AutoCanada Inc.: This Billionaire-Inspired Growth Story Is Still on Track

Description

It seemed like 2014 was the year of billionaires getting into the auto industry.

Warren Buffett's **Berkshire Hathaway** announced it was buying Van Tuyl Group, which was the fifth-largest dealership in the United States at the time of purchase. Terms of the deal weren't released, but the company boasted 81 dealerships and does $9 billion in revenue annually.

Buffett isn't the only billionaire who likes the business. Both Bill Gates and hedge fund guru Eddie Lampert have large positions in **AutoZone**, the largest chain of dealerships in the United States. George Soros has been reportedly sniffing around the sector. And up here in Canada, Jim Pattison, one of our country's richest men, got his start owning a **General Motors** dealership in 1961. These days, Pattison owns 25 dealerships across B.C., Alberta, and Manitoba.

There's a lot to like about the dealership business. Customers tend to be sticky, taking their cars back to the same dealer for service. During tough times, fixing used cars helps keep a dealer afloat when new car sales collapse. And perhaps most importantly, these billionaires see an opportunity to buy up thousands of independently owned dealerships as owners approach retirement age.

There's a way for Canadian investors to invest in this trend as well through dealership-consolidator **AutoCanada Inc.** (TSX:ACQ). Let's take a closer look at the company.

A big decline

AutoCanada was one of the hottest stocks on the TSX between its early 2010 listing and the middle of 2014. Shares surged from $4 each all the way up to $90. That's the kind of return that can lead an investor to early retirement.

Investors were giddy with excitement over the growth prospects. The company was adding a new dealership or two what seemed like every month. This growth combined with great results from its existing portfolio–which was mainly centred on Alberta–saw the company post terrific results quarter after quarter.

After shares peaked, they headed down in a hurry. By the end of 2014 AutoCanada was flirting with $40 as investors started getting nervous about the Albertan market. The decline continued in 2015 as it became obvious the price of crude wasn't about to rebound anytime soon. These days, shares trade at the $17 level, an 80% decline from the peak.

Ouch.

With the aid of hindsight, it was obvious $90 per share was too much. There's also a compelling argument to be made that $17 per share is a swing too far in the other direction.

The bull case

Even through all the turmoil of the last couple of years, the company is still expanding. In 2015 alone, AutoCanada acquired six different dealerships, four of which were outside of Alberta. This brings its total up to 54 different dealerships with approximately 50% of revenues coming from Alberta.

Yes, profits are hurting. Over the last 12 months, same-store profits are down 7.1%, a big decline from 2014 when they were up nearly 8%. But these dealerships are still profitable, contributing to the company earning $1.80 per share over the last year. That puts shares at just 9.7 times trailing earnings, a steal for something with such obvious long-term growth.

Debt is a concern the company is taking steps to deal with. As of September 30, it owed more than $880 million to creditors, an amount which was partially offset by $77 million in cash. A recent equity offering raised $75 million, which will go towards paying back debt. Additionally, the company could cut its 5.7% dividend in half, which would free up an additional $15 million annually. Without the ability to borrow, the potential growth story goes away.

Since 2009, AutoCanada's growth trajectory has been nothing short of amazing. It has grown revenue by an average of 23% per year. EBITDA has gone up by a factor of five. And the number of dealerships has more than doubled.

If you believe this long-term growth story is still intact, AutoCanada shares look to be a screaming buy at today's levels. It isn't often that such a great growth story ends up on sale for value prices, but that's exactly the situation we have today. Perhaps it's time for Canadian investors to channel their inner billionaire and invest in the car dealership business.

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1. TSX:ACQ (AutoCanada Inc.)

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