

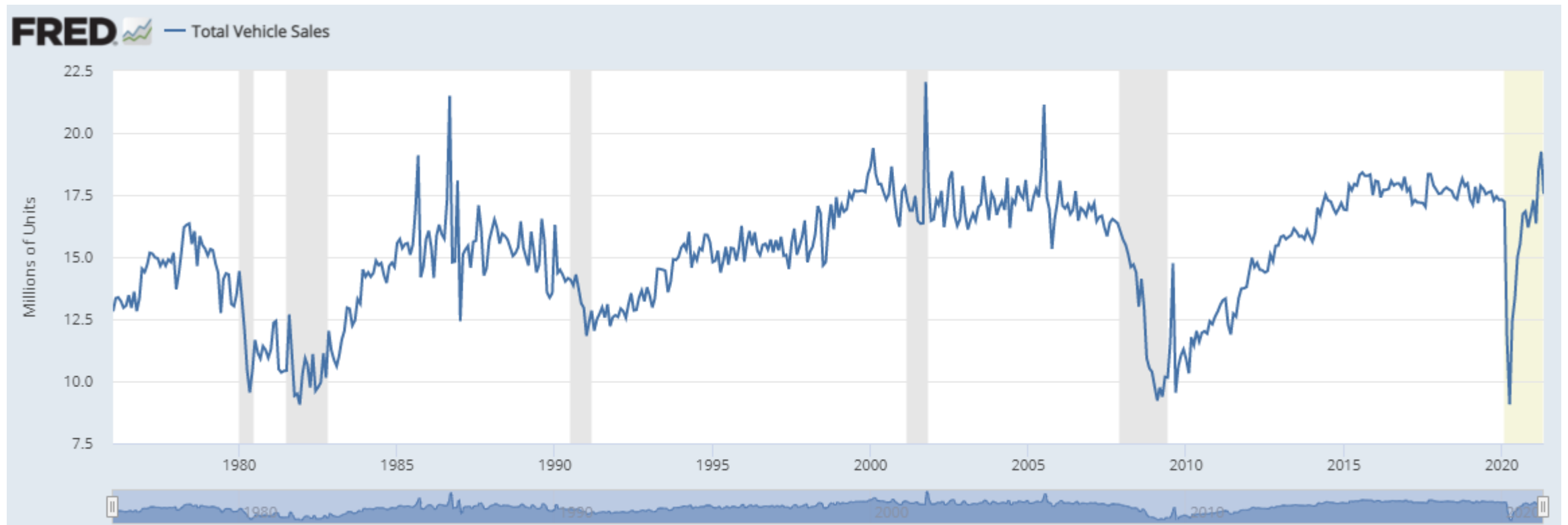
GROUP 1 AUTOMOTIVE:

