Should You Buy AutoCanada Inc. for its Growth and 3% Dividend Yield Today?

Description

AutoCanada Inc. (TSX:ACQ), one of Canada's largest multi-location automobile dealership groups, has watched its stock fall over 24% in 2015, but it has the potential to be one of the top performers over the next decade. Let's take a look at three of the top reasons why you should consider establishing a long-term position today.

1. Double-digit earnings growth to support a higher stock price

On March 19, AutoCanada released better-than-expected earnings results for its fiscal year ending in December 2014, but its stock has responded by falling over 20% in the weeks since. Here's a summary of 12 of the most important statistics from the annual report compared to fiscal 2013:

1. Net earnings attributable to shareholders increased 39.2% to $53.13 million
2. Adjusted earnings per share increased 23.1% to $2.24
3. Revenue increased 57.2% to $2.21 billion
4. Gross profit increased 51.7% to $373.1 million
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 50.5% to $89.1 million
6. Adjusted free cash flow increased 38.3% to $63.7 million
7. New vehicles sold increased 30% to 36,422
8. Used retail vehicles sold 51.6% to 15,725
9. Number of service and collision repair orders completed increased 65.1% to 601,597
10. Added 20 dealerships during the year, bringing its total count to 48
11. Added 416 service bays during the year, bringing its total count to 822
12. Added four new brands during the year, including Cadillac, BMW, MINI, and Kia, bringing the total number of brands it sells to 19

2. The stock trades at inexpensive forward valuations

At today's levels, AutoCanada's stock trades at 15 times fiscal 2014's adjusted earnings per share of $2.24, which seems sustainable, but it trades at just 12.3 times fiscal 2015's estimated earnings per share of $2.74 and only 10.9 times fiscal 2016's estimated earnings per share of $3.07, both of which are inexpensive compared to its five-year average price-to-earnings multiple of 14.6.

I think AutoCanada's stock could consistently command a fair multiple of at least 14, which would place its shares upwards of $38.25 by the conclusion of fiscal 2015 and around $43 by the conclusion of fiscal 2016, representing upside of more than 13% and 27%, respectively, from current levels.

3. A generous dividend that has been growing rapidly

AutoCanada pays a quarterly dividend of $0.25 per share, or $1.00 per share annually, giving its stock a 3% yield at current levels. The company has also increased its dividend 15 times over the last 16 quarters, showing that it is strongly dedicated to maximizing the amount of capital it returns to shareholders, and its increased free cash flow could allow for another increase in the very near future.

Should you be a buyer of AutoCanada today?

AutoCanada represents one of the best long-term investment opportunities in the market today because it has the support of double-digit earnings growth, because its stock trades at inexpensive forward valuations, and because it has a 3% dividend yield. Foolish investors should take a closer look and strongly consider initiating positions.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:ACQ (AutoCanada Inc.)

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jsolitro