



Is AutoCanada Inc. the Next Best Thing to Investing Like a Billionaire?

Description

If I were to ask you what the latest en vogue investment for billionaires is, I'd bet car dealerships is not the first answer that pops into your head. And yet, some of the richest and most powerful investors on the planet are investing in dealerships.

Warren Buffett announced that **Berkshire Hathaway** was acquiring Van Tuyl Group back in October for an undisclosed price. Van Tuyl is the fifth-largest auto dealer in the U.S., with more than 80 locations and US\$9 billion in revenue.

Bill Gates is one of the largest shareholders of **AutoNation Inc.**, the largest auto dealership company in the United States; Gates holds 15% of the company. Hedge fund billionaire Eddie Lampert isn't far behind, owning 12% of the same company.

According to reports, George Soros is looking to make a big splash in the sector as well, even going as far as sending trusted aides to major auto shows.

And of course, we can't forget Jim Pattison, the Vancouver-based billionaire who owns 38 dealerships in Western Canada. Pattison's rise to owning the second-largest privately held company in Canada started with a single dealership in 1961.

With all these billionaires interested in the sector, there's got to be some serious potential there. What exactly is the huge appeal?

One word: consolidation

We can look at this in two ways. First of all, why would someone own a dealership in the first place?

Well, profits tend to be good. The average profit of a dealership has gone up significantly since the Great Recession, thanks to brisk vehicle sales and better revenues from the repair side of the business. There's an upside to cars lasting longer than ever, which is they need more repairs. Plus, cars are a relatively simple business, and the manufacturers make sure one market isn't flooded with too many dealerships.

From a big-picture perspective, the future is quite bright. North America's car dealerships are largely owned by individuals or families who only own a dealership or two. There has been very little consolidation in the sector.

Let's go back to Van Tuyl Group as an example of this. The company is the fifth-largest auto dealer in the U.S., but it only owns 81 out of more than 17,000 dealerships. The largest, AutoNation, owns just 280 dealerships. I don't want to scoff at that because owning 280 dealerships is a big accomplishment. But it illustrates just how much consolidation potential there is in the United States.

The Canadian opportunity

In Canada the consolidation opportunities are just as lucrative. But unlike in the U.S., there's really only one company going about it in a large way, and that's **AutoCanada Inc.** ([TSX:ACQ](#)).

In 2010 the company owned just 22 dealerships, most of which were in Western Canada. Five years later the number has more than doubled to nearly 50. And that's just the tip of the iceberg. Analysts have estimated that as many as 1,000 dealerships may change hands in the next decade as owners retire.

And yet, AutoCanada's shares have slumped lately, falling more than 50% from highs set last year in June. The reason? Sales in Alberta, its largest market, look to be downright terrible, tumbling nearly in lockstep with oil.

I'll admit, the short-term outlook doesn't look good. But Alberta will eventually recover, and so will the company's dealerships in the province. Meanwhile, investors who buy now are getting a company that has grown revenues and profits by 100% since 2012 for a P/E ratio of under 20. That's a pretty compelling valuation for a huge potential growth story.

It's little wonder billionaires are getting into the auto dealership business. The growth opportunity is staggering, and selling cars tends to be a pretty consistent business. If you're looking to join them, investing in AutoCanada looks to be a pretty good way to do it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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