

## Credit Acceptance (CACC)

**\$435.24** (As of 02/11/20)

Price Target (6-12 Months): **\$460.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

## Summary

Shares of Credit Acceptance have underperformed the industry over the past year. The company's earnings surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Its fourth-quarter 2019 results benefited from revenue growth, offset by rise in expenses. Increase in finance charges driven by rise in demand for consumer loans and improving economy will likely support profitability. Improvement in dealer enrollments and active dealers (despite tough competition) is a major positive for the company. However, mounting operating expenses, mainly owing to an increase in compensation and marketing costs are expected to hurt the bottom line to some extent. Deteriorating credit quality remains a major concern for the company. In fact, provisions are expected to remain elevated in the quarters ahead, given the steady rise in loans.

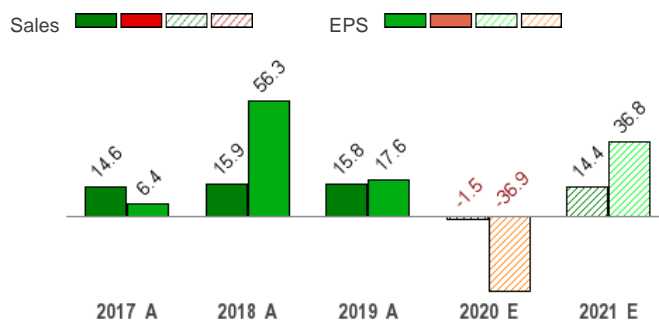
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$509.99 - \$385.36
20 Day Average Volume (sh)	135,369
Market Cap	\$8.2 B
YTD Price Change	-1.6%
Beta	0.77
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Financial - Consumer Loans</a>
Zacks Industry Rank	Bottom 40% (153 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/04/2020
Earnings ESP	-8.2%
P/E TTM	12.5
P/E F1	19.9
PEG F1	1.3
P/S TTM	5.5

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	404 E	413 E	417 E	421 E	1,678 E
2020	341 E	367 E	375 E	383 E	1,467 E
2019	354 A	371 A	379 A	386 A	1,489 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.07 E	\$7.12 E	\$7.98 E	\$8.70 E	\$29.87 E
2020	\$4.19 E	\$5.37 E	\$5.90 E	\$6.37 E	\$21.83 E
2019	\$8.08 A	\$8.68 A	\$8.73 A	\$8.60 A	\$34.57 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

## Overview

Headquartered in Southfield, MI, Credit Acceptance Corporation is a credit services company. The company, founded in 1972, operates through one segment. The segment primarily focuses on offering financing programs, and related products and services to automobile dealers in the United States enabling them to sell vehicles to consumers irrespective of their credit history.

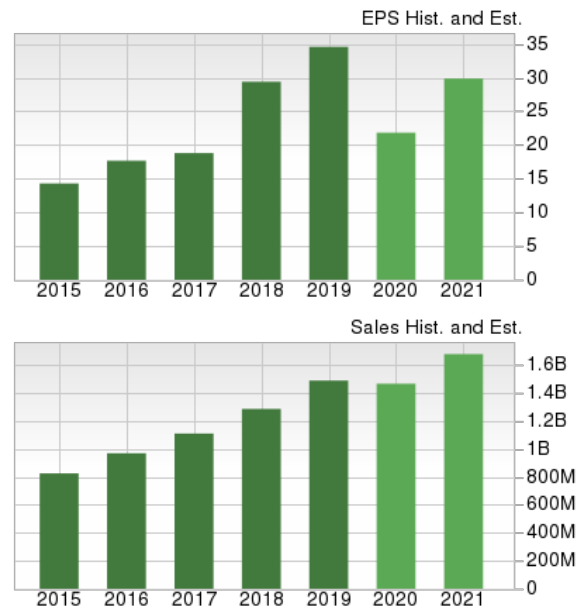
Credit Acceptance offers financing programs through a country-wide network of automobile dealers. These dealers benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for financing programs but actually end up qualifying for traditional financing.

Credit Acceptance has two loan programs:

- **Portfolio Program:** Under this, the company gives money to dealers (called Dealer Loans) in exchange for the right to service the underlying Consumer Loan.
- **Purchase Program:** Under this, the company buys Consumer Loans from the dealers (called Purchased Loan) and keeps all the money collected from the consumer.

Further, Credit Acceptance through its wholly-owned subsidiary, VSC Re Company, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by dealers on vehicles financed by the company.

As of Dec 31, 2019, the company's net loans receivable totaled \$6.7 billion, cash and cash equivalents (including restricted) were \$517.7 million, and total stockholders' equity was \$2.4 billion.



