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Jan 13, 2020

Genuine Parts Company (GPC)

$98.90 (As of 01/10/20)

Price Target (6-12 Months): **$105.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/11/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: A	Momentum: D

Summary

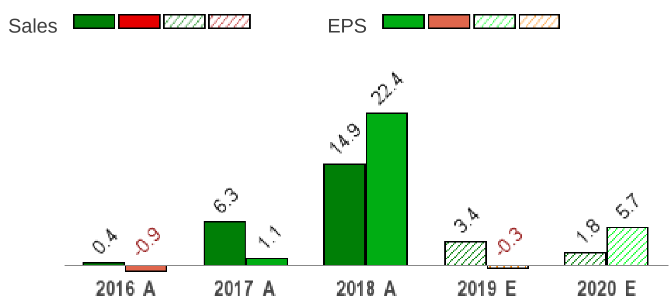
The firm's strategic acquisitions to improve product offerings and expand geographical footprint is commendable. Buyouts of PartsPoint, Inenco and Alliance Automotive Group will bolster the company's growth, going forward. Moreover, the firm's efforts to streamline its portfolio through sale of non-core business, is likely to aid it to trim its leverage and use the proceeds to invest in growth projects. The company's dividend aristocrat status boosts investors' confidence. However, the management dialed back the firm's revenue projections for 2019. Challenging sales environment in Europe and increasing SG&A costs remain concerns. Higher commodity costs amid tariff woes remain also needs to be factored in. Hence, investors are recommended to wait for a better entry point.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$115.20 - $87.26**
20 Day Average Volume (sh)	**543,035**
Market Cap	**$14.4 B**
YTD Price Change	**-6.9%**
Beta	**0.93**
Dividend / Div Yld	**$3.05 / 3.1%**
Industry	**Automotive - Replacement Parts**
Zacks Industry Rank	**Top 35% (88 out of 254)**
Last EPS Surprise	**2.0%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**-0.2%**
Expected Report Date	**02/18/2020**
Earnings ESP	**-3.2%**
P/E TTM	**17.4**
P/E F1	**16.5**
PEG F1	**3.2**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	4,829 E	5,031 E	5,045 E	4,843 E	19,719 E
2019	4,737 A	4,934 A	5,015 A	4,688 E	19,374 E
2018	4,586 A	4,822 A	4,723 A	4,604 A	18,735 A

EPS Estimates

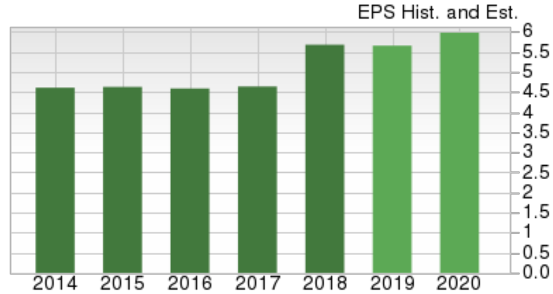
	Q1	Q2	Q3	Q4	Annual*
2020	$1.31 E	$1.65 E	$1.62 E	$1.43 E	$5.98 E
2019	$1.28 A	$1.57 A	$1.50 A	$1.31 E	$5.66 E
2018	$1.27 A	$1.59 A	$1.48 A	$1.35 A	$5.68 A

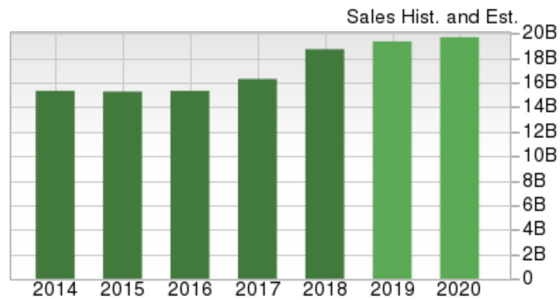
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

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, 2018, it employed approximately 50,000 people worldwide. Currently, the company operates through three segments:





The largest segment of Genuine Parts, **Automotive Parts Group** contributed 56.2% of net sales in 2018. The segment's distribution centers provide replacement parts (other than body parts) formotor 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 2018, the company operated 57 domestic NAPA automotive parts distribution centers in 40 states and roughly 1,100 domestic company-owned NAPA auto parts stores in 46 states. The segment also operates Alliance Automotive Group ("AAG"), a European distributor of vehicle parts, tools and workshop equipment that was acquired in 2017 for €1.7 billion.

Another segment, **Industrial Parts Group**, operates as Motion Industries, Inc. ("Motion") contributed 33.6% of net sales in 2018. 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 559 branches, 15 distribution centers, 42 service centers and four fabrication facilities as ofDec31, 2018.

Effective Jan 1, 2018, EIS, Inc., a subsidiary of Genuine Parts became a division of the Industrial segment that operates as Electrical Specialties Group of Motion.

Business Products Group operates through the company's wholly-owned subsidiary, S.P. Richards Company ("SPR"). In 2018, it contributed 10.2% 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. Further, Alliance Automotive's deal to acquire Todd Group to expand heavy-duty parts and service offerings also bodes well. Moreover, buyouts of Axis New England and Axis NewYork are also fueling Genuine Parts' Industrial Parts Group.