SHORT IDEA

GROUP 1
AUTOMOTIVE®

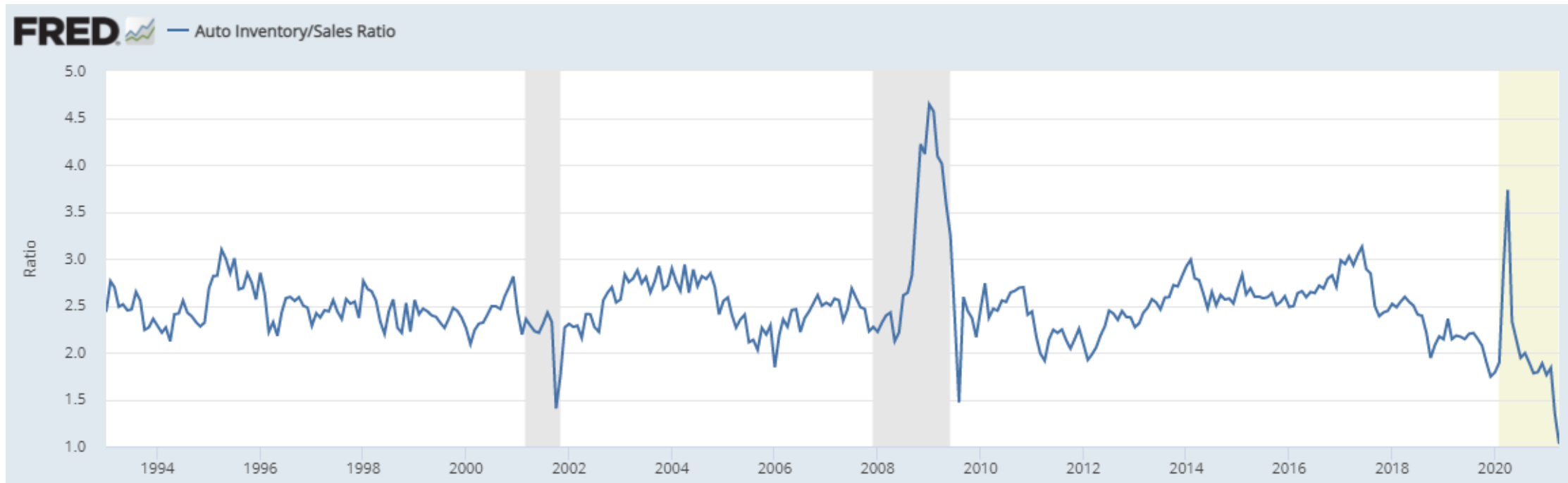
Macro view

- With the global chip shortage, supply of cars has been heavily constrained, and the auto industry is slowly regaining previous production levels. Meanwhile, Because of lack of new cars, used cares sales have skyrocketed in the last year. Leading to inflation in their prices.



Macro view

- As car production still faces supply chain issues, demand has not subdued. Instead, it has increased substantially putting pressure in car inventories. Which are currently at their lowest.



“The figure shows that while retailers had 43 days of inventory in February 2020, today they have just 33 days. Inventories of cars and homes are also at or near record lows, **sufficient for just one month**”

Industry Top-Down

- The Auto dealers have had a tremendous year on the back of this inflation in car prices, the increase in used car sales and unusually high general demand for cars. Nevertheless, the situation is reaching a point of critical mass where the lack of inventory and auto **supply could hurt revenues** across the sector.


Ticker	Company Name	EG F1	EG F2	EG F3	PE FY1	PE FY2	PE FY3	PEG F1	PEG F2	PEG F3
GPI	Group 1 Automotive Inc	15.95%	-1.51%	-10.10%	7.34	7.45	8.29	0.46	-4.92	-0.82
	Industry	38.09%	4.69%	4.51%	14.12	13.31	12.79	0.56	4.01	4.25

- The chosen company to represent this idea is **Group 1 Automotive**: It's trading at a discount to the sector and has poor growth going forward. It also, as we will see going forward, is already showing some cracks around its lack of inventory and how it can hurt sales.

Company Overview

Group 1 Automotive, Inc.  NYSE

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GPI **144.03** USD **-4.87** (-3.27%) **144.03** USD **0.00** (+0.00%) **Tue Jul 27th 2021**  **Consumer Discretionary** **Specialty Retail** **\$2.53b** **6.8x** **174,703** **-16.83%** **115.45%**
Last Updated • Fri Jun 18 4:00PM EDT After Market • Fri Jun 18 6:59PM EDT Next Earnings Date Sector Industry Market Cap Forward P/E Volume Total Return (3M) Total Return (1Y)



KEY DATA

Dividend Yield	0.92%	Avg Volume (10D)	165.82k
Beta (5Y Monthly)	2.05	Volatility (1Y)	53.58
Shares Outstanding	17.54M	Short Interest %	11.97%
Industry	Specialty Retail		
Competitors	LAD	SAH	AN ABG KMX

PERFORMANCE RETURNS

	1M	3M	YTD	1Y
Price	-15.57%	-17.00%	9.83%	114.04%
Total	-15.40%	-16.83%	10.28%	115.45%

VALUATION

	LTM	NTM
P/E	7.4x	6.8x
EV/Sales	0.4x	0.4x
EV/EBITDA	6.9x	7.9x
Price/Book	1.6x	

CAPITAL STRUCTURE

Market Cap	\$2.53b
Total Debt	\$2.53b
Cash & Inv.	\$82.90M
Enterprise Value	\$4.98b

ANALYST ESTIMATES

	FY 2021	FY 2022	FY 2023
Sales	\$12.67b	\$13.36b	\$14.23b
YoY Chg	16.79%	5.39%	6.58%
EPS	21.15	20.80	19.20
YoY Chg	17.11%	-1.68%	-7.65%

