



Uni Select Inc. Embraces Brexit for Growth

Description

When you write about stocks for a living, it's not uncommon to lose track of individual companies you've written about. Often, it's not because you think these stocks aren't worth owning, but because your focus takes you elsewhere.

Last November, I'd written a small piece about **Uni Select Inc.** ([TSX:UNS](#)), the Montreal-based distributor of automotive aftermarket parts and paint-related products in the U.S. and Canada.

Uni Select originally came to my attention because its stock had split on a two-for-one basis last May — one of just three TSX companies to do so in 2016 through November 8. Out of the three stocks, Uni Select's stock had the worst performance year to date.

"Of the three stocks, this would be the most speculative in nature," I [wrote](#) at the time. "However, buying Uni-Select on the dips, as is happening this year, will get you ahead in the long run."

Well, since then, it's dropped a little, recovering slightly due to its second-quarter results.

I had completely forgotten about Uni Select, until Fool.ca contributor Karen Thomas [wrote](#) a piece July 7 about the company's downtrodden stock price; she wondered if it was a bargain as a result.

Thomas, on previous occasions, had concluded that the business was a good one with an undervalued stock.

Her latest article brought Uni Select back into my focus; where is it headed in the future?

Overseas expansion

In June, Uni Select announced that it had acquired Parts Alliance, a growing U.K. automotive aftermarket parts distributor, for US\$265 million, or 9.7 times adjusted EBITDA.

The acquisition, which should close in August, is expected to be immediately accretive to earnings. More importantly, it gives the company a third major revenue stream for growth.

“We are excited to establish a third growth pillar in the large U.K. parts aftermarket that is expected to be immediately accretive in a market with great upside potential from future consolidation opportunities,” said Uni Select CEO Henry Buckley at the time.

Parts Alliance has 161 corporate stores and another 38 affiliated locations serving over 23,000 customers across the U.K. With 7% market share at the moment, Uni Select is committed to growing its slice of the U.K. automotive aftermarket parts pie.

According to Uni Select’s press release, the U.K. automotive aftermarket parts market is estimated at £4.1 billion and is the fourth-largest in Europe. Uni Select has a tremendous growth opportunity in front of it.

In its most recent fiscal year ended April 30, 2017, Parts Alliance generated £264.9 million in sales and £17.8 million in adjusted EBITDA. The acquisition increases Uni Select’s annual revenue by approximately 25%.

Bottom line on Uni Select’s stock

Except for 2010 and 2015, Uni Select’s annual free cash flow over the past decade has always been positive. Its free cash flow in the trailing 12 months through March 31 is US\$133 million, or more than 10% of sales. From a valuation perspective, its free cash flow yield is 10.9%, well above the 8% most experts use to screen for good value.

It’s possible that both Karen and I are wrong about Uni Select stock, but I don’t think so, because since the beginning of 2015, it’s dipped below \$30 on three occasions, and every time, it’s recovered nicely.

The move into a third market in the U.K. transforms Uni Select from a value play to a growth play.

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Date

2025/08/16

Date Created

2017/08/01

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