# Does the Steep Post-Earnings Drop in AutoCanada Inc.'s Stock Represent a Buying Opportunity?

## Description

**AutoCanada Inc.** (TSX:ACQ), one of the largest multi-location automobile dealership groups in Canada, announced better-than-expected fourth-quarter earnings results after the market closed on March 19, but its stock responded by falling over 21% in the trading session that followed. Let's take a closer look at the results to determine if this sell-off represents a long-term buying opportunity, or a major warning sign to avoid the stock for the time being.



### Breaking down the better-than-expected results

Here's a summary of AutoCanada's fourth-quarter earnings results compared to what analysts had anticipated and its results in the same period a year ago.

| Metric | Reported | Expected | Year-Ago |
|---|---|---|---|
| Earnings Per Share | $0.60 | $0.56 | $0.44 |
| Revenue | $653.47 million | $625.80 million | $333.77 million |

*Source: Financial Times*

AutoCanada's basic earnings per share increased 36.4% and its revenue increased 95.8% compared to the fourth quarter of fiscal 2013. These very strong results can be attributed to two primary factors. First, the company added 20 dealerships and 416 service bays compared to the year-ago period, bringing its total number of dealerships to 48 and its total number of service bays to 822. Second, AutoCanada added four new brands over the last year, including Cadillac, BMW, MINI, and Kia, bringing the total number of brands that it offers to 19, which allows it to cater to almost any consumer in the market today.

Here's a quick breakdown of 12 other notable statistics and updates from the report compared to the year-ago period:

1. New retail vehicles sold increased 80.6% to 8,907

2. New fleet vehicles sold increased 201.3% to 1,663
3. Revenue from the sale of new vehicles increased 92.3% to $379.09 million
4. Used retail vehicles sold increased 89.1% to 4,845
5. Revenue from the sale of used vehicles increased 97.7% to $148.58 million
6. Number of service and collision repair orders completed increased 123.1% to 214,077
7. Revenue from the parts, service, and collision repair segment increased 120.6% to $91.05 million
8. Same-store sales increased 10.9%
9. Gross profit increased 80.4% to $112.44 million
10. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 66.2% to $24.53 million
11. Ended the quarter with $563.28 million in inventory, an increase of 19.4% from the beginning of the quarter and 102.6% from the year-ago quarter
12. Ended the quarter with $72.46 million in cash and cash equivalents, an increase of 12.2% from the beginning of the quarter and 106.4% from the year-ago quarter

**Should you buy AutoCanada's stock on the dip?**

I do not think the post-earnings sell-off in AutoCanada's stock was warranted, but it represents a very attractive long-term buying opportunity because it trades at inexpensive valuations and pays a bountiful dividend.



First, AutoCanada's stock trades at just 14.6 times fiscal 2014's basic earnings per share of $2.31 and a mere 10.9 times fiscal 2015's estimated earnings per share of $3.09. I think the stock could consistently command a fair multiple of approximately 16.5, which would place shares around $51 by the conclusion of fiscal 2015, representing upside of more than 50% from today's levels.

Second, AutoCanada pays an annual dividend of $1.00 per share, which gives its stock a 3.0% yield at current levels, and I think this makes it qualify as a value, growth, and dividend play today.

With all of this information in mind, I think AutoCanada represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider establishing positions.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:ACQ (AutoCanada Inc.)

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**Date**
2025/07/23
**Date Created**

2015/03/23
**Author**
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