Why Rocky Mountain Dealerships Got Rocked

Description

Although we don't believe in timing the market or panicking over market movements, we do like to keep an eye on big changes — just in case they're material to our investing thesis.

What: Shares of agriculture and construction equipment dealership network **Rocky Mountain Dealerships** (TSX:RME) plunged 10% today after its quarterly results disappointed Bay Street.

So what: The stock has been sluggish in recent months on signs of weakening demand, and today's Q3 results — gross profit sank 28% on a revenue increase of just 4.3% — only reinforce those headwinds. In fact, gross margins decreased 380 basis points over the year-ago period to 11.4%, suggesting that Rocky Mountain's competitive position is weakening as well.

Now what: Rocky Mountain remains confident it its ability to bounce back. "Our management team enters 2014 with considerable confidence that much of the "tough sledding" over the past year will pay dividends as we continue to focus on the day to day fundamentals that ultimately lead to success," CEO Matt Campbell reassured investors. "Our agriculture business remains exceptionally strong, and the underlying fundamentals of the market support our optimism for the future."

More important, with the stock now off about 25% from its 52-week highs and trading at a forward P/E of 7, Rocky Mountain's *downside* might be limited enough to bet on that bullishness.

CATEGORY

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bpacampara