

Credit Acceptance (CACC)

\$441.42 (As of 01/13/20)

Price Target (6-12 Months): **\$370.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

Summary

Shares of Credit Acceptance have underperformed the industry over the past year. Nonetheless, the company has an impressive earnings surprise history. The company has surpassed the Zacks Consensus Estimate in three of the trailing four quarters. While increase in finance charges, rise in demand for consumer loans and improvement in dealer enrollments and active dealers (despite tough competition) are likely to keep supporting the company's profitability, continuously mounting operating expenses, mainly owing to increase in compensation and marketing costs are expected to hamper bottom-line growth to some extent in the near term. Moreover, deteriorating credit quality remains a major concern for the company in the near term. In fact, provisions are expected to remain elevated in the quarters ahead, given the steady increase in loan balances.

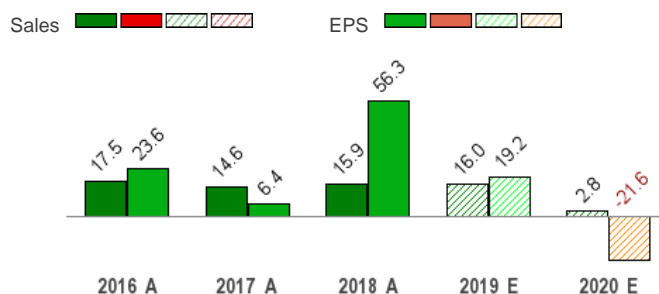
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$509.99 - \$385.36
20 Day Average Volume (sh)	130,314
Market Cap	\$8.3 B
YTD Price Change	-0.2%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Bottom 23% (195 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.4%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	13.2
P/E F1	16.1
PEG F1	1.0
P/S TTM	5.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	386 E	432 E	424 E	423 E	1,534 E
2019	354 A	371 A	379 A	389 E	1,492 E
2018	296 A	315 A	332 A	343 A	1,286 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$4.26 E	\$5.35 E	\$5.77 E	\$6.32 E	\$27.45 E
2019	\$8.08 A	\$8.68 A	\$8.73 A	\$8.96 E	\$35.02 E
2018	\$6.11 A	\$6.95 A	\$7.75 A	\$7.79 A	\$29.39 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 01/13/2020. The reports text is as of 01/14/2020.

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.

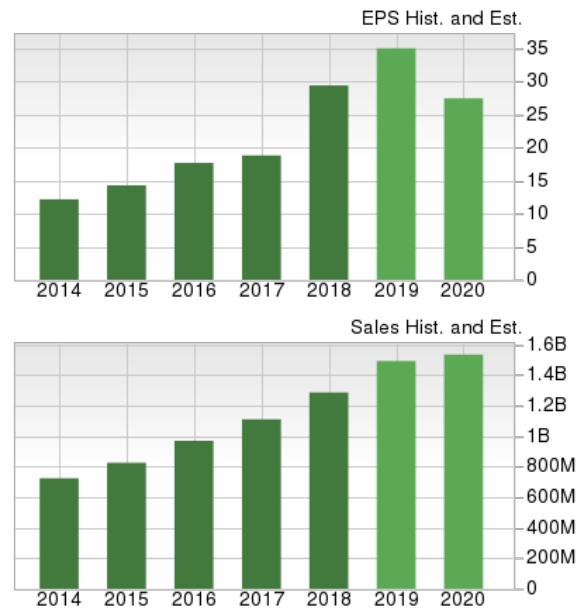
Credit Acceptance offers financing programs through a country-wide network of automobile dealers. These dealers benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding 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 Sep 30, 2019, the company's net loans receivable totaled \$6.6 billion, cash and cash equivalents (including restricted) were \$354.5 million, and total stockholders' equity was \$2.4 billion.



Reasons To Sell:

- ▼ Continuously increasing expenses remain a major concern for Credit Acceptance. Operating expenses have been seeing a CAGR of 15.1% over the last five years (2014-2018), with the trend persisting in the first nine months of 2019. The increase has been due to rise 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 some extent.
- ▼ Credit Acceptance's asset quality has been deteriorating over the past few years. Provision for credit losses witnessed a four-year CAGR of 11.1% (ended 2018), with the uptrend continuing in the first nine months of 2019. 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 remained unchanged 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 no 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.

Risks

- Revenue growth remains a major positive for Credit Acceptance. The company's top line has witnessed a five-year (2014-2018) CAGR of 15.5%, with the momentum continuing in the first nine months of 2019. Growth is primarily attributable to steady rise in finance charges, which is also the main revenue component (accounting for 91.9% of total revenues in the first nine months of 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. As of Sep 30, 2019, more than 0.2 million shares were left 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' fund. The company's ROE of 29.54% compares favorably with 13.80% for the industry.
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Last Earnings Report

Credit Acceptance Q3 Earnings, Revenues Lag Estimates

Credit Acceptance's third-quarter 2019 earnings of \$8.73 per share missed the Zacks Consensus Estimate of \$9.13. However, the bottom line was up 12.6% 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 remained headwinds.

Excluding the non-recurring items, net income (non-GAAP basis) was \$168.4 million or \$8.89 per share, up from \$147.2 million or \$7.56 per share in the prior-year quarter.

