

Genuine Parts Company (GPC)

\$89.20 (As of 07/28/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

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 However, the firm has withdrawn its 2020 guidance amid significant low production and demand of vehicles due to the coronavirus woes. 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.

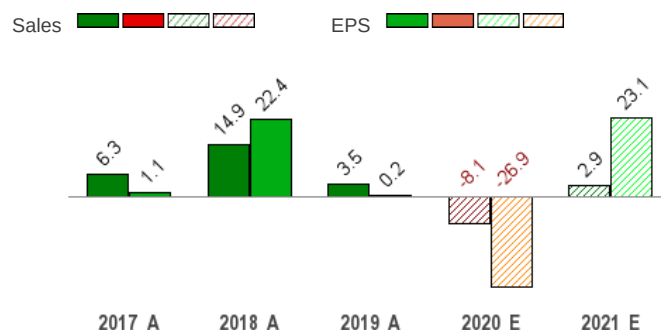
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$108.58 - \$49.68
20 Day Average Volume (sh)	571,934
Market Cap	\$12.9 B
YTD Price Change	-15.8%
Beta	1.10
Dividend / Div Yld	\$3.16 / 3.5%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Top 46% (117 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-17.9%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	5.1%
Expected Report Date	07/30/2020
Earnings ESP	14.5%
P/E TTM	16.8
P/E F1	21.4
PEG F1	4.1
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,721 E	4,759 E	4,920 E	4,660 E	18,326 E
2020	4,560 A	4,450 E	4,420 E	4,385 E	17,815 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	\$1.07 E	\$1.37 E	\$1.41 E	\$1.21 E	\$5.12 E
2020	\$0.92 A	\$1.03 E	\$1.01 E	\$1.14 E	\$4.16 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 07/28/2020. The reports text is as of 07/29/2020.

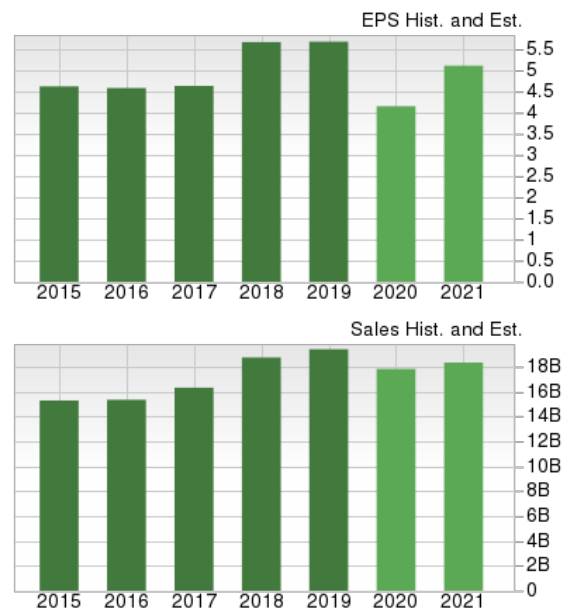
Overview

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 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 4.29%, higher than the industry's 1.94%.
- ▲ 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 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.

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

Reasons To Sell:

- ▼ 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 Mar 31, 2020, its long-term debt increased to \$2.73 billion from the \$2.39 billion witnessed in the year-ago period. Its total debt-to-capital ratio stands at 0.56, 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 first-quarter sales were negatively impacted by unfavorable foreign currency translation of 0.9%.
- ▼ 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.

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

Last Earnings Report

Genuine Parts Delivers a Dismal Q1 Show

Genuine Parts reported adjusted earnings of 92 cents per share in first-quarter 2020, missing the Zacks Consensus Estimate of \$1.12. The bottom line also declined from the year-ago profit of \$1.28 a share. Weak contribution across all segments resulted in this underperformance.

Genuine Parts reported net sales of \$4.56 billion, missing the Zacks Consensus Estimate of \$4.61 billion. The top line also decreased 3.8% year over year. Net sales included contribution of 5.3% from prior-year acquisitions, offset by a 3.5% comparable sales decrease, a 0.9% negative impact from foreign-currency translation and a 4.8% impact due to the divestiture of certain businesses.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.19%
EPS Surprise	-17.86%
Quarterly EPS	0.92
Annual EPS (TTM)	5.34

Segmental Results

The Automotive segment's net sales came in at \$2.58 billion, down 1.6% year over year. The segment's comparable sales declined 5% during the first quarter. The segment's operating profit decreased to \$142.3 million in the reported quarter from the prior year's \$179.2 million.

The Industrial Parts segment's net sales slid 7.7% from the year-ago quarter to \$1.51 billion. The segment's comparable sales declined 3.1%. Resultantly, operating profit decreased to \$113.9 million from the year-earlier quarter's \$121 million.

The Business Products segment's net sales fell to \$468 million from the prior-year quarter's \$479.1 million recorded. The segment's comparable sales inched up 1.5%. Operating profit of the segment fell to \$20.2 million from the \$21.2 million recorded in the prior-year period.

