



Which Is the Better Buy: Uni Select Inc. or AutoCanada Inc.?

Description

The Canadian auto market is booming with four straight months of sales records from May to August, with September numbers still to be released. Given the rising sales, I'm going to have a look at two big stocks in the industry to see which one might be the better buy today.

Uni Select Inc. ([TSX:UNS](#)) is a distributor of automotive parts that will certainly see more demand as auto sales pick up. The company has repair shops in Canada under the Bumper to Bumper brand and also offers paint and related products south of the border, under its FinishMaster banner.

AutoCanada Inc. ([TSX:ACQ](#)) has 61 dealerships across the country, offering its customers many different types of services, ranging from sales and financing to maintenance and repair. However, AutoCanada has a lot of exposure to western Canada, as 25 of its dealerships are located in Alberta, and that is why it can present significant risk and significant opportunity.

Both companies have struggled to grow sales recently

AutoCanada saw no growth in sales in its last fiscal year, but prior to that, it saw revenues double in just two years. A more concerning trend, however, has been the company's eroding profit margin; it was barely able to break even in 2016 with just \$2 million in profit on nearly \$2.9 billion in sales. Gross margins of 17%, which AutoCanada has been averaging, have not left a lot to cover overhead and other operating expenses, which has resulted in poor bottom lines.

Uni Select has not fared better, as the company has seen sales decline for the past three years. Revenue of just under \$1.2 billion is down 33% from almost \$1.8 billion in sales that the company recorded for 2014. Although the company's gross margins of 30% have been much higher than AutoCanada's, Uni Select has only seen slightly better profit margins.

Rising auto sales this year have had a limited impact so far and resulted in just a 6% sales increase in the past quarter for AutoCanada, while Uni Select's latest quarter grew by only 5%.

Two struggling stocks

Uni Select has seen its share price decline 14% in the past 12 months, and the stock hit a new 52-week low in September, but it has recovered 5% since then. The share price trades at over 21 times earnings and just under two times its book value.

AutoCanada's stock has increased 7% in the past year, but since late January, when the share price was at its peak, it also lost nearly 14% of its value and reached a new low in June. The stock currently trades at almost 70 times its earnings, representing a big premium over Uni Select.

Which stock should you invest in?

Value investors might see a reason to invest in Uni Select, since the stock has been on a more consistent decline and the share price trades at lower multiples. The company is also likely to see more of a delayed impact from growing car sales, since it is a distributor rather than a dealership.

However, AutoCanada looks to be the better bet overall, despite its high valuation. The company's results have not been encouraging, but with a lot invested in Alberta, its sales could start to see a big increase as that province's economy continues to recover.

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2. TSX:UNS (Uni-Select)

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