Down but Not Out: This Stock Is on Sale Today, With Massive Upside Potential for Tomorrow

Description

Uni-Select Inc. (TSX:UNS) is down but it is certainly not out.

Longer term, I am bullish on the company as, in my view, the automotive aftermarket and the automotive paint and materials industries have good growth in front of them, as consumers are holding onto their cars longer.

With rising interest rates, this trend might become even more pronounced given that financing will become more expensive for new cars and households are already under a lot of debt stress.

So what's the problem with Uni-Select?

Disappointing results

Well, the company reported fourth quarter 2017 results earlier this week that were below expectations, sending the stock plummeting to two-year lows.

Revenue for the year was good, up 4%, in line with expectations, but margins across all businesses were weaker.

Notably, free cash flow for the quarter was $16.9 million and $95.7 million for the year — testament to the strength of the business.

Free cash flow margin was 4% and 6.6% for the quarter and the year, respectively. While this is lower than in previous quarters, it's still a very good result.

Going forward, the company still has good opportunities to continue to be the consolidator of its fragmented industries and plans to reduce expense, thus driving up margins.

The company has room to grow in the paint and material markets, which remain highly fragmented and ripe for consolidation, as three quarters of the market is made up of very small competitors.

I take comfort in the fact that the company has made over 70 acquisitions of various sizes over the last 10 years and has been very successful in the integration of these acquisitions.

While investors are sending the stock down based on missed results and weaker margins, longer term investors would benefit from reminding themselves that the integration of Parts Alliance will result in increasing margins, just as the company's integrations have done in the past.

Thus, the stock is more volatile than I'd like to see. However, this volatility is giving investors a chance to seize opportunity. A company that generates strong and sustainable cash flows is certainly something to pay attention to.

The stock is now trading at a P/E ratio of 17.5 times 2017 earnings, 15 times next year's expected consensus earnings and 14 times 2018 expected consensus earnings.

The company's ROE stands at almost 10% and it trades at a P/B of 1.5 times.

These are very attractive valuation levels, especially for a company such as Uni-Select that has been increasing its market share, margins and financial strength.

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Date
2025/06/30
Date Created
2018/02/22
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