



## 2020 Stocks: This 1 Stock Could Gain 637%!

### Description

**Uni-Select** ([TSX:UNS](#)) is a distributor of automotive products, paint, and related products for motor vehicles. The company's portfolio includes FinishMaster US, Canadian Automotive Group and The Parts Alliance UK.

The company reports a market capitalization of \$450 million with a 52-week high of \$20.36 and a 52-week low of \$10.06

### Intrinsic price

Based on my calculations, using a discounted cash flow (DCF) valuation model, I determined that Uni-Select has an intrinsic value of \$77.56 per share. Assuming less-than-average industry growth, the intrinsic value would be \$74.12 per share, and higher-than-average industry growth would result in an intrinsic value of \$81.39 per share.

At the current share price of \$10.62, I believe Uni-Select is significantly undervalued. Investors looking to add an [automotive products and services](#) company should consider buying shares of Uni-Select. I would advise investors to follow the stock through 2020 as a recession could lead to purchasing the shares at a more favourable price.

Uni-Select has an enterprise value of \$3.7 billion, representing the theoretical price a buyer would pay for all of Uni-Select's outstanding shares plus its debt. One of the things to note about Uni-Select is its moderate leverage, with debt at 48.9% of total capital versus equity at 51.1% of total capital.

### Financial highlights

For the nine months ended September 30, 2019, the company reports a strong balance sheet with retained earnings of US\$533 million. As an investor, this is very good news as it indicates the company has reinvested surpluses in itself to grow the business.

The company reports a cash balance of US\$21 million compared to current debt obligations of US\$29 million. Although I would like to see companies with more cash than current debt obligations, I am not overly concerned about this given the company's revolving credit facility, which can be drawn to meet these obligations.

Sales have decreased slightly year over year from US\$1.333 billion to US\$1.327 billion (-0.4%) but management improved the company's operating efficiency, which has resulted in operating income of US\$104 million, up from \$92 million in 2018.

Management takes a very proactive approach to debt management as indicated by the issuance and repayment of debt in 2018 and 2019. The company paid down US\$204 million and US\$252 million of long-term debt in 2019 and 2018, respectively. This is offset by an increase in long-term debt of US\$205 million and US\$209 million in 2019 and 2018 respectively.

Companies often use this strategy if interest rates become more favourable, to reduce their interest payment obligations.

## Foolish takeaway

Investors looking to buy shares of an automotive service and products company should [consider buying shares](#) of Uni-Select. The company reports a solid balance sheet with positive retained earnings coupled with a management team committed to managing its long-term debt.

My only concerns with the company are its moderately high leverage and a slight drop in sales that may signal challenging times ahead. That said, investors should add Uni-Select to their watch list and wait for the ideal time to buy in.

I firmly believe that Uni-Select can achieve its intrinsic value of \$77.56 per share with a management team that is dedicated to reducing its debt and driving growth.

## CATEGORY

1. Investing

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1. TSX:UNS (Uni-Select)

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cliu

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