

Genuine Parts Company (GPC)

\$79.27 (As of 03/13/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

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 its growth, going forward. 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. Its dividend aristocrat status boosts investors' confidence. However, the management dialed back the firm's revenue projections for 2020. 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.

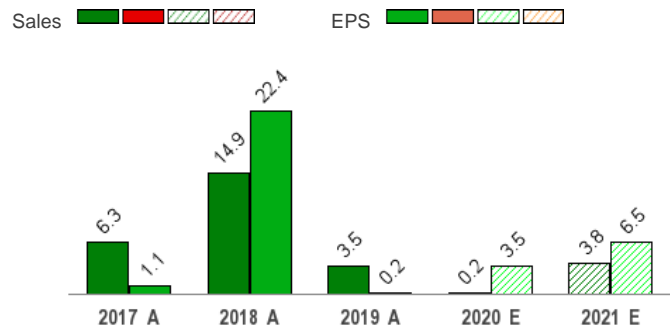
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.20 - \$70.00
20 Day Average Volume (sh)	1,366,074
Market Cap	\$11.5 B
YTD Price Change	-25.4%
Beta	0.89
Dividend / Div Yld	\$3.16 / 4.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Bottom 11% (224 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.1%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	13.9
P/E F1	13.5
PEG F1	2.6
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					20,177 E
2020	4,747 E	4,944 E	4,942 E	4,805 E	19,438 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	\$1.34 E	\$1.70 E	\$1.67 E	\$1.53 E	\$6.27 E
2020	\$1.27 E	\$1.61 E	\$1.56 E	\$1.43 E	\$5.89 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 03/13/2020. The reports text is as of 03/16/2020.

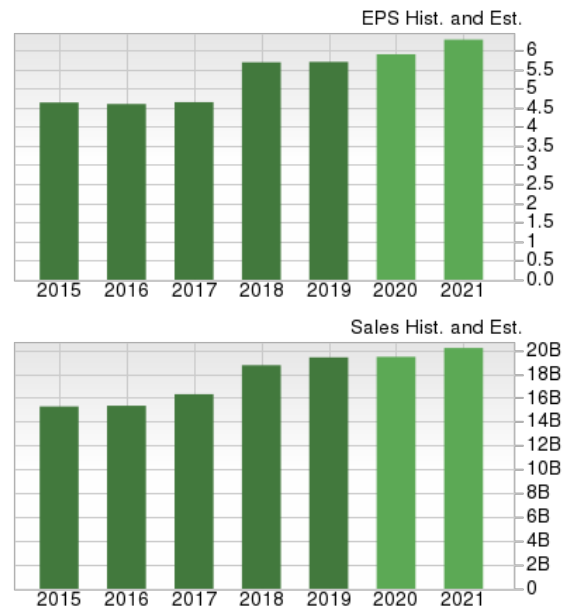
Overview

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. 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.
- ▲ 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 22.79% vs industry's 16.63% 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 3.99% vs industry's 1.86%. It currently expects adjusted earnings per share within \$5.80-\$5.90 in 2020 compared with \$5.69 in 2019.
- ▲ 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 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.

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

Reasons To Sell:

- ▼ Considering the impact of the sale of the Electrical Specialties Group of Motion Industries and Grupo Auto Todo, the company downwardly revised its guidance. It expects sales to increase 3-4% in 2020 versus 3.5% growth in 2019. The company currently expects capital expenditure within \$275-\$325 million compared with the 2019 figure of \$297.9 million.
- ▼ Declining sales in Europe, amid the effects of COVID-19 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 the first half of 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.

The company's drab revenue projections for 2020 has dampened investors' confidence.

Last Earnings Report

Genuine Parts Q4 Earnings & Sales Top Estimates

Genuine Parts reported adjusted earnings of \$1.35 per share in fourth-quarter 2019, beating the Zacks Consensus Estimate of \$1.31. The Automotive segment's better-than-expected results drove this outperformance. The segment's net sales came in at \$2,799.8 million in the quarter, surpassing the Zacks Consensus Estimate of \$2,718 million. The bottom line came in line with the year-ago profit of \$1.35 a share.

Genuine Parts reported net sales of \$4,706 million, outpacing the Zacks Consensus Estimate of \$4,688 million. The top line, however, increased 2.2% year over year. Net sales included 0.5% comparable growth, 6.7% from acquisitions, partly offset by a 4.2% decline due to the sale of EIS, Inc (EIS) and Grupo Auto Todo, and 0.8% negative impact from foreign-currency translation.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	0.39%
EPS Surprise	3.05%
Quarterly EPS	1.35
Annual EPS (TTM)	5.70

Segmental Results

The Automotive segment's net sales came in at \$2,799.8 million, up 8.7% year over year. The segment's comparable sales registered 12.9% growth during the fourth quarter. The segment's operating profit increased to \$200.6 million in the reported quarter from the prior year's \$199.3 million.

The Industrial Parts segment's net sales slid 5.9% from the year-ago quarter to \$1,478.3 million. The segment's comparable sales declined 5.9%. Resultantly, operating profit decreased to \$126.9 million from the year-earlier quarter's \$130.8 million.

The Business Products segment's net sales fell to \$428 million from the \$456.8 million recorded in the prior-year quarter. Operating profit of the segment fell to \$14 million from the \$25.8 million recorded in the prior-year period.