NEWS

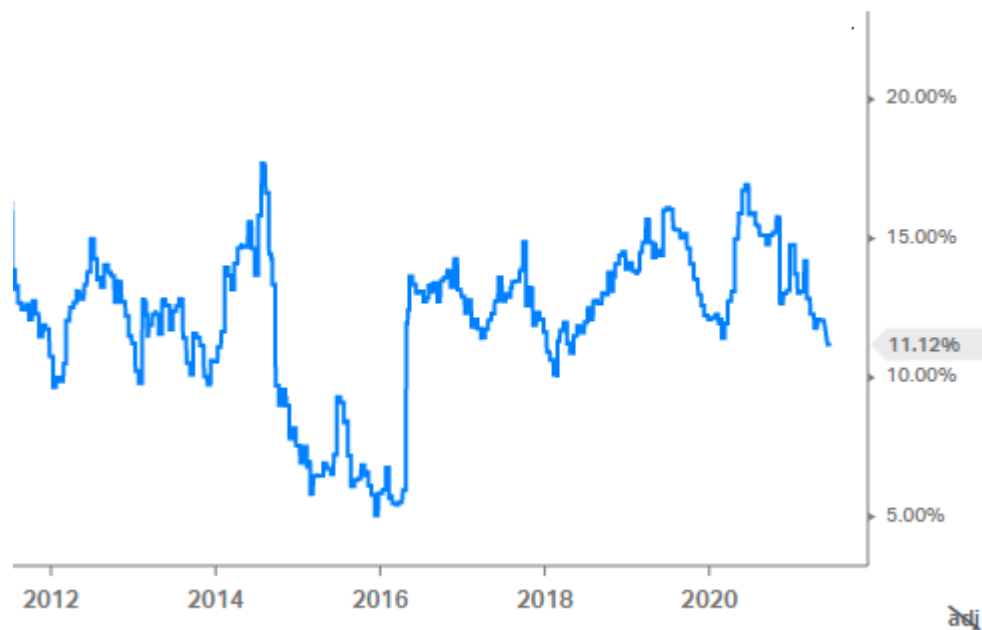
4 Top Stocks to Tap the Thriving Auto Retail Industry	Zacks Investment Research • Jun 17 21
Lithia (LAD) Reports Breakthrough May Sales, Buys 5 Stores in Texas	Zacks Investment Research • Jun 16 21
Zacks.com featured highlights include: Lumber Liquidators, Boise Cascade, Group 1 Automotive, Huntsman Corp and Vishay Intertechnology	Zacks Investment Research • Jun 11 21
Buy These 6 Low Price-to-Book Value Stocks in June	Zacks Investment Research • Jun 10 21
Why Group 1 (GPI) Stock Might be a Great Pick	Zacks Investment Research • Jun 09 21

Company Overview

- It has a short interest of 11 % and no anomalies in institutional holdings

Short Interest %

[Open Graph](#)



279 Institutional Holders

18,283,396 Total Shares Held

OWNER NAME	DATE	SHARES HELD	CHANGE (SHARES)	CHANGE (%)	VALUE (IN 1,000S) ▼
BLACKROCK INC.	03/31/2021	2,930,683	201,397	7.379%	\$422,106
VANGUARD GROUP INC	03/31/2021	1,845,493	47,356	2.634%	\$265,806
DIMENSIONAL FUND ADVISORS LP	03/31/2021	1,425,271	-33,083	-2.269%	\$205,282
EMINENCE CAPITAL, LP	03/31/2021	1,075,934	4,181	0.39%	\$154,967
FRANKLIN RESOURCES INC	03/31/2021	773,863	-47,829	-5.821%	\$111,459
STATE STREET CORP	03/31/2021	631,721	-3,631	-0.571%	\$90,987
MANUFACTURERS LIFE INSURANCE COMPANY, THE	03/31/2021	611,276	-7,279	-1.177%	\$88,042
LSV ASSET MANAGEMENT	03/31/2021	608,218	-72,760	-10.685%	\$87,602
VAUGHAN NELSON INVESTMENT MANAGEMENT, L.P.	03/31/2021	450,502	184,925	69.631%	\$64,886
INVESTMENT COUNSELORS OF MARYLAND LLC	03/31/2021	352,203	-46,467	-11.656%	\$50,728
GOLDMAN SACHS GROUP INC	03/31/2021	345,182	230,535	201.082%	\$49,717
NORGES BANK	12/31/2020	312,865	94,100	43.014%	\$45,062
NORTHERN TRUST CORP	03/31/2021	312,017	-430,173	-57.96%	\$44,940
GEODE CAPITAL MANAGEMENT, LLC	03/31/2021	306,783	21,939	7.702%	\$44,186
NUVEEN ASSET MANAGEMENT, LLC	03/31/2021	281,940	-36,316	-11.411%	\$40,608

Quantitative analysis - Bottom-line

- Their EPS growth shows lack of operational leverage and even contraction in upcoming years.

