



AutoCanada Inc.: Buy This Beaten-Down Stock Before it's too Late

Description

AutoCanada Inc. ([TSX:ACQ](#)), one of Canada's largest automobile dealership groups, has watched its stock take a beating in 2015, falling over 44%, but it has the potential to rebound and head significantly higher from this point forward. Let's take a look at three of the primary reasons why this could happen and why you should buy the stock today.

1. Its strong Q2 earnings results could support a near-term rally

On August 6, AutoCanada released better-than-expected second-quarter earnings results, but its stock has responded by falling over 22% in the weeks since. Here's a summary of six of the most notable statistics from the report compared with the same period a year ago:

1. Adjusted earnings per share decreased 8.2% to \$0.56, surpassing analysts' expectations of \$0.51
2. Revenue increased 75.7% to \$816.88 million, surpassing analysts' expectations of \$713 million
3. Total number of vehicles sold increased 42.9% to 17,739
4. Total number of service and collision repair orders completed increased 120.5% to 215,142
5. Adjusted earnings before interest, taxes, depreciation, and amortization increased 24.2% to \$27.7 million
6. Adjusted free cash flow increased 23.9% to \$19.2 million

The very strong results above can be primarily attributed to the company adding 15 dealerships and 326 service bays over the last year, bringing its total counts to 49 and 842, respectively.

2. Its stock trades at inexpensive forward valuations

At today's levels, AutoCanada's stock trades at just 13.1 times fiscal 2015's estimated earnings per share of \$1.90 and a mere 9.5 times fiscal 2016's estimated earnings per share of \$2.62, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 15.7 and the industry average multiple of 31.3.

I think AutoCanada's stock could consistently command a fair multiple of at least 15, which would place its shares upwards of \$28 by the conclusion of fiscal 2015 and upwards of \$39 by the conclusion of

fiscal 2016, representing upside of more than 12% and 56%, respectively, from current levels.

3. It is both a high dividend and dividend-growth play

AutoCanada pays a quarterly dividend of \$0.25 per share, or \$1.00 per share annually, which gives its stock a 4% yield at today's levels. It is also important to note that the company has increased its dividend 15 times since 2011, and its strong operational performance could allow for another increase in the very near future.

Should you buy shares of AutoCanada today?

I think AutoCanada represents one of the best long-term investment opportunities in the market today. Its very strong second-quarter earnings results could support a near-term rally, its stock trades at inexpensive forward valuations, and it is both a high dividend and dividend-growth play, which will continue to attract income investors. Foolish investors should take a closer look and strongly consider beginning to scale in to positions today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

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