Is AutoCanada Inc. a Worthwhile Contrarian Play?

Description

The stock of **AutoCanada Inc.** (TSX:ACQ) plummeted a whopping 9.66% on Friday following its disappointing earnings release. The president, Thomas Orysiuk also resigned from his position and stepped down from the board of directors immediately following the release of the company's drop in profit and revenue.

There's no question that it's the perfect storm, and the stock is likely to be facing some serious downward momentum as we head into the latter part of 2017.

The company is one of Canada's largest multi-location car dealership groups; it operates or manages 64 franchises across eight provinces. The company hopes to consolidate a fragmented car dealership industry. This consolidation won't happen overnight, and it could take many years before the company starts delivering huge profits to shareholders.

If you're a long-term investor hoping to reap the rewards of the company's consolidation strategy, then you'd better tread cautiously. In the event of a recession, the stock could see further downside from here. Like most cyclical stocks, it could take many years before the company is able to recover from such a downturn. The probability of a recession over the next few years is quite high considering we're in the late stages of a bull market.

AutoCanada's Q4 and full-year 2016 results were nothing to write home about. Revenue from dealerships decreased by 6.4% from the same quarter last year to $629.3 million. For the full year, revenue remained in line at $2.89 billion. Gross profit for the quarter fell 5.8% to $116.8 million. These results are underwhelming, and the resignation of the president is reason for concern. I believe the huge drop was warranted, and it's quite possible that the stock could go back to 52-week lows.

AutoCanada has caught the attention of contrarians, as the stock has lost over 80% of its value from the peak in summer 2014 to the trough in February 2016. Many believed the stock may have formed a bottom, considering that the downward momentum stopped in 2016 and the stock slowly started to show signs of life.

Many investors have switched into more cyclical stocks after the Trump Administration's proposed policies, which will strengthen the U.S. economy. Auto dealers are as cyclical as they get, but investors aren't flocking into AutoCanada stock because the company can't seem to drive value for the medium term.

The stock looks cheap at current levels with a 1.4 price-to-book multiple, but there are no catalysts to drive the stock higher in the short to medium term, so I'd probably look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date
2025/07/23
Date Created
2017/03/20
Author
joefrenette