	FY 2020	FY 2021	FY 2022	FY 2023
1Q Mar	1.66	5.57	5.21	-
2Q Jun	3.77	5.45	5.60	-
3Q Sep	6.97	5.37	5.75	-
4Q Dec	5.66	5.01	5.45	-
Year	-	21.15	20.80	19.20
Growth	-	17.11%	-1.68%	-7.65%



Qualitative analysis -Revenue

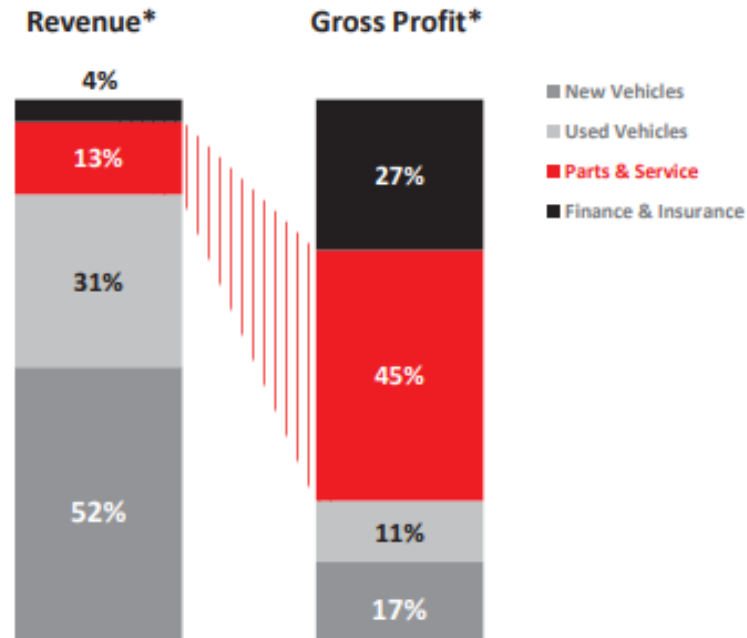
- Most of their revenue comes from both used vehicles and new vehicles. And though it is true that it's a smaller part of their profits, the Finance & Insurance part it also hurt by a contraction in car sales since that business emanates from sale contracts

Traditional Business Mix

Parts & Service is the heart of our business model and generates ~45% of total gross profit.

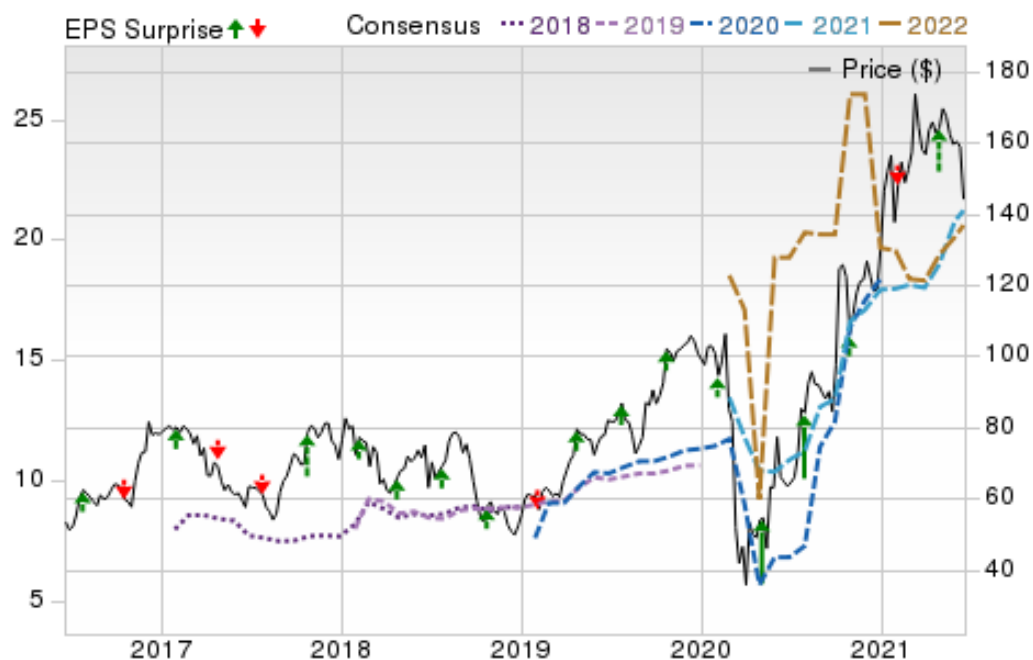
Parts & Service has traditionally only declined around mid-single digits during a recession, which provides stable, high-margin performance to help offset the cyclical nature of new vehicle sales.

