Is Now the Time to Load up on AutoCanada Inc.?

Description

It has been a pretty dreadful year for **AutoCanada Inc.** (TSX:ACQ) shareholders.

After shares peaked at just over $90 per share back in mid-2014, they've been absolutely obliterated, falling almost 70% to the current price of just over $32 each. The last time the company traded at such a depressed level was back in 2013.

Is now a buying opportunity? Or is this company destined to fall even further?

It's all about Alberta

The biggest issue facing AutoCanada right now is the Albertan economy.

Currently, the price of crude has dipped back below US$50 per barrel, which is hampering any hopes that a recovery is soon on the way for the province. This is leading analysts and pundits to predict a pretty lean 2015 for this former growth darling, since approximately 45% of its sales come from Alberta.

Additionally, many of Alberta's oilfield workers are required to have pickup trucks as part of the job, since they need to be able to transport tools and whatnot. When times are good, many workers regularly upgrade their trucks, choosing to spend $10,000 extra on a model with all the bells and whistles. During a downturn, folks are much less likely to even trade in an existing vehicle in the first place, never mind springing for a fancy model. You can probably guess what types of vehicles have the highest margins.

How about the long-term?

As much as the short-term weakness in Alberta will hurt AutoCanada, the long-term trend of consolidation in the industry is still a good one.

There are thousands of car dealerships across Canada that are owned by thousands of different entrepreneurs. Most dealer-owners have just one or two to their name, and many are hitting retirement age with little interest to keep it in the family. AutoCanada is the natural buyer of these assets.

The company has been working on expanding from its Western Canadian roots. Over the last year, it has acquired assets in B.C., Manitoba, and Ontario, as well as strengthening its presence in Alberta. Still, the percentage of sales from Alberta is going down, from 49% to 45% year over year.

And numbers from Alberta haven't been horrible, at least so far. According to a report by DesRosiers Automotive Consultants, new vehicle sales in the province were only down 3% compared to the same quarter last year. AutoCanada posted comparable results, only seeing a decrease in sales of 3.5% when looking at stores it has owned at least a year.

Valuation

Here's where AutoCanada really gets interesting. It still has a great deal of growth potential, but is coming at a bargain price.

Currently, shares trade hands at 16 times earnings. Analysts project the company will earn about the same amount during 2015, and then earnings are expected to grow 50% in 2016 to $3.02 per share. That puts the company at less than 11 times 2016's projected earnings, which is a bargain for a company with such obvious growth prospects.

AutoCanada's management isn't really worried about the weakness in Alberta either, since it looks likely to drive down the price needed to acquire assets in the province.

Over the short-term, I can see a scenario where AutoCanada continues to go lower, especially as the price of crude weakens. But over the long-term, there's a very obvious growth story here. I think if investors buy the stock now and tuck it away for five years, they'll be pretty happy with the results.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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