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

- The company expects North American automotive aftermarket to gain positive momentum in the coming period. Apart from North America, Genuine Parts is witnessing steady growth across the Asia-Pacific region. The company expanded the industrial footprint into Australasia through the acquisition of remaining 65% stake of Inneco. 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 steady dividend growth is major positive for income investors. The company's return on equity ratio of 23.2% vs industry's 16.5% reflects the efficiency of the firm in utilizing shareholders' funds. The company's dividend aristocrat status boosts the investors' confidence. The company displays a dividend yields of 3% vs industry's 1.5%.

- 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. Moreover, the firm's efforts to streamline its portfolio through sale of non-core business, including the recent divestment of Electrical Specialties Group, helps it to trim its leverage and use the proceeds to invest in growth projects.

Reasons To Sell:

- Genuine Parts drab outlook for 2019 has dampened the investors' concern. Considering the impact of the sale of the Electrical Specialties Group of Motion Industries, the company downwardly revised its guidance. It now expects sales to increase 3.5% versus the prior view of 4.5-5.5% growth. The company currently expects adjusted earnings per share within $5.60-$5.68 compared with the previous forecast of $5.65-$5.75.

> The company's drab revenue and earnings projections for 2019 has dampened investors' confidence.

- Declining sales in Europe, especially in United Kingdom, amid the effects of Brexit and softer economic environment remains a headwind. Although the company is working on continuing growth plans in the region, along with cost-saving initiatives, it expects challenging sales environment in Europe to persist through early 2020.

- 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. This is likely to clip the profit margins, going forward. As it is, the company's debt burden is on the rise since the past few quarters. Further, unfavorable foreign currency transactions have also been affecting the bottom-line of the firm since and the trend is likely to persist.

Last Earnings Report

Genuine Parts Q3 Earnings Top, Up Y/Y

Quarter Ending	09/2019
Report Date	Oct 17, 2019
Sales Surprise	-0.23%
EPS Surprise	2.04%
Quarterly EPS	1.50
Annual EPS (TTM)	5.70

Genuine Parts reported adjusted earnings of $1.50 per share in third-quarter 2019, surpassing the Zacks Consensus Estimate of $1.47. Following the company's better-than-expected earnings, Genuine Parts' share price moved up 1.23% to close at $98.93 on Oct 18.

Notably, strategic buyouts of PartsPoint, Inenco and Alliance Automotive Group drove the results. The bottom line also improved from the year-ago profit of $1.48 a share.

Genuine Parts reported net sales of $5,015 million, marginally missing the Zacks Consensus Estimate of $5,026 million. The top line, however, increased 6.2% year over year. Net sales included 1.2% comparable growth, roughly 6.7% from acquisitions, partly offset by adverse impact of 1% due to foreign currency translation and 0.7% attributable to the sale of Grupo Auto Todo.

Segmental Results

The Automotive segment's net sales came in at $2,790 million, up 5.3% year over year. The segment's comparable sales growth was 1.8% during the quarter. Acquisition of PartsPoint and Inenco drove the automotive unit's sales. However, the segment's operating profit declined to $222.1 million in the reported quarter from $226.7 million a year ago.

The Industrial Parts segment's net sales rose 9.8% from the year-ago quarter to $1,732.8 million, aided by buyout benefits. The segment's comps growth was 0.9%. Resultantly, operating profit increased to $137.5 million from $119.2 million in the year-ago quarter.

The Business Products segment's net sales fell to $491.5 million from $495.8 million recorded in the prior-year quarter. Nonetheless, operating profit from the segment rose to $21.6 million from $19.8 million recorded in the prior-year quarter.

Financial Position

Genuine Parts had cash and cash equivalents of $451.3 million as of Sep 30, 2019, up from $359.1 million in the corresponding period of 2018. As of Sep 30, 2019, its long-term debt increased to $2.8 billion from $2.4 billion in the comparable year-ago period. The company's debt-to-capital ratio stands at 43.2%.

2019 Guidance Updated

Considering the impact of the sale of the Electrical Specialties Group of Motion Industries, the company downwardly revised its guidance. It now expects sales to increase 3.5% versus the prior view of 4.5-5.5% growth. The company currently expects adjusted earnings per share within $5.60-$5.68 compared with the previous forecast of $5.65-$5.75.

Recent News

Genuine Parts Vends SP Richards Canada to Optimize Portfolio

On **Jan 7**, Genuine Parts announced that it divested its wholly-owned subsidiary S.P. Richards Canada to the Canadian multichannel operator, Novexco Inc. While the financial details of the deal are kept under wraps, Genuine Parts intends to utilize the cash proceeds of the transaction in compliance with its capital allocation strategy.

Valuation

Genuine Parts' shares are up 3.9% in the trailing 12-month period. Over the past year, the Zacks Automotive- Replacement Parts industry and the Zacks Automotive sector are up 6% and 8.8% respectively. The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 16.51X forward 12-month earnings, which compares to 15.68X for the Zacks sub-industry, 10.58X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.25X and as low as 14.84X, with a 5-year median of 17.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $105 price target reflects 17.5X F12M.

