Sonic Automotive, Inc. (SAH)

Published October 5th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	13.8%	**Market Cap:**	$1.9 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	14.0%	**Ex-Dividend Date:**	09/13/2024
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	10/15/2024
Dividend Yield:	2.1%	**5 Year Price Target**	$102	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Sonic Automotive, Inc. is an automotive retailer and servicer in the United States. The company's franchised dealerships, comprising 106 stores, sells more than 25 different new vehicle brands and services cars through its 16 collision repair centers. Its EchoPark division sells used vehicles and light trucks, and offers financing and insurance. Lastly, its Powersports segment sells new and used powersports vehicles like motorcycles, watercraft and all-terrain vehicles, as well as offers finance and insurance services. Sonic was incorporated in 1997 and is headquartered in Charlotte, North Carolina. The company's market capitalization is $1.9 billion.

Sonic's $14.4 billion of record revenue in the last fiscal year were 45% derived from new vehicles, with 38% from used vehicles, 12% from parts, service & collision repair, and 5% from finance & insurance.

On December 7th, 2021, Sonic completed its acquisition of RFJ Auto Partners, Inc., which added $3.2 billion in annual revenue and expanded its geographic reach to six additional states.

On October 26th, 2023, Sonic Automotive increased its quarterly dividend by 3% to $0.30 per share, or $1.20 annualized.

Sonic Automotive reported second quarter results on August 5th, 2024. Second quarter revenue declined 5% to $3.5 billion from $3.7 billion in the same prior year period. The company experienced revenue declines in all three of its business segments, with Franchised Dealerships, EchoPark, and Powersports dropping -3%, -14%, and -12%, respectively.

Net income per diluted share was $1.18, up 82% from the prior year quarter's $0.65. After adjustments, EPS declined 20% to $1.47 in the quarter, which beat the analysts' consensus by $0.09.

The CDK outage caused by a cybersecurity incident, which the company suffered through in the end of the second quarter, caused a negative impact of $30 million, or $0.64 per share of GAAP income.

At quarter-end, the company had roughly $885 million in total liquidity.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.90	$1.97	$2.01	$1.85	$1.79	$2.65	$3.85	$8.46	$9.61	$6.81	***$5.80***	***$11.67***
DPS	$0.10	$0.11	$0.20	$0.20	$0.24	$0.40	$0.40	$0.46	$1.03	$1.16	***$1.20***	***$1.93***
Shares[1]	52.6	50.9	45.9	44.4	43.0	43.7	42.5	43.3	39.7	35.9	***35.0***	***30.0***

Sonic Automotive has increased its earnings-per-share at an impressive rate in the last decade. Since 2014, Sonic has increased its EPS at a 15.2% annual rate. And over the last five years, it has grown EPS at an eye-watering 30.6% annual rate. Nevertheless, its growth has not been a straight line, with declines in 2017, 2018, as well as 2023.

From its relative low point in 2024, we expect that Sonic Automotive could grow its EPS by 14% over the next five years, in-line with its average growth rate over the last decade.

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[1] In millions

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The company sees opportunities to grow its earnings within its EchoPark and Powersports segments, which will make up for softness it sees in Franchised Dealerships. Still, considering that Franchised Dealerships accounted for 82% of FY 2023 revenues, Sonic has a long way to go on this front.

The company also makes acquisitions, having spent $1.2 billion from FY 2020 through FY 2023. And it repurchased $605 million of its common shares in the same timeframe. The company's share count has declined substantially over the last decade, as it has reduced its outstanding shares by approximately 20% since 2019. It also has $260 million remaining on its current authorization, which represents about 13% of the company's market cap.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	12.9	12.1	9.2	10.8	10.9	8.8	8.5	5.8	4.8	7.4	***9.9***	***9.1***
Avg. Yld.	0.4%	0.4%	0.8%	1.0%	1.1%	1.4%	1.4%	0.9%	1.5%	2.2%	***2.1%***	***1.9%***

Sonic's ten and five year average PE are 9.1 and 7.1, and today the stock trades at 9.9 times expected earnings. We see a valuation of 9.1 times earnings as fair, which would imply a moderate negative impact on total annual returns from the valuation in the medium term. We don't foresee much change in the yield as the company's high dividend growth rate likely keeps up with an increase in the stock price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	5%	6%	10%	11%	13%	15%	10%	5%	11%	17%	***21%***	***17%***

Sonic's dividend has grown at an immense pace over the last decade, growing from just ten cents to $1.20, which has also resulted in its payout ratio increasing from 5% to 21%. However, the current year payout ratio is also inflated due to the lower-than-average EPS.