*May not add to 100% due to rounding. based on 2019 full-year results.



Qualitative analysis - Last Quarter and Estimates

Price, Consensus & Surprise



May-03-21	Reiterated	The Benchmark Company	Buy	\$190 – \$214
Oct-19-20	Initiated	Seaport Global Securities	Buy	\$165
Aug-27-20	Reiterated	The Benchmark Company	Buy	\$130 – \$140
Jun-26-20	Reiterated	The Benchmark Company	Buy	\$79 – \$100
Jan-09-20	Initiated	The Benchmark Company	Buy	\$127

- Group 1 reported adjusted earnings per share of **\$5.57 in first-quarter 2021, beating the Consensus Estimate of \$4.39**. This outperformance stemmed from the **higher-than-anticipated gross profit** in the new vehicle retail, used vehicle retail, used-vehicle wholesale, and the Finance and Insurance segments.
- New-vehicle retail sales increased 15%** from the prior-year quarter to \$1,543.4 million. In addition, the figure exceeded the Consensus Estimate of \$1,394 million. Also, gross profit from the unit totaled \$99 million, up 57.7% year over year. The reported profit figure **also surpassed the consensus mark of \$91 million**.
- Used-vehicle retail sales rose 15.4%** from the year-ago quarter to \$898.8 million. The sales figure also outpaced the consensus mark of \$829 million. Further, gross profit from the unit summed \$59.6 million, up 41.4% year over year. The reported profit figure also beat the consensus mark of \$52 million.
- However, **used-vehicle wholesale sales declined 7.2% from the corresponding quarter last year to \$80.2 million, missing the consensus mark of \$87 million**. Gross profit from used-vehicle wholesale sales amounted \$3.9 million, skyrocketing 293.5% year on year and also outpacing the consensus mark of \$3 million.
- For the Parts and Service business, the top line slid 2.7% from the year-ago period to \$360.6 million**. In addition, the revenue figure missed the Consensus Estimate of \$379 million. **Gross profit** from the segment summed \$201.1 million, inching up 1.5% year on year but **falling shy of the consensus mark of \$204 million**.
- Nonetheless, **revenues from the Finance and Insurance business grew 12.9%** from the prior-year period to \$127 million, topping the consensus mark of \$123 million. Segmental gross profit of \$127 million grew 12.9% on a yearly basis and also beat the consensus estimate of \$123 million

Qualitative analysis - Last Quarter and Estimates

- For the reported quarter, **revenues in the U.S. business segment climbed 19.8% year on year to \$2,404.3 million**. The segment's gross profit also scaled up 21.8% year over year to \$415.3 million. During the March-end quarter, retail new-vehicle, used-vehicle, and wholesale used-vehicle units sold were 29,152, 30,431 and 6,440, respectively.
- For the January-March period, **revenues tailed off 6.9% year over year to \$549.6 million for the U.K. business segment**. Yet, gross profit summed \$66 million, inching up 1.8% from the first quarter of 2020. During the reported quarter, retail new-vehicle, used-vehicle, and wholesale used-vehicle units sold were 6,540, 7,112 and 3,138, respectively.
- **Revenues for the Brazil business segment plunged 39.4%** year over year to \$56.1 million during the first quarter. Further, the segment's gross profit dipped 12.1% year over year to \$9.4 million. In the reported quarter, retail new-vehicle, used-vehicle and wholesale used-vehicle units sold were 1,171, 516 and 234, respectively.
- Rising debt levels of the company could be a headwind. Long-term debt was \$1,282.6 million as of Mar 31, 2021, up from \$1,137.7 million recorded in the comparable period of 2020. Its total **debt-to-capital ratio stands at 0.48, higher than its industry's 0.36**.

