



After a 92% 2-Year Return, Is Uni-Select Inc. Overvalued?

Description

Uni-Select Inc. ([TSX:UNS](#)) has had a fantastic couple of years. The stock has appreciated 92% in the last two years, and the company has continued to increase its foothold in the automotive aftermarket. If we consider the fact that 2016 showed organic growth stalling due to a macro slowdown in Canada and that the stock price was essentially flat in 2016, this return looks all the more impressive as it was pretty much accomplished in one year.

Despite the slowdown in organic growth, the company has grown by continuing to be a consolidator in the auto parts aftermarket as well as the automotive paint market. The third quarter of 2016 saw U.S. revenue increase 25% to US\$202.2 million and Canadian revenue increase 1.9% to \$116.3 million.

Leading market share

Uni-Select has been and continues to be a consolidator in both the automotive aftermarket industry and the automotive paint industry. This has allowed it to increase its market share to become a leader in both of these markets. Currently, Uni-Select has an over 20% market share in each market and has done well in increasing margins and efficiencies.

Going forward, the company will continue to seek out acquisition opportunities to secure a stronger foothold of its markets. The paint and material market remains highly fragmented and ripe for consolidation as the majority of Uni-Select's competitors are very small. I take comfort in management's track record of making and integrating acquisitions. The company has made over 70 acquisitions of various sizes over the last 10 years and has been very successful in the integration and capturing of synergies. I believe the company will continue to be successful.

Going forward, acquisitions will serve to increase Uni-Select's earnings-growth profile through increased sales as well as synergies in the form of margin improvements. Looking at consensus analyst expectations, we see that for 2016, analysts are expecting a mere 3% growth in EPS, but in 2017 the expectation is for a 9.5% increase in EPS. The company is trading at a P/E ratio of 15.6 times expected 2017 EPS.

Another interesting tidbit of information is the fact that in each of the last three quarters, Uni-Select has

reported better than expected earnings, and this is always a good sign as it indicates that expectations may be too low.

Longer term, I'm bullish on the company as, in my view, the automotive aftermarket and the automotive paint and materials industries have good growth headwinds in front of them due to the fact that consumers are holding on to their cars longer, because of increased reliability, but also because U.S. and Canadian household and consumer debt levels are high.

For the reasons above, I do not believe the stock is overvalued.

CATEGORY

1. Investing

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1. TSX:UNS (Uni-Select)

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