Financial Position

Genuine Parts had cash and cash equivalents of \$354.5 million as of Mar 31, 2020, down from \$356.9 million in the corresponding period of 2019. As of Mar 31, 2020, its long-term debt increased to \$2.73 billion from the \$2.39 billion witnessed in the year-ago period. The company's long-term debt-to-capital ratio was 44.3% as of Mar 31, 2020.

Genuine Parts returned \$207 million to shareholders during the March-end quarter, including \$111 million in the form of quarterly dividends and \$96 million in share repurchases. However, the company suspended its existing share-repurchase program until further notice amid the coronavirus crisis.

2020 Outlook

Genuine Parts scrapped the full-year 2020 guidance as it expects that the pandemic's impact will strain the company's operations in the days to come.

Valuation

Genuine Parts' shares are down 15.9% in the year-to-date period and down 9.1% in the trailing 12-month period. Stocks in the Zacks Automotive- Replacement Parts industry and the Zacks Automotive sector are down 19.7% and up 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.8% and up 26.4%, respectively.

The S&P 500 index is trading at 0.00% in the year-to-date period and up 6.9% in the past year.

The stock is currently trading at 18.99X forward 12-month earnings, which compares to 17.24X for the Zacks sub-industry, 26.98X for the Zacks sector and 22.49X 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 \$94 price target reflects 19.96X F12M.

The table below shows summary valuation data for GPC:

Valuation Multiples - GPC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.99	17.24	26.98	22.49
	5-Year High	21.25	19.45	26.98	22.49
	5-Year Low	8.57	10.69	8.2	15.25
	5-Year Median	17.39	17.12	9.9	17.52
EV/EBITDA TTM	Current	12.55	10.92	11.43	11.95
	5-Year High	15.14	15.39	11.79	12.85
	5-Year Low	7.92	7.57	6.94	8.25
	5-Year Median	12.39	12.87	9.31	10.88
P/S F12M	Current	0.71	0.78	0.86	3.55
	5-Year High	0.99	1.19	0.86	3.55
	5-Year Low	0.37	0.56	0.49	2.53
	5-Year Median	0.78	0.99	0.61	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 253)



Top Peers

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

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	GPC	X Industry	S&P 500	AAP	AZO	CTB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	A	D
Market Cap	12.90 B	881.37 M	22.74 B	10.15 B	27.34 B	1.61 B
# of Analysts	6	2.5	14	9	9	3
Dividend Yield	3.53%	0.00%	1.8%	0.68%	0.00%	1.32%
Value Score	B	-	-	A	A	B
Cash/Price	0.03	0.06	0.07	0.13	0.02	0.28
EV/EBITDA	12.58	10.53	13.03	13.21	13.39	4.72
PEG Ratio	4.13	2.25	3.03	2.12	1.98	NA
Price/Book (P/B)	3.80	3.11	3.17	2.87	NA	1.34
Price/Cash Flow (P/CF)	10.96	10.96	12.05	12.38	14.39	5.70
P/E (F1)	21.44	19.43	21.90	22.76	18.59	51.76
Price/Sales (P/S)	0.67	0.80	2.38	1.07	2.26	0.60
Earnings Yield	4.65%	5.21%	4.30%	4.39%	5.38%	1.94%
Debt/Equity	1.03	0.31	0.76	0.92	-4.84	0.30
Cash Flow (\$/share)	8.16	3.34	7.01	11.86	81.35	5.60
Growth Score	C	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	5.53%	5.18%	10.85%	-1.61%	14.38%	-16.98%
Proj. EPS Growth (F1/F0)	-26.89%	-26.46%	-7.56%	-21.22%	-0.71%	-67.71%
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	1.21	1.48	1.31	1.36	0.94	2.05
Debt/Capital	50.77%	24.24%	44.41%	47.79%	NA	23.30%
Net Margin	3.11%	4.90%	10.45%	4.10%	12.90%	2.92%
Return on Equity	21.54%	15.01%	15.13%	13.20%	-91.18%	6.85%
Sales/Assets	1.32	0.95	0.54	0.83	1.00	0.97
Proj. Sales Growth (F1/F0)	-8.13%	-8.48%	-2.00%	-1.02%	1.04%	-13.39%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	0.89%	1.70%	0.48%	-0.30%	0.19%	3.37%
1 Week Price Chg	0.89%	-0.87%	0.37%	1.66%	0.98%	1.51%
4 Week Price Chg	2.77%	2.77%	5.61%	2.86%	3.80%	15.78%
12 Week Price Chg	18.25%	9.62%	13.36%	22.25%	15.93%	55.03%
52 Week Price Chg	-9.07%	-12.77%	-3.30%	-4.06%	1.91%	15.86%
20 Day Average Volume	571,934	129,772	1,917,592	720,657	172,358	354,814
(F1) EPS Est 1 week change	2.46%	0.00%	0.00%	0.52%	0.23%	0.00%
(F1) EPS Est 4 week change	5.09%	0.00%	0.21%	2.47%	0.74%	4.95%
(F1) EPS Est 12 week change	-19.46%	-14.35%	-2.00%	-3.33%	1.62%	-29.52%
(Q1) EPS Est Mthly Chg	-0.25%	0.00%	0.00%	1.10%	2.38%	16.16%

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	C
Momentum Score	B
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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