



This High-Beta Auto Stock on the TSX Could Be Ripe for the Picking

Description

As countries slowly ease lockdown restrictions, some companies will start seeing business stabilize. While it will be a while before business returns to pre-COVID levels, encouraging signs are sprouting up in multiple sectors.

Uni-Select ([TSX:UNS](#)) is a global supplier and distributor of automotive products, paint, and related products for motor vehicles. The stock was trading at almost \$13 per share in March this year before plunging to below \$3.5 per share in May. It has recovered to \$7.72 and is well poised to move higher.

The company issued an update on June 22, when it said its performance was better than anticipated with sales for April and May doing better than what was previously forecast. “We believe that all operating units have performed either in line with their respective markets or ahead,” said the company.

Steady business in the summer

While the [auto industry is expected to decline](#) between 14% and 22% around the world, people will increasingly tend to use their private cars as opposed to public transport. This will mean a lot more work for auto repair and collision repair shops, especially during the summer.

In Canada, “Uni-Select supports over 16,000 automotive repair and collision repair shops and more than 4,000 shops through its automotive repair/installer shop banners and automotive refinish banners. Its national network includes over 1,000 independent customer locations and more than 75 company-owned stores, many of which operate under its Bumper-to-Bumper, Auto Parts Plus and Finishmaster store banner programs.”

All those vehicles that are expected to come to these repair stores will require aftermarket parts. In the United States, FinishMaster has a national network of over 175 automotive refinish company-owned stores that are the primary supplier to more than 5,500 collision repair shop customers.

In the U.K. and Ireland, Uni-Select is a major distributor of automotive parts with a network of over 175 company-owned stores.

What's next for investors?

Uni-Select had implemented a performance improvement plan that kicked off in 2018 and was completed in Q1 2020. It generated \$53 million in annualized savings. It has now implemented a continuous improvement plan to generate a further \$28 million to \$30 million in annualized savings.

In December 2019, [Fellow Fool Chen Liu said](#) that the stock, then trading at \$10.62, was seriously undervalued and could generate massive gains. While that upside might be severely curtailed now, the current price of \$7.72 doesn't do it justice. The stock has a beta of 1.42, which is on the higher side. This means the stock will have exaggerated movements when the market moves either way.

While high beta will work in the investor's favour during a bull run, the stock will also fall decline at a rapid pace in a bear market. However, Uni-Select shares will be a good buy even during a bearish market, as shares will be available at a discount from current levels.

The low valuation of Uni-Sys stock should be attractive to contrarian and value investors. It has a price to sales multiple of 0.15 and a price to book ratio of 0.50.

While the COVID-19 pandemic will drag sales lower by 19.4% in 2020, it's expected to rise by 14.8% in 2021. Similarly, while earnings are expected to fall to -\$0.6 in 2020, from \$0.73 in 2019, it's expected to rise to \$0.4 in 2021.

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