



Is it Time to Trade in Your Shares of AutoCanada Inc.?

Description

Last year saw **AutoCanada Inc.** ([TSX:ACQ](#)) surge to new highs in terms of its stock price, which peaked in June. Then many investors who believed that the ride was over took their profits and ran from the company. This exodus marred the stock price for the rest of 2014 and the damage continues into 2015. The closing price on Friday was \$42.76, right back where it started before the price surge.

The question now is, can AutoCanada's stock recover and meet the current average price target of \$82.60 or have investors missed their opportunity with this stock?

Are low gas prices a blessing or a burden?

Last year was a great year for the Canadian auto industry and AutoCanada, with its 48 dealerships benefiting from the record 1.85 million cars sold in Canada. Thanks in part to low gas prices, December alone saw national auto sales rise by 16%.

Normally this kind of spike in sales would make anyone very happy, however, there is a negative side to these numbers. While most of Canada will enjoy the low gas prices, residents of Alberta will have a much different experience. As crude oil slumps, so does the economy in Alberta and oil companies have already started slashing projects, costs, and jobs, which means less available cash for large purchases for many in and around the oil industry.

This is very concerning for AutoCanada as almost half of its Q3 2014 revenue came from Alberta. AutoCanada has only recently begun an expansion into Eastern Canada with a handful of dealerships in Quebec and Ontario, but remains heavily invested in the Prairies.

Auto sales did manage to rise by 4.8% in December, but almost no one predicted how far oil has fallen since then. AutoCanada should be able to weather a weakened Alberta for a couple of quarters, but as the discounted price of oil continues, things will become less predictable.

Room to grow

For quite some time AutoCanada has had the title of second largest automotive group in Canada.

Despite all of its acquisitions it has yet to surpass its main competitor, the privately held **Dilawri Group** which has a portfolio of 50 dealerships.

AutoCanada states that it is on track to meet its current acquisition guidance level of eight to 10 dealerships by March 2015. But how much further could the company go in terms of acquisition growth? Eventually AutoCanada will have to deal with the ownership caps set by many auto companies, which could put an end to its strategy to grow primarily through acquisitions.

Some analysts believe that AutoCanada could purchase between 30 and 35 more dealerships before exhausting its market availability. At its current rate of acquisition growth AutoCanada could hit this cap in two years.

Boardroom issues

One issue that has been brought to light by analysts is the fact that AutoCanada executives are permitted to own and operate their own competing dealerships and auto groups. It sends a bad message to investors when the executives of a company are operating their own competing firms.

There is also the revelation that AutoCanada has removed all non-compete clauses from outgoing CEO and Founder Patrick Priestner's contract. Patrick Priestner now independently owns seven dealerships, and some believe that he sold his shares in AutoCanada in order to fund his own personal dealership group.

Should you buy, sell, or lease?

Analyst predictions are rather mixed at the moment for AutoCanada, some have their price target around \$86, while the most recent report from RBC Capital saw its price target cut from \$80 to \$70. Analysts at Veritas Investment Research who reported on the boardroom issues mentioned above have cut their price target to \$35.

If you had shares and sold over the summer, good for you. For others, it could be a difficult road back to the days of \$90 share prices. AutoCanada should see some stock price growth when its Q4 report is released and investors see how AutoCanada benefited from a strong auto market in December. But at the end of the day it might be best to "lease" the stock and enjoy some short-term gains.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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