Is Attractive Valuation Enough to Lure Investors Back to Auto Stocks?

Description

The doubt-riddled Canadian auto industry is hiding some decent quality stocks at the moment. While real challenges exist for vehicle makers, and metal tariffs have weighed on the bottom line, the threat of further tariffs continues, while consumer uncertainties appear to have been stoked by spreading protectionism.

Now with Brexit only a few months away, should investors really still be holding U.K.-weighted stocks such as **Uni-Select** (TSX:UNS)? Likewise, with auto-related businesses among the biggest exporters from the U.K. to Canada, might it be best to avoid British-weighted stocks altogether for the next few months?

Let's take a look at how stable this stock is and whether it's time to ditch the automotive finish and industrial paint producer in favour of a competitor.

Do low multiples suggest that the wheels have come off this stock?

Looking through the market fundamentals of Uni-Select, it's hard to know whether this is one to ditch or not. The fact is that a discount of 22% off its future cash flow value does make this an attractive buy for value investors.

All three of the usual value multiples are available for scrutiny here: a P/E of 14.2 times earnings, PEG of 0.9 times growth, and P/B of 1.3 times book further marking out clear undervaluation.

However, it's interesting to see that Uni-Select is in fact signaling a 15.8% expected annual growth in earnings over the next one to three years. It's a decent quality stock as well, with a return on equity of 9% last year and a dividend yield of 1.75%.

A high debt level of 88.9% of net worth might put some investors off, though, while the downward trending share price may make this stock of interest to momentum traders.

How about this decent dividend payer?

If you like Uni-Select, but want to go for something with less U.K. exposure, then why not consider **Exco Technologies** (TSX:XTC)? A solid balance sheet, good dividends, and an attractive valuation may make this auto stock just the ticket.

Discounted by 41% of its future cash flow value, you have a nice set of market fundamentals in Exco Technologies: a P/E of 10.5 times earnings, PEG of 0.9 times growth, and a near-book value P/B ratio of 1.2 times book pair nicely with an 11.6% expected annual growth in earnings over the next 1 to 3 years.

Quality-wise, Exco Technologies carries a low level of debt at just 11.3% of net worth, while a return on equity of 12% last year is acceptable, if not significant.A dividend yield of 3.48% is definitely tempting.

A pretty flat trend in share price might not make this stock of interest to momentum investors; rather, its main draw would be the good value and tasty dividends on offer.

The bottom line

There are many decent auto stocks out there at the moment. Look at competitors **Genuine Parts** or **AutoZone** for two U.S. tickers in the same industry, though bear in mind that they do not offer the same value as Uni-Select. Meanwhile, if you like the look of Exco Technologies, consider **ATS Automation Tooling Systems**, **NFI Group**, or **Ag Growth International** for general comparability.

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2. TSX:XTC (Exco Technologies Limited)

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