



Is Uni Select Inc. a Buy After Dropping 25%?

Description

Amid market turmoil in specific sectors of late, auto manufacturers have been hit hard, as expectations of slower growth in North America seep into discounted cash flow models used to value the businesses. One interesting Canadian auto parts maker many analysts have suggested is worth consideration following the company's 25% drop from its 52-week high seen only three months ago is **Uni Select Inc.** ([TSX:UNS](#)).

I'm going to take a look at Uni Select from a long-term perspective, and highlight the bull and the bear case for owning this company.

What does Uni Select do?

Uni Select operates in the auto repair segment of the market, offering auto paint in the U.S. market and auto parts in the Canadian (and recently U.K.) markets, with significant market share in each primary market the company operates in. Uni Select has just entered into an agreement to purchase a U.K. firm, expanding the company's global presence and making this \$1.2 billion company an interesting one to consider at current levels.

The bullish case

A number of analysts believe that improving long-term trends relating to how long Americans are holding onto their vehicles for will translate well into increased sales for auto parts moving forward. As more used cars circulate the roads, presumably more auto parts will be needed to keep these cars alive, sourced primarily from auto shops which are the number one market Uni Select sells to.

The company's current position in various markets, while a good start, provides the company and investors significant room for growth, making this an interesting potential long-term play for investors who believe Uni Select can turn the corner and become a household name.

The bearish case

While it is true that long-term trends are moving toward longer-term ownership of vehicles, it is also

true that large auto parts companies in the U.S. such as **O'Reilly Automotive Inc.** ([NASDAQ:ORLY](#)) have been hammered of late, due to weakening trends in the DIY sector, a trend which does not affect Uni Select as much as the larger names in the sector, but one which will have an impact over time assuming the company's DIY business grows.

Another one of the key things that some analysts point to as a potential long-term headwind for Uni Select is the company's recent acquisition of **Parts Alliance**, a British auto-parts distribution company the company has recently entered into an agreement to buy. While the business appears to have a robust growth profile and significant opportunity to grow, given the fact that the U.K. market remains under-consolidated compared to the North American market, Uni Select was forced to take on a significant amount of debt to make the deal happen, something which did not generally enthuse investors.

Bottom line

While shares of Uni Select have sold off substantially from their peak, I would wait for further price discovery before considering this name at current levels. This company certainly is one to keep on the watch list, however.

Stay Foolish, my friends.

CATEGORY

1. Investing

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1. NASDAQ:ORLY (O'Reilly Automotive, Inc.)
2. TSX:UNS (Uni-Select)

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