Financial Position

Genuine Parts had cash and cash equivalents of \$276.9 million as of Dec 31, 2019, down from \$333.5 million in the corresponding period of 2018. As of Dec 31, 2019, its long-term debt increased to \$2,802 million from the \$2,432.1 million witnessed in the year-ago period. The company's debt-to-capital ratio was 48.1% as of Dec 31, 2019.

Dividend

On Feb 18, Genuine Parts announced a 4% increase in the regular quarterly cash dividend for 2020, marking the 64th consecutive year of increased dividends paid to shareholders. The board approved a cash dividend of 79 cents per share to be paid on Apr 1, to shareholders of record as of Mar 6, 2020.

2020 Outlook

For full-year 2020, the company expects total sales growth of 3-4%. The company currently expects adjusted earnings per share within \$5.80-\$5.90 in 2020. Capital expenditures are projected at \$275-\$325 million.

Valuation

Genuine Parts' shares are down 24.6% in the year-to-date period and down 23.7% in the trailing 12-month period. Stocks in the Zacks Automotive- Replacement Parts industry and the Zacks Automotive sector are down 28.2% and 19% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.7% and 8.8%, respectively.

The S&P 500 index is down 15.4% in the year-to-date period and down 3.1% in the past year.

The stock is currently trading at 13.28X forward 12-month earnings, which compares to 11.87X for the Zacks sub-industry, 8.93X for the Zacks sector and 15.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.25X and as low as 13.21X, with a 5-year median of 17.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 14.07X F12M.

The table below shows summary valuation data for GPC:

Valuation Multiples - GPC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.28	11.87	8.93	15.74
	5-Year High	21.25	19.45	11.75	19.34
	5-Year Low	13.21	11.87	8.23	15.18
	5-Year Median	17.54	17.18	9.88	17.42
EV/EBITDA TTM	Current	10.88	10.16	9.23	10.05
	5-Year High	15.14	15.39	11.37	12.87
	5-Year Low	9.54	9.88	6.97	8.31
	5-Year Median	12.35	12.98	9.34	10.78
P/S F12M	Current	0.59	0.64	0.54	2.9
	5-Year High	0.99	1.19	0.76	3.44
	5-Year Low	0.58	0.64	0.5	2.54
	5-Year Median	0.79	1.04	0.62	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (224 out of 253)



Top Peers

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

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	11.52 B	911.73 M	19.05 B	7.87 B	24.13 B	1.07 B
# of Analysts	6	3	13	9	10	5
Dividend Yield	3.99%	0.00%	2.31%	0.21%	0.00%	1.97%
Value Score	C	-	-	C	C	A
Cash/Price	0.02	0.04	0.05	0.05	0.01	0.31
EV/EBITDA	11.64	12.39	11.57	11.15	12.31	3.20
PEG Ratio	2.33	1.23	1.68	1.19	1.36	NA
Price/Book (P/B)	3.12	2.61	2.56	2.22	NA	0.80
Price/Cash Flow (P/CF)	9.72	9.72	10.18	9.58	12.45	3.80
P/E (F1)	12.11	12.87	14.94	12.58	15.24	8.69
Price/Sales (P/S)	0.59	0.80	2.02	0.81	2.00	0.39
Earnings Yield	7.43%	7.78%	6.67%	7.95%	6.56%	11.51%
Debt/Equity	0.98	0.29	0.70	0.78	-4.64	0.27
Cash Flow (\$/share)	8.16	3.34	7.01	11.86	81.35	5.60
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	5.50%	5.50%	10.85%	-2.00%	14.56%	-13.53%
Proj. EPS Growth (F1/F0)	3.51%	5.69%	5.99%	10.35%	4.78%	28.17%
Curr. Cash Flow Growth	10.00%	8.33%	6.15%	7.27%	15.07%	-14.37%
Hist. Cash Flow Growth (3-5 yrs)	6.64%	7.18%	8.52%	-0.81%	8.49%	-3.32%
Current Ratio	1.24	1.78	1.24	1.27	0.92	2.41
Debt/Capital	49.54%	27.93%	42.57%	43.79%	NA	21.54%
Net Margin	3.20%	4.65%	11.64%	5.01%	13.42%	3.50%
Return on Equity	22.79%	14.95%	16.74%	16.41%	-95.47%	7.87%
Sales/Assets	1.34	0.99	0.54	0.87	1.07	1.01
Proj. Sales Growth (F1/F0)	0.24%	3.03%	3.54%	2.49%	2.22%	1.84%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	1.05%	6.60%	8.21%	4.14%	3.53%	10.37%
1 Week Price Chg	-5.03%	-1.49%	-0.67%	-3.81%	2.69%	-2.47%
4 Week Price Chg	-18.24%	-21.15%	-22.67%	-15.58%	-5.05%	-22.31%
12 Week Price Chg	-24.64%	-30.35%	-20.46%	-27.35%	-16.93%	-27.27%
52 Week Price Chg	-25.99%	-26.23%	-10.79%	-26.17%	6.58%	-26.37%
20 Day Average Volume	1,366,074	162,173	3,061,271	1,302,402	373,767	499,716
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.06%	-1.75%	-0.32%	0.18%	0.48%	-13.80%
(F1) EPS Est 12 week change	-2.20%	-6.80%	-0.65%	-0.31%	0.54%	-13.80%
(Q1) EPS Est Mthly Chg	-4.66%	-5.50%	-0.62%	-4.36%	0.38%	-75.77%

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	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.