Qualitative analysis - Last Quarter and Estimates

- In the last quarter, it has become clear that **inventories will be an ongoing problem** that will severely hurt sales in the near future.

*"U.S. new vehicle inventory levels finished the quarter at 14,500 units, of **34 days supply**. We anticipate **inventories remaining tight** and we'll continue to adjust our operations as necessary."*

*"Turning quickly to Brazil. Despite a **7% decline in new vehicle industry sales driven by tight inventories and additional COVID lockdowns**, our team did a tremendous job of growing margins and aggressively thinning the cost structure in order to realize a very strong quarterly profit in what is seasonally the weakest quarter of the year. "*

"Our quarterly floorplan interest of \$7.6 million was a decrease of \$5.3 million or 41% from the first quarter of 2020. This decline was primarily driven by lower inventory levels and related borrowings."

*"But it does seem that we'll get to a level as we get into the **second half of the second quarter, where we're going to be constrained in sales from new vehicle inventory**. And I would guess that's going to go into the **first part of the third quarter**."*

Qualitative analysis - Last Quarter and Estimates

*“Well, I would say that **we're getting to the point where inventory is a problem**, if not at this moment very soon. So ideal for us is about 45 days supply when we mix all our different brands together. And as you saw, we ended the quarter at little over 30. And we're actually fine in the 30s. But when -- because we're -- it's a big truck market. **When you get very far below 30 days of supply, you have trouble having many of the configurations that the truck customers want.**”*

Catalysts

- Earnings Call July 27th (estimated).
- CarMax Earnings Call June 25th .
- AutoNation Earnings Call July 22nd (estimated).
- Lithia Motors Earnings Call July 28th (estimated) .

Trade Structure

- The 5% OTM Calendar spread loos more attractive, it allows us get closer to the exposure we want and offers good ratios if timing is perfect.

Strategy	Calendar (5%OTM)		Calendar (5%OTM)		Calendar (10%OTM)		Calendar (10%OTM)	
Expiry	Jul 16th	Aug 20th	Jul 16th	Aug 20th	Jul 16th	Aug 20th	Jul 16th	Aug 20th
strikes	135		135		130		130	
prices	3.3 and 6.3		3.3 and 6.3		1.9 and 4.7		1.9 and 4.7	
contracts	(3) and 6		(3) and 6		(3) and 6		(3) and 6	
Calc Date	Jul 16th		Aug 20th		Jul 16th		Aug 20th	
cost	\$ (2,790.00)		\$ (2,790.00)		\$ (2,250.00)		\$ (2,250.00)	
\$ 160.00	\$ (2,022.00)	\$ (2,790.00)	\$ (1,816.00)	\$ (2,250.00)				
\$ 150.00	\$ (1,089.00)	\$ (2,790.00)	\$ (1,204.00)	\$ (2,250.00)				
\$ 145.00	\$ (344.00)	\$ (2,790.00)	\$ (682.00)	\$ (2,250.00)				
\$ 140.00	\$ 642.00	\$ (2,790.00)	\$ 41.00	\$ (2,250.00)				
\$ 135.00	\$ 1,906.00	\$ (2,790.00)	\$ 1,013.00	\$ (2,250.00)				
\$ 130.00	\$ 1,973.00	\$ 210.00	\$ 2,272.00	\$ (2,250.00)				
\$ 125.00	\$ 2,349.00	\$ 3,210.00	\$ 2,345.00	\$ 750.00				
\$ 120.00	\$ 3,020.00	\$ 6,210.00	\$ 2,738.00	\$ 3,750.00				
\$ 115.00	\$ 3,951.00	\$ 9,210.00	\$ 3,436.00	\$ 6,750.00				
\$ 110.00	\$ 5,091.00	\$ 12,210.00	\$ 4,398.00	\$ 9,750.00				
\$ 100.00	\$ 7,781.00	\$ 18,210.00	\$ 6,889.00	\$ 12,750.00				