WARNING: 1 Stock I'm Staying Far Away From!

Description

Boyd Group Services (TSX:BYD) was one of the best performers on the TSX Index over the past year, with shares more than doubling and putting the markets to shame in the process. With continued earnings growth momentum via same-store sales growth (SSSG) initiatives and accretive acquisitions, it seems as though Boyd stock's momentum will be hard to stop in its tracks.

The company has exceptional stewards running the show. And with a world of opportunity in the still fragmented North American auto-collision and repair centre scene, Boyd's urge to merge will likely keep the double-digit growth numbers up, at least until the next recession hits.

While the medium-term outlook for the company is stellar, the valuation has become far too rich for my liking, and potential secular headwinds could make it a tough road ahead for the auto part maker that can't seem to do any wrong.

At the time of writing, Boyd trades at 35.1 times next year's expected earnings, 7.2 times book, 15.5 times cash flow, and 1.9 times sales, most of which are higher than the stock's five-year historical average multiples of 26, 5.8, 16.3, and 1.2, respectively. The stock is at the high point of its historical valuation range. While the company is still firing on all cylinders, investors may begin to grow wary as new technologies look to threaten Boyd's competitive positioning.

While business is booming today, the landscape may change for the worst over the next decade, with high-tech electric vehicles (EVs) becoming more popular in North America. Now, Boyd may acquire its way to become an expert repairer of EVs eventually. However, given the imminent rise of Internet of Things, self-driving technologies, and over-the-air software updates, the vehicles of the future may be less prone to accidents and more likely to "repair themselves" through self-diagnostic software.

Moreover, one must not rule out the possibility of vehicle repair experts going straight to one's home in the future. All technological trends mentioned may still be in the very early phases, but they're food for thought for investors who are thinking about hanging onto Boyd for the extremely long term.

In any case, I wouldn't pay too much of a premium for Boyd stock given potential disruptive pressures that could hurt earnings growth later down the road. At this juncture, Boyd is fully valued, and although there are near-term catalysts to look forward to (M&A potential), I'm not a fan after last year's incredible run.

I've been a raging bull on Boyd in the past, pounding the table on the name in many prior pieces over the last few years. While nothing is going wrong at the company-specific level, I'm hesitant to recommend the stock at these heights and think automotive technologies could disrupt sales far sooner than most would think.

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