GAAP Revenues & Expenses Rise

Total revenues were \$378.7 million, up 14.1% year over year. This increase was largely driven by rise in finance charges. However, the reported figure lagged the Zacks Consensus Estimate of \$382 million.

Operating expenses of \$81.7 million rose 14.3%. An increase in all cost components led to the rise.

Credit Quality Deteriorates

Provision for credit losses increased 37.9% from the year-ago quarter to \$19.3 million. Moreover, allowance for credit losses at the end of the third quarter was \$509.1 million, up from \$461.9 million as of Dec 31, 2018.

Strong Balance Sheet

As of Sep 30, 2019, net loans receivable amounted to \$6.6 billion, increasing from \$5.8 billion as of Dec 31, 2018.

Total assets were \$7.1 billion as of the same date, increasing from \$6.2 billion on Dec 31, 2018. Also, total stockholders' equity was \$2.4 billion, up 19.7% from the end of December 2018.

Quarter Ending 09/2019

Report Date	Nov 01, 2019
Sales Surprise	-0.83%
EPS Surprise	-4.38%
Quarterly EPS	8.73
Annual EPS (TTM)	33.28

Valuation

Credit Acceptance's shares are up 6.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 21.1% and 13.7%, respectively over the past year.

The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 15.98X forward 12 months earnings, which compares to 7.91X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.73X and as low as 8.76X, with a 5-year median of 12.91X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$370 price target reflects 13.40X 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	15.98	7.91	14.88	18.87
	5-Year High	20.73	10.85	16.21	19.34
	5-Year Low	8.76	6.33	12.01	15.17
	5-Year Median	12.91	8.89	13.98	17.44
P/TB TTM	Current	3.51	1.12	3.28	12.5
	5-Year High	6.71	1.55	3.98	12.53
	5-Year Low	2.85	0.96	2.44	6.03
	5-Year Median	4.1	1.22	3.46	9.07
P/S F12M	Current	5.38	1.39	6.53	3.5
	5-Year High	6.74	2.05	6.61	3.5
	5-Year Low	3.14	1.1	5.2	2.54
	5-Year Median	5.07	1.52	6.04	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 254)



Top Peers

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

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	CACC Underperform	X Industry	S&P 500	ALLY Neutral	HBAN Neutral	SC Neutral
VGM Score	D	-	-	C	D	B
Market Cap	8.30 B	931.98 M	24.31 B	11.41 B	14.93 B	7.71 B
# of Analysts	3	3	13	6	10	7
Dividend Yield	0.00%	0.00%	1.76%	2.27%	4.15%	3.88%
Value Score	F	-	-	A	B	A
Cash/Price	0.05	0.29	0.04	0.32	0.13	0.29
EV/EBITDA	12.95	8.41	14.12	8.41	9.69	1.42
PEG Ratio	1.01	0.63	2.05	0.57	1.91	1.60
Price/Book (P/B)	3.48	1.12	3.34	0.81	1.39	1.05
Price/Cash Flow (P/CF)	14.85	6.04	13.66	4.03	8.14	3.36
P/E (F1)	16.08	6.67	18.82	7.11	10.99	8.02
Price/Sales (P/S)	5.74	1.37	2.64	1.84	2.64	1.00
Earnings Yield	6.22%	14.31%	5.29%	14.06%	9.13%	12.48%
Debt/Equity	1.75	1.65	0.72	2.47	0.92	0.00
Cash Flow (\$/share)	29.73	2.78	6.94	7.45	1.78	6.75
Growth Score	C	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	23.16%	10.75%	10.56%	17.19%	12.14%	-0.53%
Proj. EPS Growth (F1/F0)	-21.62%	8.71%	7.49%	12.77%	2.30%	-0.15%
Curr. Cash Flow Growth	37.91%	27.14%	14.83%	4.27%	19.75%	35.94%
Hist. Cash Flow Growth (3-5 yrs)	17.03%	5.02%	9.00%	5.70%	15.58%	36.75%
Current Ratio	29.49	2.25	1.23	1.05	0.91	0.79
Debt/Capital	63.69%	61.80%	42.99%	71.20%	45.33%	0.00%
Net Margin	44.69%	12.28%	11.08%	26.29%	25.24%	12.33%
Return on Equity	29.54%	13.80%	17.16%	10.69%	13.83%	13.20%
Sales/Assets	0.21	0.24	0.55	0.03	0.05	0.17
Proj. Sales Growth (F1/F0)	2.86%	5.67%	4.23%	5.67%	1.19%	6.86%
Momentum Score	C	-	-	F	D	F
Daily Price Chg	1.33%	0.72%	0.73%	0.20%	0.56%	-0.66%
1 Week Price Chg	-0.05%	-1.27%	0.39%	-1.45%	-2.90%	-1.47%
4 Week Price Chg	-0.59%	-3.87%	1.84%	-4.21%	-5.74%	-4.51%
12 Week Price Chg	-5.05%	-0.91%	6.48%	-2.22%	0.70%	-11.30%
52 Week Price Chg	4.87%	4.81%	23.15%	21.45%	12.70%	18.00%
20 Day Average Volume	130,314	155,678	1,578,594	3,084,714	7,695,410	767,992
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.08%	-2.32%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.41%	-2.32%
(F1) EPS Est 12 week change	-43.86%	-1.04%	-0.48%	-2.03%	-1.42%	-6.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.56%	-18.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	C
Momentum Score	B
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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