The table below shows summary valuation data for GPC:

Valuation Multiples - GPC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.51	15.68	10.58	18.88
	5-Year High	21.25	19.45	11.75	19.34
	5-Year Low	14.84	13.73	8.23	15.17
	5-Year Median	17.7	17.23	9.93	17.44
EV/EBITDA TTM	Current	13.01	12.35	8.67	11.99
	5-Year High	15.14	15.31	11.33	12.86
	5-Year Low	9.67	11.18	7.05	8.48
	5-Year Median	12.27	13.1	9.27	10.67
P/S F12M	Current	0.73	0.84	0.66	3.5
	5-Year High	0.99	1.19	0.76	3.5
	5-Year Low	0.63	0.71	0.5	2.54
	5-Year Median	0.81	1.05	0.62	3

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)

Top Peers

Advance Auto Parts, Inc. **(AAP)**	Neutral
AutoZone, Inc. **(AZO)**	Neutral
Cooper Tire & Rubber Company **(CTB)**	Neutral
Dorman Products, Inc. **(DORM)**	Neutral
Johnson Controls International plc **(JCI)**	Neutral
OReilly Automotive, Inc. **(ORLY)**	Neutral
Douglas Dynamics, Inc. **(PLOW)**	Neutral
Standard Motor Products, Inc. **(SMP)**	Neutral

Industry Comparison Industry: Automotive - Replacement Parts

Industry Peers

	GPC Neutral	X Industry	S&P 500	AAP Neutral	AZO Neutral	CTB Neutral
VGM Score	B	-	-	A	C	A
Market Cap	14.37 B	1.28 B	24.03 B	10.32 B	26.98 B	1.39 B
# of Analysts	6	2.5	13	9	9	5
Dividend Yield	3.08%	0.00%	1.78%	0.16%	0.00%	1.51%
Value Score	C	-	-	B	C	A
Cash/Price	0.03	0.02	0.04	0.05	0.01	0.10
EV/EBITDA	12.34	15.56	14.04	14.70	13.34	3.95
PEG Ratio	3.19	1.36	2.02	1.52	1.53	NA
Price/Book (P/B)	3.92	3.56	3.32	3.08	NA	1.10
Price/Cash Flow (P/CF)	13.47	14.87	13.52	14.18	13.92	4.24
P/E (F1)	16.54	16.76	18.82	16.44	17.11	9.77
Price/Sales (P/S)	0.74	1.04	2.63	1.06	2.25	0.50
Earnings Yield	6.05%	5.97%	5.31%	6.09%	5.84%	10.23%
Debt/Equity	0.98	0.25	0.72	0.79	-4.39	0.14
Cash Flow ($/share)	7.34	2.89	6.94	10.51	81.35	6.55
Growth Score	A	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	4.99%	4.11%	10.56%	-3.47%	14.35%	-10.64%
Proj. EPS Growth (F1/F0)	5.72%	12.28%	7.49%	14.16%	4.31%	81.12%
Curr. Cash Flow Growth	26.30%	24.26%	14.83%	18.30%	15.07%	-5.09%
Hist. Cash Flow Growth (3-5 yrs)	5.65%	10.75%	9.00%	4.14%	8.49%	1.94%
Current Ratio	1.26	1.69	1.23	1.31	0.88	1.80
Debt/Capital	49.51%	30.61%	42.99%	44.27%	NA	12.49%
Net Margin	4.14%	4.35%	11.08%	4.58%	13.45%	1.61%
Return on Equity	23.20%	14.79%	17.16%	15.61%	-96.87%	6.59%
Sales/Assets	1.38	1.02	0.55	0.91	1.14	1.04
Proj. Sales Growth (F1/F0)	1.78%	3.85%	4.20%	2.40%	2.85%	2.93%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	-1.89%	-0.05%	-0.33%	-2.53%	-1.15%	-0.32%
1 Week Price Chg	-1.82%	0.99%	-0.30%	0.68%	-1.21%	-1.29%
4 Week Price Chg	-6.46%	-5.32%	1.71%	-4.55%	-8.02%	-7.77%
12 Week Price Chg	-0.03%	7.46%	6.05%	-9.00%	2.45%	-0.57%
52 Week Price Chg	1.90%	1.90%	22.39%	-9.73%	36.85%	-16.36%
20 Day Average Volume	543,035	133,708	1,580,816	679,018	192,542	217,038
(F1) EPS Est 1 week change	-0.19%	0.00%	0.00%	0.00%	-0.12%	0.00%
(F1) EPS Est 4 week change	-0.19%	0.00%	0.00%	0.00%	0.46%	0.00%
(F1) EPS Est 12 week change	-1.02%	1.21%	-0.50%	0.92%	1.23%	7.09%
(Q1) EPS Est Mthly Chg	-1.88%	0.00%	0.00%	0.00%	-0.15%	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	C
Growth Score	A
Momentum Score	D
VGM Score	B

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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