



# Genuine Parts Co. (GPC)

Updated August 22<sup>nd</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$144	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Market Cap:</b>	\$19 B
<b>Fair Value Price:</b>	\$160	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	09/06/24
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.1%	<b>Dividend Payment Date:</b>	10/01/24
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$224	<b>Years Of Dividend Growth:</b>	68
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Genuine Parts Company was founded in 1928 and since that time, it has grown into a sprawling conglomerate that sells automotive and industrial parts, electrical materials, and general business products. Its global span reaches throughout North America, Australia, New Zealand, and Europe and is comprised of more than 3,000 locations. It has about 60,000 employees and trades with a market capitalization of \$19 billion, with about \$24 billion in annual revenue. Genuine Parts is also a Dividend King, having raised its dividend for an incredible 68 consecutive years.

Genuine Parts released second quarter earnings on July 23<sup>rd</sup>, 2024, and results were quite weak, missing expectations on both revenue and profits. Adjusted earnings-per-share came to \$2.44, which was 15 cents light of estimates. Revenue was up fractionally to \$6 billion, but missed estimates by \$40 million. Sales changes were from a 2.2% benefit from acquisitions, partially offset by a 0.9% decline in comparable sales, and a 0.5% unfavorable impact from forex translation and other changes.

Adjusted net income was \$342 million, which was essentially flat against the year-ago period. The Automotive segment grew slightly during the quarter, but that was essentially offset by weakness in the Industrial segment.

We now see \$9.40 in adjusted earnings-per-share after Q2 results.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.27	\$6.91	\$8.34	\$9.33	<b>\$9.40</b>	<b>\$13.18</b>
<b>DPS</b>	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$3.28	\$3.58	\$3.80	<b>\$4.00</b>	<b>\$5.61</b>
<b>Shares<sup>1</sup></b>	153	150	148	147	147	146	144	142	142	139	<b>136</b>	<b>125</b>

Earnings-per-share growth has seen stops and starts but over the long-term, Genuine Parts delivers. The company's businesses are all what could be considered staples as it serves businesses and consumers in areas where there is likely to be demand for the long run. The company's acquisitions have led the way in terms of growth and will continue to do so moving forward. We are forecasting 7% annualized earnings-per-share growth for the next five years in a continuation of this trend, in addition to positive organic sales in the Automotive segment. The company's nearly constant acquisitions should help keep the top line moving, and we note margins have improved of late. In addition, the company's Industrial segment continues to struggle with COVID-related issues, but those seem to be abating somewhat, and results were outstanding in 2021. We note improving sales and margins powered earnings higher for 2022 and 2023, and recent guidance was very bullish for that to continue in 2024.

Genuine Parts' pipeline of new acquisitions should keep the trend of higher revenue in place for the foreseeable future, with sales growth being the primary driver of earnings-per-share growth moving forward, in concert with a small amount of share repurchases. Gross margins continued to gradually improve in 2021 and operating margins were strong as a result. Margins were quite strong in 2022 and 2023 as well, and we see the restructuring program as a sizable margin tailwind going forward, potentially. With higher profit guidance on the same revenue forecast, we note management is building in a measure of margin expansion.

<sup>1</sup> Share count in millions

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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.3	19.5	20.8	19.2	17.0	17.8	17.1	17.7	20.8	14.8	15.3	17.0
Avg. Yld.	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.5%	2.7%	2.0%	2.7%	2.8%	2.5%

Genuine Parts' price-to-earnings ratio rose steadily in the period from 2009 to 2017, moving from 13.8 to 19.2 in that time frame. The stock now trades for 15.3 times our earnings estimate for this year as earnings estimate growth is outpacing the share price. With the price-to-earnings ratio below our long-term fair value estimate at 17, we see an annual tailwind to total returns from the valuation.

Genuine Parts is famous for its dividend, as its 68 consecutive years of increases makes it a Dividend King. The current yield of 2.8% is back in line with historical norms, and we expect the yield to remain under 3% for the foreseeable future.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	52%	56%	57%	51%	54%	60%	47%	43%	41%	43%	43%

