



Invest Just Like Gates and Buffett by Buying AutoCanada Inc. Shares

Description

In a world where there are thousands of different stocks trading on North American exchanges, it's only natural to get a few differences in opinion. After all, differences in opinion are the very basis of what makes a market. But there are a few areas where it seems like the richest investors in the world agree. Specifically, it sure does seem like the best investors in the world are pretty bullish on the auto dealership sector.

Back in October 2014, Warren Buffett announced that **Berkshire Hathaway** was acquiring Van Tuyl Group, which is the fifth-largest auto dealer in the United States. Terms of the deal weren't disclosed, but it's not like Van Tuyl is a small-fry operator. It boasts more than 80 locations and US\$9 billion in revenue.

Bill Gates has joined his friend in the industry, owning approximately 15% of the shares of **AutoNation**, the largest auto dealership company in the United States. Billionaire Eddie Lampert is also a big shareholder in the company, owning a 12% stake. According to recent rumblings, another billionaire is interested in the sector. George Soros is reportedly sending trusted aides to major auto shows, looking to make a splash. And let's not forget about Canada's own Jim Pattison, the Vancouver-based billionaire who has 38 dealerships in western Canada as part of his vast empire.

So what gives? Why are all these billionaires sniffing around the same sector?

One word: consolidation

There aren't many industries as fragmented as North America's auto dealerships. In Canada alone, there are thousands of dealerships across the country that are held by thousands of different individual owners. Some of these owners have acquired a few competitors, but that's really it.

Analysts estimate that as many as 1,000 dealerships may trade hands over the next decade as owners retire. This creates one heck of a potential growth market, and is a huge reason why some of the world's biggest investors are putting money to work in the sector.

Dealerships are also relatively easy businesses to manage, and do business both on the vehicle sales

side and the repair side, meaning they've got a built-in hedge against tough times. People buy fewer new cars, but the old one still needs to be repaired.

Here in Canada, there's one major way to invest in this upcoming consolidation, and that's by buying shares in **AutoCanada Inc.** ([TSX:ACQ](#)), the only company that's buying auto dealerships in Canada in a big way.

The case for AutoCanada

AutoCanada's growth has been outstanding over the last five years. In 2010, the company owned 22 dealerships, mostly in western Canada. Five years later the company owns 50, recently announcing another acquisition just last week. Nearly half of its locations are located in Alberta, with another 20% or so in British Columbia.

With that growth came explosive growth in the share price, at least for the first four years the company was publicly traded. But the last year has been absolutely brutal for the share price, falling nearly 60%. What happened? Investors exited the company en masse as fears about the weakness in oil would hit the company's bottom line. It has, but hardly enough to justify a 60% drop. Same-store sales fell a mere 2.8% in the most recent quarter, which was a slight improvement compared with the 3.5% decline posted in the first quarter.

Considering the growth potential, the company is pretty fairly valued, too. Shares trade hands at a price-to-earnings ratio of just 14, and the company pays a dividend of 3.5%. AutoCanada is also well positioned for additional acquisitions, with \$77 million in cash on the balance sheet.

AutoCanada is going through a temporary tough patch right now, but the long-term bull thesis is still firmly in place. There's still massive potential in consolidating auto dealerships in Canada. Long-term investors should stick to that message, rather than getting caught up in the short-term issues.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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