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## Reasons To Buy:

- ▲ Revenue growth remains a major positive for Credit Acceptance. The company's top line has witnessed a six-year (2014-2019) CAGR of 15.5%. Growth is primarily attributable to steady rise in finance charges, which is also the main revenue component (accounting for 92% of total revenues in 2019). Given the increase in demand for auto loans, finance charges are likely to continue improving, thereby supporting revenue growth. A decent rise in dealer enrollments and active dealers will further aid the company's top line.
- ▲ Credit Acceptance believes in returning capital to shareholders through stock repurchases instead of paying dividends. In February 2017, the company had authorized additional 1 million shares to be repurchased. Despite having a substantial debt burden, its high cash flow generating business model and low capital expenditure needs are likely to help sustain its share buybacks going forward.
- ▲ Credit Acceptance's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 29.72% compares favorably with 14.18% for the industry.

Growth in revenues, primarily driven by increase in consumer loans along with a rise in dealer enrollments, remains a positive for Credit Acceptance. Its share buyback policy seems impressive.

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### Reasons To Sell:

- ▼ Credit Acceptance has been witnessing a continuous increase in expenses over the past several years. Operating expenses have increased at a CAGR of 13.9% over the last six years (2014-2019). The increase has been mainly due to a rise in salaries and wages, and sales and marketing expenses. As the company continues to hire additional team members and sales force, costs are expected to remain elevated, thereby hurting bottom-line growth to an extent.
- ▼ Credit Acceptance's asset quality has been deteriorating over the past few years. While provision for credit losses declined in 2018, the same witnessed a six-year (2014-2019) CAGR of 42.9%. Provisions are expected to remain elevated, given the rise in loan balance. Therefore, deterioration in the overall credit quality might hamper the company's financials in the future.
- ▼ Shares of Credit Acceptance have underperformed the industry over the past year. The company's current-year earnings estimates have been revised 20.5% lower over the past 30 days. Further, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are higher than the respective industry averages. Thus, given the concerns and downward estimate revisions, the stock has limited upside potential.

Continuously increasing expenses and deteriorating credit quality remain major concerns for Credit Acceptance. Additionally, a stretched valuation might limit the stock's upside potential.

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## Last Earnings Report

### Credit Acceptance Q4 Earnings & Revenues Lag, Costs Up

Credit Acceptance's fourth-quarter 2019 earnings of \$8.60 per share missed the Zacks Consensus Estimate of \$8.96. However, the bottom line was up 10.4% year over year. Notably, the figure includes certain non-recurring items.

Results reflect solid revenue growth on the back of rise in loan balance. However, an increase in operating expenses and higher provision for credit losses were headwinds.

Excluding the non-recurring items, net income (non-GAAP basis) was \$173.5 million or \$9.22 per share, up from \$153 million or \$7.85 per share in the prior-year quarter.

In 2019, reported earnings per share of \$34.57 lagged the consensus estimate of \$35.02 but grew 17.6% year over year. Net income (non-GAAP basis) was \$658.4 million or \$34.70 per share, up from \$554.5 million or \$28.39 per share in 2018.

### GAAP Revenues & Expenses Rise

Total revenues for the quarter were \$385.9 million, up 12.6% year over year. This increase was largely driven by rise in finance charges. However, the reported figure lagged the Zacks Consensus Estimate of \$388.6 million.

In 2019, total revenues grew 15.8% to \$1.49 billion, which was in line with the consensus estimate.

Operating expenses of \$170.7 million rose 20.4%. An increase in all cost components led to the rise.

### Credit Quality Deteriorates

Provision for credit losses surged 53.7% from the year-ago quarter to \$27.2 million. Moreover, allowance for credit losses at the end of the fourth quarter was \$536 million, up 16%.

### Strong Balance Sheet

As of Dec 31, 2019, net loans receivable amounted to \$6.7 billion, increasing from \$5.8 billion on Dec 31, 2018.

Total assets were \$7.4 billion as of the same date, increasing from \$6.2 billion on Dec 31, 2018. Also, total stockholders' equity was \$2.4 billion, up 18.3%.

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**Quarter Ending** **12/2019**

Report Date	<b>Jan 30, 2020</b>
Sales Surprise	<b>-0.69%</b>
EPS Surprise	<b>-4.02%</b>
Quarterly EPS	<b>8.60</b>
Annual EPS (TTM)	<b>34.09</b>

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## Valuation

Credit Acceptance's shares are up 0.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 15.9% and 9.1%, respectively over the past year.

The S&P 500 index is up 20.3% in the past year.

