 Week Price Chg | 30.86% | 31.62% | 19.84% | 27.24% | 14.22% | 74.16% |
| 52 Week Price Chg | 2.10% | 2.10% | 2.73% | 5.33% | 10.96% | 41.69% |
| 20 Day Average Volume | 692,939 | 141,151 | 2,098,555 | 774,106 | 176,894 | 470,007 |
| (F1) EPS Est 1 week change | 9.15% | 1.68% | 0.00% | 0.00% | 1.07% | 12.13% |
| (F1) EPS Est 4 week change | 10.63% | 9.71% | 1.10% | 0.71% | 1.30% | 19.18% |
| (F1) EPS Est 12 week change | 12.53% | 8.59% | 1.04% | 0.61% | 4.37% | -26.21% |
| (Q1) EPS Est Mthly Chg | 26.42% | 24.65% | 0.39% | -0.86% | 0.67% | 12.68% |

## 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 | A |
| 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.

## Disclosures

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