



Alert: This Beaten-Down TSX Stock to Rise After an Orderly Brexit

Description

Automotive parts distributor **Uni-Select** ([TSX:UNS](#)) stock is trading near its 52-week lows, as the company undergoes strategic restructuring of its international businesses, but company fortunes could improve together with those chartered banking titan **Royal Bank of Canada** (RBC) if the British government could deliver and implement an orderly Brexit deal.

RBC serves affluent, high-net-worth clients from its offices in key financial centres including the United Kingdom (U.K.) through its wealth management segment, and the bank's Capital Markets segment is very active in global financial centres, including a strategically positioned London, hence a good Brexit deal that retains London's financial hub status could also benefit the leading bank.

Uni-Select distributes automotive refinish and industrial paint products in North America, is a leader in automotive aftermarket parts in Canada as well as in the United Kingdom, where, through its Parts Alliance U.K. subsidiaries, the company serves over 23,000 customers and holds a network of over 180 company-owned stores.

The company reports on three geographical segments, namely The FinishMaster U.S. segment, the Canadian Automotive Group segment, and The Parts Alliance U.K. segment, which contributed sales of \$97.8 million, or 21.7%, of the company's \$450.8 million revenue during the third quarter of 2019.

Over the first nine months of this year, the Parts Alliance U.K. segment has contributed nearly \$301 million, or 22.7%, to consolidated corporate revenue, but this was a 2.3% organic sales contraction year over year, as results were negatively impacted by a prolonged period of uncertainty surrounding Brexit — the U.K.'s exit from the European Union.

Third-quarter sales for this segment were also 2.6% organically as compared to last year for the same reasons, even after new acquisitions were expected to boost the top line. The segment adjusted earnings before taxes (adjusted EBT) margin was down from 4.2% in 2018 to a mere 1.9% during the third quarter of 2019.

Adjusted EBT is a better measure of comparable operating earnings after the 2019 introduction of a new accounting standard for leases, IFRS 16, was without retrospective restatement of prior results.

The profit margin measure has taken a hit due to low sales volumes that reduced the segment's ability to absorb fixed costs.

Any improvement in the British customer's certainty on Brexit may boost Uni-Select's revenues in the territory, and this may, in turn, result in better earnings margins. Unfortunately, management had to warn recently that its prior earnings guidance might not be met as key segments have underperformed during this year.

Management asserted in the most recent quarterly earnings that "organic growth will remain positive for the year but lower than the guidance primarily due to softness in the U.K. business and we expect profitability will be in the lower part of the range or slightly below."

That said, although the Canada segment is performing better this year, Uni-Select still needs all its businesses to return to consistent growth and profitability before investors become bullish on the stock.

The FinishMaster U.S. segment reported an organic sales decline of 0.5% during the third quarter but the rate remains a positive 1.1% for the first nine months of this year, as the sales teams pulled off some initiatives but the adjusted EBT margin shrank from 7.9% in 2018 to 5.4% by September this year due to evolving customer mix and pricing pressure, but ongoing store integrations could reduce operating costs.

Bottom line

Uni-Select is still undergoing business model transformation, and its share price remains subdued in the short term, but a return to organic sales growth within the British territory which could come with improved economic certainty after a negotiated Brexit deal, and a [necessary return](#) to healthy earnings margins could lift the bottom line and bring some new bulls to the heavily discounted ticker.

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