



Genuine Parts Co. (GPC)

Updated October 23rd, 2024, by Josh Arnold

Key Metrics

Current Price:	\$113	5 Year CAGR Estimate:	10.5%	Market Cap:	\$16 B
Fair Value Price:	\$121	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/06/24 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	01/04/25
Dividend Yield:	3.5%	5 Year Price Target	\$162	Years Of Dividend Growth:	68
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 \$16 billion, with about \$23 billion in annual revenue. Genuine Parts is also a Dividend King, having raised its dividend for an incredible 68 consecutive years.

Genuine Parts posted third quarter earnings on October 22nd, 2024, and results were quite weak, including a huge guidance reduction. Shares plummeted 20% on the day.

Revenue came to \$6 billion, which was up 3.1% year-over-year, and beat estimates by \$50 million. The gain in sales was due entirely to acquisition-related top line gains, and not organic revenue gains. Adjusted earnings-per-share came to \$1.88, which missed estimates by a staggering 55 cents.

The company said weak results were driven by continued weakness in market conditions in Europe, as well as its industrial business. Comparable sales for the automotive segment were up 0.2%, while industrial comparable sales were down 2.4%.

The company's profit margins were off markedly in the quarter, falling 200 basis points to 6.9% of revenue in the automotive segment, and off 100 basis points to 11.9% in the industrial segment.

Guidance was reduced to sales growth of 1% to 2%, a slight reduction from the prior range of 1% to 3%. Earnings are now expected to be just \$8.00 to \$8.20, off from the prior range of \$9.30 to \$9.50. We've slashed our estimate of earnings for this year commensurately to \$8.05.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.27	\$6.91	\$8.34	\$9.33	\$8.05	\$10.77
DPS	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$3.28	\$3.58	\$3.80	\$4.00	\$5.61
Shares²	153	150	148	147	147	146	144	142	142	139	136	125

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 6% annualized earnings-per-share growth for the next five years in a normalization from what is turning out to be a very weak 2024. The company's nearly constant acquisitions should help keep the top line moving, but we note significant margin deterioration of late in both of its primary segments. 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. Improving sales and margins powered earnings higher for 2022 and 2023, but recent results and guidance are for those tailwinds to abate for 2024, and possibly beyond.

¹ Estimated date

² Share count in millions

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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. Margin expansion has reversed for the time being, and it's certainly the biggest wildcard going forward.

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	14.0	15.0
Avg. Yld.	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.5%	2.7%	2.0%	2.7%	3.5%	3.5%

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 14 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 15, we see an annual tailwind to total returns from the valuation. We note we've reduced the fair value estimate multiple on heavily revised guidance on the assumption investors will pay less for GPC for the foreseeable future.

Genuine Parts is famous for its dividend, as its 68 consecutive years of increases makes it a Dividend King. The current yield of 3.5% is at the upper end of historical norms.

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%	50%	52%

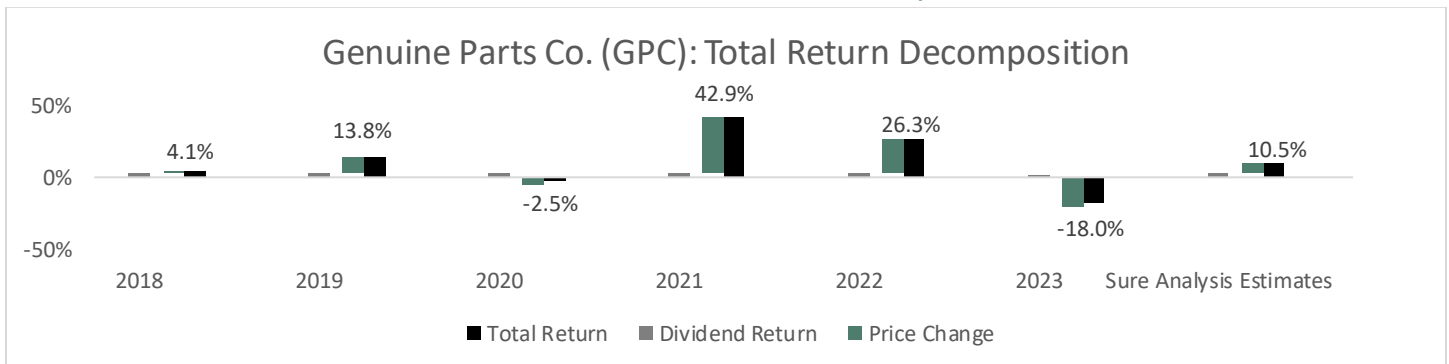
Genuine Parts' payout ratio had been quite steady between 50% and 60% of earnings for many years, and is there again today. We see the dividend rising at roughly the pace of earnings growth, keeping the payout ratio at around half of earnings in the years to come, consistent with the past decade.

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 10.5% for the next five years. Returns could accrue from the current 3.5% yield and 6% earnings growth, as well as a 1.3% tailwind from the valuation. Given this total return outlook, we're reiterating the stock at a buy rating after Q3 results, but note there is significant uncertainty ahead given recent guidance.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,246	8,145	8,859	12,412	12,683	14,646	13,440	14,352	16,495	17,968
Cash & Equivalents	138	212	243	315	334	277	990	715	653	1,102
Accounts Receivable	1,872	1,822	1,939	2,422	2,494	2,440	1,557	1,798	2,189	2,223
Inventories	3,044	3,000	3,210	3,771	3,609	3,444	3,506	3,890	4,442	4,677
Goodwill & Int. Ass.	1,387	1,362	1,575	3,554	3,540	3,786	3,416	3,322	4,401	4,528
Total Liabilities	4,934	4,986	5,652	8,948	9,211	10,950	10,222	10,849	12,691	13,551
Accounts Payable	2,555	2,822	3,081	3,635	3,996	3,948	4,128	4,805	5,457	5,500
Long-Term Debt	765	625	875	3,245	3,143	3,426	2,677	2,409	3,329	3,906
Shareholder's Equity	3,301	3,147	3,194	3,412	3,450	3,675	3,205	3,491	3,790	4,401
LTD/E Ratio	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
Return on Assets	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%	-0.2%	6.5%	7.7%	7.6%
Return on Equity	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%	-0.8%	26.8%	32.5%	32.0%
ROIC	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%	-0.4%	15.2%	18.1%	17.0%
Shares Out.	153	150	148	147	147	146	144	142	142	141
Revenue/Share	99.38	100.20	102.40	110.42	114.31	119.67	113.96	130.84	155.25	163.72
FCF/Share	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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