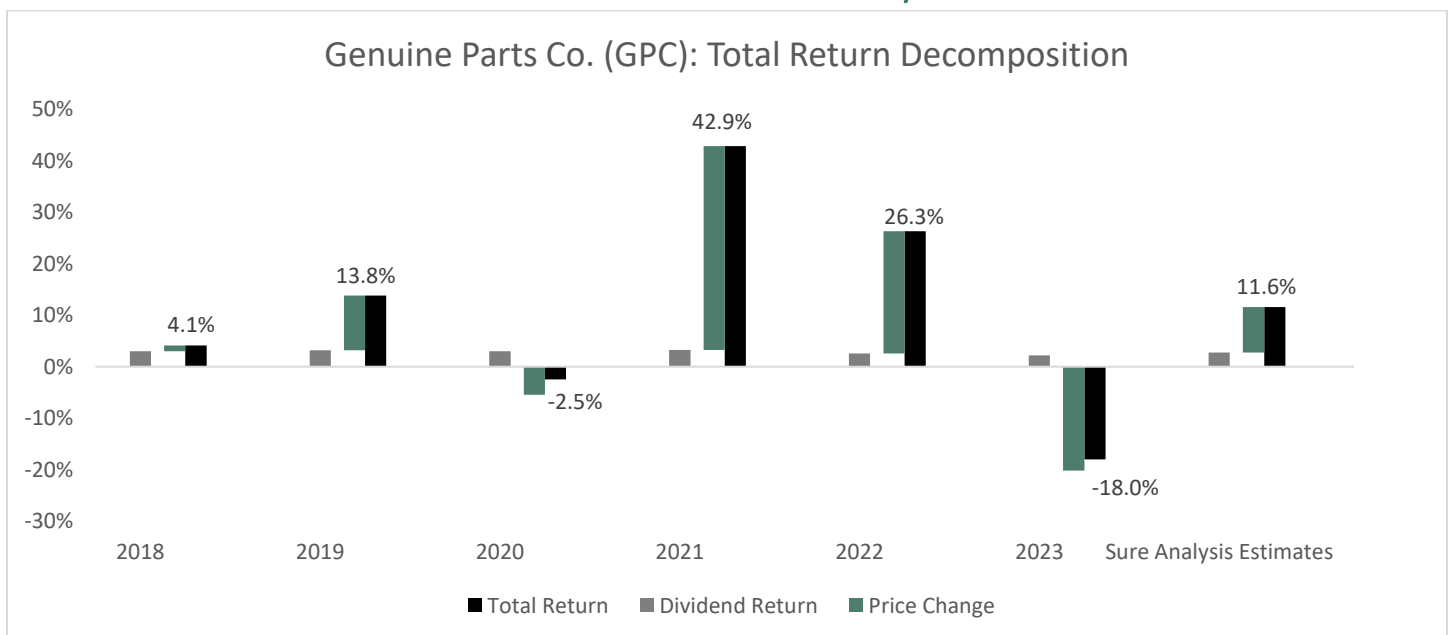
Genuine Parts' payout ratio had been quite steady between 50% and 60% of earnings for many years, but is below that today. We see the dividend rising at roughly the pace of earnings growth, keeping the payout ratio at around half of earnings in the years to come, or slightly lower, consistent with the past decade.

Genuine Parts' competitive advantages include its wide array of industries and customers served, geographic reach and the fact that it sells what amount to industrial staples. Genuine Parts is still prone to earnings declines during recessions but performs relatively well; this is a defensive stock for a retailer/wholesaler.

## Final Thoughts & Recommendation

Overall, Genuine Parts Company looks undervalued based upon its current valuation. Given this, we are expecting total annual returns of 11.6% for the next five years. Returns could accrue from the current 2.8% yield and 7% earnings growth, as well as a 2.1% tailwind from the valuation. Given this total return outlook, we're reiterating the stock at a buy rating after Q2 results.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	15,342	15,280	15,340	16,309	16,832	17,522	16,537	18,871	22,096	23,091
<b>Gross Profit</b>	4,594	4,556	4,600	4,906	5,520	5,860	5,655	6,634	7,740	8,291
<b>Gross Margin</b>	29.9%	29.8%	30.0%	30.1%	32.8%	33.4%	34.2%	35.2%	35.0%	35.9%
<b>SG&amp;A Exp.</b>	3,314	3,277	3,392	3,726	4,241	4,578	4,387	5,163	5,758	6,167
<b>D&amp;A Exp.</b>	148	142	147	168	228	257	273	291	348	351
<b>Operating Profit</b>	1,124	1,124	1,049	999	1,035	1,011	972	1,163	1,614	1,747
<b>Op. Margin</b>	7.3%	7.4%	6.8%	6.1%	6.1%	5.8%	5.9%	6.2%	7.3%	7.6%
<b>Net Profit</b>	711	706	687	617	810	621	(29)	899	1,183	1,317
<b>Net Margin</b>	4.6%	4.6%	4.5%	3.8%	4.8%	3.5%	-0.2%	4.8%	5.4%	5.7%
<b>Free Cash Flow</b>	682	1,050	785	658	919	614	1,866	992	1,127	923
<b>Income Tax</b>	406	418	387	393	245	213	216	302	390	426

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	8,246	8,145	8,859	12,412	12,683	14,646	13,440	14,352	16,495	17,968
<b>Cash &amp; Equivalents</b>	138	212	243	315	334	277	990	715	653	1,102
<b>Accounts Receivable</b>	1,872	1,822	1,939	2,422	2,494	2,440	1,557	1,798	2,189	2,223
<b>Inventories</b>	3,044	3,000	3,210	3,771	3,609	3,444	3,506	3,890	4,442	4,677
<b>Goodwill &amp; Int. Ass.</b>	1,387	1,362	1,575	3,554	3,540	3,786	3,416	3,322	4,401	4,528
<b>Total Liabilities</b>	4,934	4,986	5,652	8,948	9,211	10,950	10,222	10,849	12,691	13,551
<b>Accounts Payable</b>	2,555	2,822	3,081	3,635	3,996	3,948	4,128	4,805	5,457	5,500
<b>Long-Term Debt</b>	765	625	875	3,245	3,143	3,426	2,677	2,409	3,329	3,906
<b>Shareholder's Equity</b>	3,301	3,147	3,194	3,412	3,450	3,675	3,205	3,491	3,790	4,401
<b>LTD/E Ratio</b>	0.23	0.20	0.27	0.95	0.91	0.93	0.84	0.69	0.88	0.89

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%	-0.2%	6.5%	7.7%	7.6%
<b>Return on Equity</b>	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%	-0.8%	26.8%	32.5%	32.0%
<b>ROIC</b>	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%	-0.4%	15.2%	18.1%	17.0%
<b>Shares Out.</b>	153	150	148	147	147	146	144	142	142	141
<b>Revenue/Share</b>	99.38	100.20	102.40	110.42	114.31	119.67	113.96	130.84	155.25	163.72
<b>FCF/Share</b>	4.42	6.88	5.24	4.46	6.24	4.19	12.86	6.88	7.92	6.54

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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