Super Cheap doesn't look super cheap but it's super value

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TECHNICAL ANALYSIS
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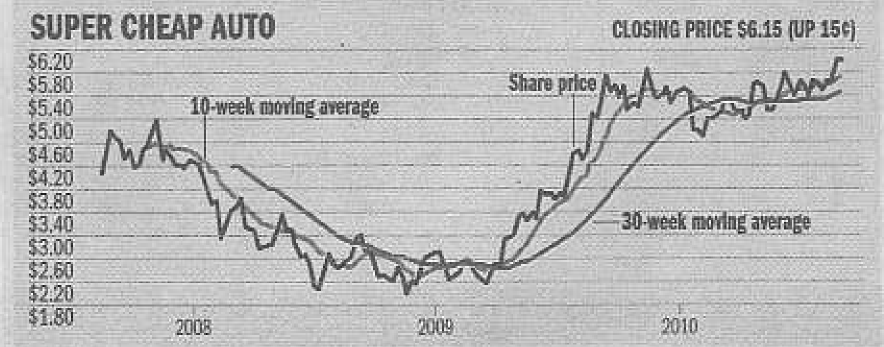
THIS week, technical analyst Rob Shelley looks at another stock that is showing promising signs on the charts despite the choppiness in the general market: car accessory supplier Super Cheap Auto Group.

The stock was in a strong uptrend during 2009, rising from $2.20 to be at $6.06 now. That is a situation that investors might normally look at and think means they have missed the boat and the stock is not likely to deliver more growth in the near term.

But Shelley, a member of the Australian Technical Analysts Association and director of Total Trading Concepts, sees things differently.

Generally, stocks in Super Cheap's position are either riding for a fall or are likely to trade sideways, Shelley says. And, indeed, Super Cheap has been trading roughly sideways in recent times. However, the chart tells a more complex story. Super Cheap's recent consolidation has formed an ascending triangle with a flat top.

That flat top has formed a resistance line, a price zone where sellers come in and put downward pressure on the price. But the ascending triangle is formed because buyers are prepared to pay higher prices for the stock. (See the recent "higher lows" formed on the black line, which is the Super Cheap share price.)



The stock has gone through the resistance line in recent times and that, Shelley says, indicates that the sellers that were at the resistance zone have sold. "If this is the case, it leaves fresh new buyers in the market willing to pay higher prices."

Another positive sign is that Super Cheap is trading above the 30-week moving average (red line), and the 10-week moving average (blue line) is above the 30-week moving average. The recent consolidation has been reached on low volumes, a further indication that sellers are out of the market.

The fundamentals also look good. Earnings per share for 2010 rose 13 per cent and the full-year dividend was up 19 per cent.

Return on equity is a low 14 per cent, presenting the possibility of further growth; and earnings are expected to grow 21 per cent this year. Dividends and earnings per share have been on the rise for five years.

As always, neither Shelley nor BusinessDay is offering investment advice. Those interested in investing should seek professional help and do their homework.