3 Reasons Why AutoCanada Inc. Is the Top Auto Stock to Buy Today

Description

AutoCanada Inc. (TSX:ACQ), one of Canada's largest automobile dealership groups, was once one of the top performing stocks in 2015, rising more than 15% from January 1 to February 22, but it has fallen over 19% in the months since and is now down over 7% for the year. I think the stock has bottomed and could be one of the top performers from this point forward, so let's take a look at three of the primary factors that support this idea and why you should be a long-term buyer today.

1. Very strong first-quarter growth to support a sustained rally

After the market closed on May 7 AutoCanada released very strong and better-than-expected first-quarter earnings results, and its stock has responded by rising about 16% in the weeks since. Here's a summary of 10 of the most notable statistics from the report compared with the year-ago period:

1. Net earnings attributable to shareholders decreased 40.1% to $4.97 million
2. Earnings per share decreased 47.4% to $0.20, surpassing analysts' expectations of $0.15
3. Revenue increased 74.1% to $633.41 million, surpassing analysts' expectations of $606.40 million
4. New vehicles sold increased 36% to 8,933
5. Revenue from the sale of new vehicles increased 59.6% to $345.54 million
6. Used vehicles sold increased 71% to 4,891
7. Revenue from the sale of used vehicles increased 89.9% to $163.24 million
8. Number of service and collision repair orders completed increased 116.4% to 199,096
9. Revenue from the sale of parts, services, and collision repairs increased 128.2% to $92.95 million
10. Gross profit increased 67% to $105.4 million

AutoCanada's steep decline in net income and its very strong revenue growth can both be attributed to it adding 20 dealerships and 416 service bays over the last year, bringing its total number of dealerships to 48 and its total number of service bays to 822. Also, the company signed deals to bring four new brands to its dealerships, including Cadillac, BMW, MINI, and Kia, bringing the total number of brands that it offers to 19 and allowing it to fulfill the needs of almost any consumer.

2. The stock trades at inexpensive forward valuations

At current levels AutoCanada's stock trades at just 20 times fiscal 2015's estimated earnings per share of $2.05 and a mere 13.4 times fiscal 2016's estimated earnings per share of $3.07, both of which are inexpensive compared with its long-term growth potential and the industry average price-to-earnings multiple of 21.4.

I think AutoCanada's stock could consistently command a fair multiple of at least 25, which would place its shares around $51.25 by the conclusion of fiscal 2015 and around $76.75 by the conclusion of fiscal 2016, representing upside of more than 24% and 86%, respectively, from today's levels.

3. 15 dividend increases in the last five years

AutoCanada pays a quarterly dividend of $0.25 per share, or $1.00 per share annually, giving its stock a 2.4% yield at current levels. A 2.4% yield may not peak your interest at first, but it is very important to note that the company has increased its dividend 15 times in the last five years, making it one of the top dividend-growth plays in the market today.

Is now the prime time to buy AutoCanada?

I think AutoCanada could be the performing auto stock from this point forward. Its very strong first-quarter earnings results could support a sustained rally, its stock trades at inexpensive forward valuations, and it has a 2.4% dividend yield with an extensive track record of increasing its payout. Long-term investors should strongly consider beginning to scale in to positions today.

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1. Dividend Stocks
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1. TSX:ACQ (AutoCanada Inc.)

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