# Is AutoCanada Inc. the Most Logical Way to Invest in the Auto Industry Today?

## Description

**AutoCanada Inc.** (TSX:ACQ), one of the largest automotive dealership groups in Canada, announced better-than-expected second-quarter earnings results after the market closed on August 6, but its stock has responded by falling over 6% in the trading sessions since. The company's stock now sits more than 58% below its 52-week high of $73 reached back in August 2014, so let's take a closer look at the results and its stock's valuations to determine if we should consider using this weakness as a long-term buying opportunity.



**Surpassing analysts' expectations by a wide margin**

Here's a summary of AutoCanada's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

| Metric | Reported | Expected | Year-Ago |
|---|---|---|---|
| Adjusted Earnings Per Share | $0.56 | $0.51 | $0.61 |
| Revenue | $816.88 million | $713.00 million | $465.06 million |

*Source: Financial Times*

AutoCanada's basic adjusted earnings per share decreased 8.2% and its revenue increased 75.7% compared with the second quarter of fiscal 2014. These very strong results can be attributed to the company adding 15 dealerships and 326 service bays over the last year, bringing its total counts to 49 and 842, respectively. This led to its total number of vehicles sold increasing 42.9% to 17,739 and its total number of service and collision repair orders completed increasing 120.5% to 215,142.

However, the company did note that it was negatively impacted by the corporate tax rate being increased to 12% from 10% in Alberta, which reduced its net income by $831,000 and its earnings per share by $0.03.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. New retail vehicles sold increased 66% to 9,929
2. New fleet vehicles sold increased 106.5% to 2,367
3. Used retail vehicles sold increased 97.1% to 5,443
4. Revenue from the sale of new vehicles increased 66.7% to $483.44 million
5. Revenue from the sale of used vehicles increased 91.1% to $194.96 million
6. Revenue from the sale of parts, service, and collision repairs increased 115.5% to $99.3 million
7. Revenue from finance, insurance, and other services increased 44.9% to $39.18 million
8. Adjusted earnings before interest, taxes, depreciation, and amortization increased 24.2% to $27.7 million
9. Adjusted free cash flow increased 23.9% to $19.2 million
10. Ended the quarter with $77.68 million in cash and cash equivalents, an increase of 17.1% from the beginning of the quarter

AutoCanada also announced that it will be maintaining its quarterly dividend of $0.25 per share, and the next payment will come on September 15 to shareholders of record at the close of business on August 31.



**Should you buy AutoCanada on the dip?**

It was a fantastic quarter overall for AutoCanada, and it surpassed analysts' expectations, so I do not think the post-earnings drop in its stock is warranted. With this being said, I think the drop represents a great long-term buying opportunity because the stock now trades at very inexpensive valuations and has a dividend yield of over 3%, making it both a value and dividend play.

First, AutoCanada's stock trades at just 14.9 times fiscal 2015's estimated earnings per share of $2.01 and a mere 10.9 times fiscal 2016's estimated earnings per share of $2.76, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 15 and the industry average multiple of 32.4. I think its stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $40 by the conclusion of fiscal 2015 and upwards of $55 by the conclusion of fiscal 2016, representing upside or more than 33% and 83%, respectively, from current levels.

Second, AutoCanada pays an annual dividend of $1.00 per share, which gives its stock a 3.3% yield at today's levels. The company has also increased its annual dividend payment for four consecutive years, and it is currently on pace for 2015 to mark the fifth consecutive year with an increase, and its increased amount of free cash flow could allow this streak to continue for the next several years.

With all of the information above in mind, I think AutoCanada represents one of the best long-term investment opportunities in the auto industry today. Foolish investors should strongly consider beginning to scale in to positions.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:ACQ (AutoCanada Inc.)

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