Modern Graham Valuation of Genuine Parts Company (GPC)

Nov 29 2013, by Benjamin Clark

Here is a look at how Genuine Parts Company (GPC) fares in Modern Graham's opinion, based on an updated and modernized version of Benjamin Graham's requirements of defensive and enterprising investors from The Intelligent Investor:

Defensive and Enterprising Investor Tests (What is the significance of these tests, and what is PEmg ratio?):

Defensive Investor - must pass at least 6 of the following 7 tests: Score = 5/7

1. Adequate Size of Enterprise - market capitalization of at least $2 billion - PASS
2. Sufficiently Strong Financial Condition - current ratio greater than 2 - FAIL
3. Earnings Stability - positive earnings per share for at least 10 straight years - PASS
4. Dividend Record - has paid a dividend for at least 10 straight years - PASS
5. Earnings Growth - earnings per share has increased by at least 1/3 over the last 10 years using 3 year averages at beginning and end of period - PASS
6. Moderate PEmg ratio - PEmg is less than 20 - FAIL
7. Moderate Price to Assets - PB ratio is less than 2.5 or PB x PEmg is less than 50 – PASS
8.

Enterprising Investor - must pass at least 4 of the following 5 tests or be suitable for a defensive investor: Score = 5/5

1. Sufficiently Strong Financial Condition, Part 1 - current ratio greater than 1.5 - PASS
2. Sufficiently Strong Financial Condition, Part 2 - Debt to Net Current Assets ratio less than 1.1 - PASS
3. Earnings Stability - positive earnings per share for at least 5 years - PASS
4. Dividend Record - currently pays a dividend - PASS
5. Earnings growth - EPSmg greater than 5 years ago – PASS

Valuation Summary (Explanation of the ModernGraham Valuation Model)

Key Data:

MG Value	$78.11
MG Opinion	Fairly Valued
Value Based on 3% Growth	$55.54
Value Based on 0% Growth	$32.56
Market Implied Growth Rate	6.43%
NCAV	$11.93
PEmg	21.37
Current Ratio	1.53
PB Ratio	-2.63

Balance Sheet - 9/30/2013

Current Assets	$5,295,500,000
Current Liabilities	$3,454,100,000
Total Debt	$250,000,000
Total Assets	$7
Intangible Assets	$7,493,900,000
Total Liabilities	$4,800,800,000
Outstanding Shares	154,360,000

Earnings Per Share - Diluted

2013 (estimate)	$4.33
2012	$4.14
2011	$3.58
2010	$3.00
2009	$2.50
2008	$2.92
2007	$2.98
2006	$2.76
2005	$2.50
2004	$2.25
2003	$2.03
2002	$2.10

Earnings Per Share - Modern Graham (Calculating EPSmg)

2013 (estimate)	$3.83
2012	$3.46
2011	$3.08
2010	$2.83
2009	$2.74
2008	$2.80

Conclusion:

Genuine Parts Company (GPC) should be on the radar of every Enterprising Investor. The company does not pass the requirements of the Defensive Investor by having a current ratio that is too low and currently trading at a PEmg ratio just a little high, but it passes every single requirement of the Enterprising Investor. The company has had stable earnings growth and dividend history, and generally looks good for the Enterprising Investor. From a valuation perspective, the company appears to be fairly valued. After growing EPSmg (normalized earnings) from $2.80 in 2008 to an estimated $3.83 for 2013, the market-implied growth rate of 6.43% is in line with the historical performance. As a result, Enterprising Investors should feel comfortable if further research indicates the company may be suitable for their individual portfolios.

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