Why Boardwalk REIT and AutoCanada Inc. Could Tumble Even Further

Description

There are thousands of victims of Alberta's economic slump. Pink slips are flying as companies do their best to keep costs under control amid a pretty challenging environment. Gone are the days of rig workers getting all the overtime they could ever want. Most who haven't been laid off are just happy to have a job.

Just about every sector in Alberta's economy is feeling the pinch. **Boardwalk REIT** (TSX:BEI.UN) is the province's largest owner of apartments, with approximately 60% of its 35,000 units located within the province. The majority are located in Calgary and Edmonton, with a smattering in other cities like Red Deer and Fort McMurray.

Boardwalk continues to report great metrics, like a balance sheet with quite a bit of cash and one of the sector's lowest debt-to-equity ratios, as well as an occupancy ratio of more than 98%. Instead of paying out dividends of 5% or 6%, the company paid out around 3% and hoarded the rest of the cash to pay down debt and improve its properties. It was a great strategy; tenant turnover went down considerably, while the stock soared.

But as the market begins to digest the realization that oil isn't about to have a v-shaped recovery like in 2009, companies like Boardwalk will take it on the chin. That's strike one for the company. Having market sentiment against you is not good, even if results don't end up being so bad.

There's also the potential for rents in Calgary and Edmonton to head lower. Both cities are filled with landlords who are sitting on paid-off property purchased before the last boom. They won't hesitate to reduce rent. Accepting 20% less rent than last time is a whole lot better than sitting vacant.

Now this isn't to imply that Boardwalk is about to have some serious issues. As I mentioned earlier, the company's balance sheet is great and management has been pretty conservative, probably because they own 25% of the company's shares. But as less impressive results come in than, investors will leave the stock. Even if energy starts to recover, Boardwalk will likely lag behind it by at least a few months. Confidence takes a while to come back. That's bad news in the short term.

AutoCanada

Over the last couple of years, **AutoCanada Inc.** (TSX:ACQ) rode the wave of Alberta's prosperity. That wave has now come crashing down.

Approximately 50% of the company's fourth-quarter revenue came from Alberta. Although results were pretty much in line with expectations, it was the outlook that sent shares sharply lower. Sales were down anywhere between 10-33% at the company's Calgary dealerships in January, depending on the brand. When times are good, oil patch employees will often treat themselves to a new truck, which tend to have better margins than cars. At least repair bays should remain busy during these tough times.

Plus, the company made the mistake of making a big acquisition in Calgary in July, which, in hindsight, was pretty bad timing.

Like with Boardwalk, AutoCanada is a good long-term play that will likely see more weakness in the upcoming months. Every announcement of additional layoffs will remind investors that very few people are going to buy a new car in Alberta. Sentiment will be an issue, and lackluster results will just drive shares down even further. But as long as management can navigate through this storm, the company should emerge intact on the other side. Plus, there might be some very attractive opportunities to pick up assets on the cheap.

If you're looking to buy these two solid companies and ride the inevitable recovery, don't rush into it. I think both end up heading lower before pulling out of this slump.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)
2. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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