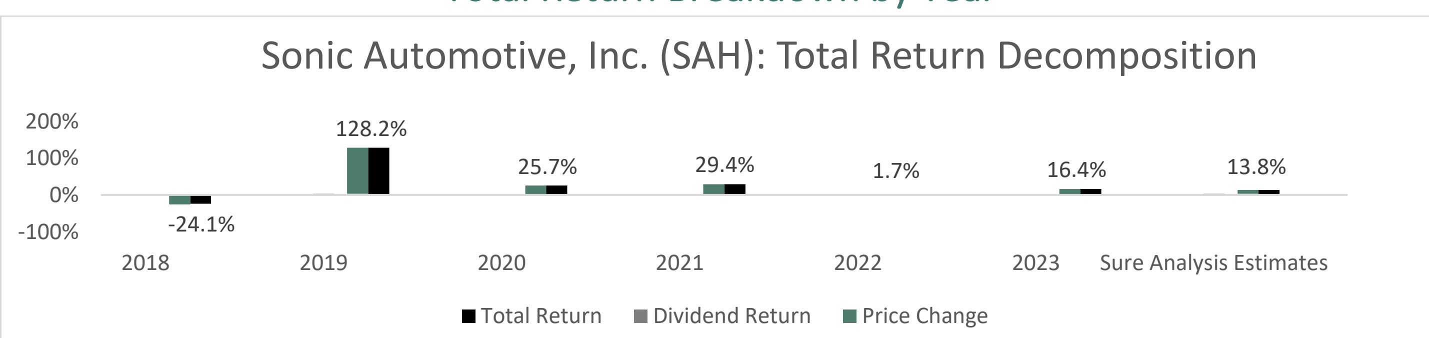
Sonic is far from recession-resistant, as it reported massive losses in 2008 and nearly declared bankruptcy in 2009. The situation was so dire that the company completed eliminated its dividend in 2009. It reinstated the dividend only by December 2010 and at only 20% of its former payment ($0.025 vs $0.12). It paid the same dividend until it began increasing its payout every year since 2016.

Within the competitive auto retail market, Sonic does not possess any outstanding competitive advantage, as many operate similarly. However, it has healthy revenue diversification across its business lines.

Final Thoughts & Recommendation

Sonic Automotive has increased its EPS at an exemplary rate in the last decade, and is a budding dividend growth stock, having raised its dividend twelvefold since 2014. We are forecasting total annual returns of 13.8% stemming from 14% EPS growth and the 2.1% yield, partly offset by -1.7% P/E multiple contraction. Sonic Automotive earns a buy rating.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,197	9,624	9,732	9,867	9,952	10,454	9,767	12,396	14,001	14,372
Gross Profit	1,366	1,415	1,429	1,458	1,446	1,521	1,424	1,914	2,317	2,246
Gross Margin	14.9%	14.7%	14.7%	14.8%	14.5%	14.5%	14.6%	15.4%	16.5%	15.6%
SG&A Exp.	1,067	1,111	1,111	1,148	1,145	1,099	1,029	1,275	1,555	1,601
D&A Exp.	59	69	78	90	94	90	88	94	114	124
Operating Profit	240	235	241	221	207	329	304	539	634	503
Operating Margin	2.6%	2.4%	2.5%	2.2%	2.1%	3.1%	3.1%	4.3%	4.5%	3.5%
Net Profit	97	86	93	93	52	144	(51)	349	89	178
Net Margin	1.1%	0.9%	1.0%	0.9%	0.5%	1.4%	-0.5%	2.8%	0.6%	1.2%
Free Cash Flow	15	(104)	10	(71)	(20)	45	154	8	179	(219)
Income Tax	63	57	61	14	23	55	16	109	102	64

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,168	3,562	3,639	3,819	3,797	4,071	3,746	4,975	4,978	5,365
Cash & Equivalents	4	4	3	6	6	29	170	299	229	29
Accounts Receivable	372	379	430	482	438	433	372	401	462	528
Inventories	1,312	1,600	1,571	1,513	1,528	1,518	1,247	1,261	1,217	1,578
Goodwill & Int. Ass.	560	552	553	600	579	540	278	897	628	671
Total Liabilities	2,502	2,833	2,914	3,032	2,974	3,126	2,931	3,899	4,083	4,473
Accounts Payable	132	131	118	130	114	135	105	133	138	150
Long-Term Debt	2,021	2,333	2,409	2,538	2,479	2,246	2,044	2,830	2,979	3,349
Shareholder's Equity	667	729	725	787	823	945	815	1,076	895	892
LTD/E Ratio	3.03	3.20	3.32	3.23	3.01	2.38	2.51	2.63	3.33	3.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.1%	2.6%	2.6%	2.5%	1.4%	3.7%	-1.3%	8.0%	1.8%	3.4%
Return on Equity	15.2%	12.4%	12.8%	12.3%	6.4%	16.3%	-5.8%	36.9%	9.0%	19.9%
ROIC	3.7%	3.0%	3.0%	2.9%	1.6%	4.4%	-1.7%	10.3%	2.3%	4.4%
Shares Out.	52.6	50.9	45.9	44.4	43.0	43.7	42.5	43.3	39.7	35.9
Revenue/Share	174.97	189.15	211.80	222.44	231.70	239.17	229.90	286.29	352.67	400.35
FCF/Share	0.28	(2.03)	0.22	(1.61)	(0.46)	1.03	3.62	0.19	4.51	(6.11)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.