The stock is currently trading at 19.25X forward 12 months earnings, which compares to 8.15X for the Zacks sub-industry, 14.87X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.88X and as low as 8.76X, with a 5-year median of 12.99X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$460 price target reflects 20.34X forward earnings.

The table below shows summary valuation data for CACC

Valuation Multiples - CACC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.25	8.15	14.87	19.12
	5-Year High	21.88	10.82	16.21	19.34
	5-Year Low	8.76	6.26	12.01	15.18
	5-Year Median	12.99	8.84	14.15	17.47
P/TB TTM	Current	3.46	1.14	3.29	12.43
	5-Year High	6.71	1.57	3.98	12.49
	5-Year Low	2.85	0.96	2.44	6.03
	5-Year Median	4.08	1.22	3.46	9.11
P/S F12M	Current	5.52	1.45	6.55	3.53
	5-Year High	6.74	2.07	6.65	3.53
	5-Year Low	3.14	1.11	5.39	2.54
	5-Year Median	5.12	1.52	6.04	3

As of 02/11/2020

## Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 254)



## Top Peers

Ally Financial Inc. (ALLY)	Neutral
Encore Capital Group Inc (ECPG)	Neutral
General Motors Company (GM)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
CarMax, Inc. (KMX)	Neutral
PRA Group, Inc. (PRAA)	Neutral
Ford Motor Company (F)	Underperform
Santander Consumer USA Holdings Inc. (SC)	Underperform

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	CACC Neutral	X Industry	S&P 500	ALLY Neutral	HBAN Neutral	SC Underperform
<b>VGM Score</b>	<b>D</b>	-	-	<b>B</b>	<b>D</b>	<b>A</b>
Market Cap	8.18 B	952.05 M	24.31 B	12.47 B	14.49 B	9.04 B
# of Analysts	3	3	13	7	11	7
Dividend Yield	0.00%	0.00%	1.78%	2.32%	4.28%	3.31%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Cash/Price	0.05	0.29	0.04	0.29	0.10	0.25
EV/EBITDA	12.83	8.22	13.97	8.62	9.71	1.77
PEG Ratio	1.23	0.70	2.06	0.65	1.90	4.75
Price/Book (P/B)	3.43	1.15	3.24	0.89	1.37	1.23
Price/Cash Flow (P/CF)	14.64	5.91	13.65	4.41	9.92	3.94
P/E (F1)	19.76	7.50	19.12	7.75	10.94	9.50
Price/Sales (P/S)	5.49	1.32	2.67	1.95	2.56	1.15
Earnings Yield	5.02%	13.32%	5.23%	12.92%	9.12%	10.53%
Debt/Equity	1.75	1.62	0.70	2.47	0.93	0.00
Cash Flow (\$/share)	29.73	3.99	6.94	7.45	1.41	6.75
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	23.63%	12.44%	10.85%	17.52%	12.41%	0.79%
Proj. EPS Growth (F1/F0)	-36.85%	3.72%	7.30%	13.86%	1.00%	-2.05%
Curr. Cash Flow Growth	37.91%	27.14%	8.92%	4.27%	-22.59%	35.94%
Hist. Cash Flow Growth (3-5 yrs)	17.03%	4.84%	8.36%	5.70%	7.58%	36.75%
Current Ratio	29.49	2.31	1.22	1.05	0.90	0.79
Debt/Capital	63.69%	60.25%	42.90%	71.20%	45.51%	0.00%
Net Margin	44.06%	12.47%	11.81%	26.82%	24.95%	12.66%
Return on Equity	29.72%	14.18%	16.98%	10.40%	13.44%	13.66%
Sales/Assets	0.22	0.25	0.54	0.04	0.05	0.17
Proj. Sales Growth (F1/F0)	-1.50%	3.88%	3.90%	4.52%	1.85%	8.49%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>F</b>	<b>D</b>
Daily Price Chg	-0.53%	0.14%	0.65%	0.58%	0.72%	0.61%
1 Week Price Chg	4.14%	0.00%	2.47%	1.69%	2.87%	-0.83%
4 Week Price Chg	-2.33%	0.00%	1.35%	8.46%	-3.90%	17.65%
12 Week Price Chg	0.95%	0.63%	5.63%	6.77%	-5.14%	12.09%
52 Week Price Chg	0.12%	3.36%	16.19%	22.38%	1.23%	30.39%
20 Day Average Volume	135,369	241,660	1,995,746	4,012,613	10,450,079	1,303,613
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.34%	-2.50%	-0.96%
(F1) EPS Est 12 week change	-18.51%	0.20%	-0.19%	0.41%	-2.76%	-5.12%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.47%	-3.17%	41.16%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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